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HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

FRIDAY, MARCH 24, 1950
MONDAY, MARCH 27, 1950

WITNESSES:

Donald Gordon, C.M.G., L.L.D., Chairman and President; Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

ORDER OF REFERENCE

THURSDAY, 23rd March, 1950.

Resolved,—That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider that accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65 in relation to the limitation of the number of members, the said Committee consist of Messrs. Adamson, Beaudry, Bourget, Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas, Tustin.

Ordered,—That the Annual Reports for 1949 of the Canadian National Railways System, the Canadian National (West Indies) Steamships Limited, the Canadian National Railways Securities Trust, the Auditors' Report to Parliament in respect to the Canadian National Railways System and the Canadian National (West Indies) Steamships Limited, and the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships Ltd. for 1950, tabled this day, be referred to the said Committee, together with the following estimates for 1950-51:

Vote 493—Maritime Freight Rates Act, Canadian National Railways;

Vote 494—Maritime Freight Rates Act, railways other than Canadian National;

Vote 558—Prince Edward Island car ferry and terminals, deficit 1950;

Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950.

And that the Resolution passed by the House on February 24, 1950, referring certain estimates to the Committee of Supply, be rescinded insofar as the said Resolution relates to votes Nos. 493, 494, 558 and 559.

Ordered,—That the name of Mr. Fulton be substituted for that of Mr. Tustin on the said Committee.

FRIDAY, 24th March, 1950.

Ordered,—That the said Committee be granted leave to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print, from day to day, 700 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the quorum of the said Committee be reduced from thirteen to eight, and that section 3 of Standing Order 65 be suspended in relation thereto.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1949, and the Auditors' Report to Parliament for the year ended December 31, 1949, in respect of Trans-Canada Air Lines, tabled this day, be referred to the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

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REPORT TO THE HOUSE

FRIDAY, March 24, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That it be granted leave to sit while the House is sitting.

2. That it be empowered to print, from day to day, 700 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

3. That its quorum be reduced from thirteen members to eight, and that section 3 of Standing Order 65 be suspended in relation thereto.

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

MINUTES OF PROCEEDINGS

FRIDAY, March 24, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m.

Members present: Messrs. Carter, Follwell, George, Gillis, Hatfield, Helme, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Thomas.

On motion of Mr. McCulloch:

Resolved,—That Mr. Cleaver be Chairman of the Committee.

On motion of Mr. Mutch:

Resolved,—That Mr. McCulloch be Vice-Chairman of the Committee.

In the absence of the Chairman, the Vice-Chairman, Mr. McCulloch, took the Chair.

On motion of Mr. Mott:

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

On motion of Mr. Macdonald (*Edmonton East*):

Resolved,—That the Committee recommend that its quorum be reduced from thirteen members to eight.

On motion of Mr. George:

Resolved,—That the Committee recommend that it be empowered to print, from day to day, 700 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Mutch, the Committee adjourned at 11.15 a.m. to meet at the call of the Chair.

MONDAY, March 27, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Adamson, Carter, Cavers, Chevrier, Cleaver, Follwell, Fulton, George, Gillis, Hatfield, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman and President, Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways; Mr. J. C. Lessard, Deputy Minister, Department of Transport.

Mr. Gordon was called, read the annual report of the Canadian National Railways for the year ended December 31, 1949, and was questioned thereon.

Messrs. Dingle and Cooper were called and questioned.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Adamson, Bourget, Carter, Cavers, Chevrier, Cleaver, Follwell, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.—22.

The Committee resumed consideration of the annual report of the Canadian National Railways.

Examination of the witnesses, Messrs. Gordon, Dingle and Cooper, was continued.

Mr. Gordon tabled a statement presented by him to the Royal Commission on Transportation, which is printed as *Appendix A* to this day's minutes of proceedings and evidence.

At 6 o'clock p.m. the Committee adjourned until Tuesday, March 28, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

March 27, 1950.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum, and as we have a rather heavy agenda we should start promptly. Before calling on the president of the Canadian National Railways, I believe the committee would like to have a word from the minister.

Hon. Mr. CHEVRIER: Mr. Chairman, there are just one or two things I should like to say in opening. First of all, I would like to remind the committee that this is the first time in five years that we have begun our proceedings with a new committee chairman. I should like to extend, on your behalf, my congratulations to Mr. Cleaver for his appointment at your hands, and also for his acceptance of the appointment.

I should like also to express my gratitude to the former chairman, Mr. Murray Clark, who this year asked to be excused from these duties; he felt that he had been chairman for a sufficient number of years, and he felt that the time had come when the committee should select someone else; and I knew that you would want me to say a word of thanks to him for the very impartial manner in which he conducted the proceedings of this committee.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. CHEVRIER: And I am sure that the present chairman, Mr. Hughes Cleaver, will carry on along those same lines.

During the five years that I have been at the head of the Department of Transport we have had Mr. R. C. Vaughan, the former president, giving evidence here, and this year we are happy to have with us the new president of the Canadian National Railways, Mr. Donald Gordon. Mr. Gordon is not a new figure. He has been before us in other capacities for many years. And all I should like to say is that I am sure the same fine relationship which existed between the officers of the Canadian National Railways and the committee in the last five years will continue in these deliberations, as well as in deliberations of future years.

Then I want to thank the members of the committee for the dispatch with which they organized the committee and got down to business. It is important, I think, that we should realize that the officers of the Canadian National Railways have many things to do, they have the business of the corporation to carry on; and while they are at the disposal of the committee for the time that the committee requires them to remain here, I know that it has been the practice in the past to carry on with the reports and so forth as expeditiously as possible. For that reason I want to express to the members of the committee my thanks for their dispatch in establishing and organizing the committee. That is all I have to say, Mr. Chairman.

The CHAIRMAN: Mr. Gordon.

Mr. DONALD GORDON, C.M.G. (*President, Canadian National Railways*): Mr. Chairman, before I read the annual report of the Canadian National Railways for 1949 I would like to express to you my pleasure at being here on my first attendance before this committee. I am glad to see around it the faces of some

old friends. I hope that I may be able in my new position to render the same kind of friendly service and enjoy the same sort of friendly relationships that I have had with members in the past.

We have come here from the Canadian National Railways equipped, I hope, to answer any questions on matters which the members may be interested in; and may I say that we regard this committee as being the representatives of our shareholders, who, of course, are the citizens of Canada. Now, I just want to emphasize that we hope our officials are equipped to deal with any questions which may arise, but if there are questions on which we have not the right answers at once I can assure you that we will be able to answer them on very short notice.

Now, if I may, Mr. Chairman, I shall read the annual report:—

MONTREAL, March 10, 1950

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir:

There is submitted herewith a report of the operations of Canadian National Railways for the calendar year 1949.

On December 31 Robert Charles Vaughan, C.M.G., concluded his long and distinguished career with the Railways, retiring from the positions of Chairman of the Board and President of the System, and it is therefore appropriate that the undersigned, joining the Canadian National organization to assume these offices as his successor on January 1, 1950, should, in transmitting this report of the Directors, refer only briefly to some of the salient features of the 1949 operations, further details of which will be found elsewhere in this report.

The diversified and widely dispersed economic development of the territories served by the Canadian National System remained generally at a high level throughout the year, although a trend toward stabilization of pace was indicated. The Canadian National continued to fulfill its function as an essential factor in that development.

The System again made a new record in gross revenues earned. However, the benefit of rate and fare increases effective during the year was more than offset by a moderate reduction in passenger and freight traffic volume and further substantial increases in labour and material costs. In consequence, operating revenues of $500,723,386 exceeded operating expenses by only $22,221,726, which, after meeting taxes, equipment rents and other income charges, left only $4,057,907 to meet interest charges of $24,302,650 on bonds held by the public, plus $21,798,283 interest payable on advances from the Government of Canada.

On December 28, 1949, it was found necessary, due to coal shortage, to announce curtailment, effective January 9, 1950, of passenger train service on the Canadian lines of the System. This curtailment was in effect up to March 9, on which date full service was restored.

Requests of certain labour organizations employed on system lines for further increases in wages and alterations in rules respecting working conditions were received during the year and currently are in either the negotiation or conciliation stage. Compliance with these requests would have added many millions of dollars to the System's operating expenses.

In 1948, in an endeavour to offset in part the ever mounting cost of operating their properties, the Canadian railways, through the Railway Association of Canada, launched an application to the Board of Transport Commissioners for a general increase of 20 per cent on rates within the jurisdiction of that Board. Following an appeal by one of the Association's member railways from the award of an interim general increase of only 8 per cent, the hearing on the original application was reopened toward the year-end and further evidence and argument were submitted. The result can have no effect on the System accounts for 1949.

The Royal Commission on Transportation held sittings throughout the greater part of 1949 and is continuing to conduct the important investigation entrusted to it. The Canadian National has been a constant and active participant in the Commission's proceedings. The tribunal's findings and recommendations will be of vital importance to the future of the National System.

Capital expenditures during 1949 were in excess of $47,000,000, of which amount approximately $28,000,000 was for new rolling stock.

During the year refinancing of corporate obligations was effected at advantageous interest rates.

Progress was made in overtaking deferred maintenance which had accumulated during the war and early post-war years.

On April 1, the Canadian National was entrusted with the management and operation of the Newfoundland Railway and Steamship Services and of certain telecommunication facilities. As of January 1, 1950, there was likewise added to the System the Temiscouata Railway.

During 1949 construction of a substantial number of new facilities designed to improve the efficiency of the Railways' service to its patrons was commenced, continued or completed.

Plans were developed toward the year-end for the erection of an addition to the Macdonald Hotel at Edmonton, and for the taking over of the Newfoundland Hotel at St. John's.

The development of the Montreal terminal area proceeded during 1949. The International Aviation Building, one of the integral units in the composite structural programme, was practically completed and is now occupied by international aviation organizations, airlines and other tenants. Considerable progress was also made towards completion of the Bonaventure freight terminal, another major project in this programme.

In brief, the Railway's report for 1949 is one of continued development side by side with Canada's national and international progress. The Railways are ready and able to play an increasingly important part in the nation's development and in the utilization of its natural resources, the abundance of which has again been demonstrated by the proving of new oil fields and base and precious metal deposits.

On January 21, 1950, the Canadian National suffered a grievous loss in the death of N. B. Walton, C.B.E., Executive Vice-President of the System.

It is fitting that tribute be paid to the loyalty and efficiency of the entire Canadian National organization throughout the year now closed.

For the Board of Directors,

D. GORDON
Chairman and President.

CONSOLIDATED INCOME ACCOUNT

	1949	1948
Railway Operating Revenues:		
Freight	$394,424,463.00	$393,544,359.00
Passenger	43,287,240.00	41,562,141.00
Mail	5,085,327.61	4,761,629.31
Express	26,378,979.56	23,410,761.19
Commercial Telegraphs	9,254,966.94	7,885,346.57
All other	22,292,408.89	20,105,712.93
Total Operating Revenues	$500,723,386.00	$491,269,950.00
Railway Operating Expenses:		
Maintenance of Way and Structures	$ 88,402,550.81	$ 86,012,266.45
Maintenance and Depreciation of Equipment	106,916,137.23	98,339,520.24
Traffic	9,105,658.06	8,724,581.87
Transportation	245,715,517.00	245,351,741.35
Miscellaneous Operations	5,761,783.41	5,211,242.46
General	22,600,013.49	21,100,617.63
Total Operating Expenses	$478,501,660.00	$464,739,970.00
Net Operating Revenue	$ 22,221,726.00	$ 26,529,980.00
Taxes	11,192,273.13	10,318,631.31
Equipment Rents—Net Debit	5,197,969.65	5,712,481.95
Joint Facility Rents—Net Debit	284,665.92	323,237.04
Net Railway Operating Income	$ 5,546,817.30	$ 10,175,629.70
Other Income:		
Income from Lease of Road and Equipment	$ 77,090.20	$ 67,280.34
Miscellaneous Rent Income	1,031,511.45	976,052.87
Income from Non-transportation Property	687,838.41	601,501.13
Hotel Operating Income	1,053,279.49	915,175.07
Dividend Income	167,836.00	298,558.40
Interest Income	2,845,631.42	2,914,998.49
Miscellaneous Income	789,973.83	470,583.87
Total Other Income	$ 6,653,160.80	$ 6,244,150.17
Deductions From Income:		
Rent for Leased Roads and Equipment	$ 699,844.10	$ 720,599.32
Miscellaneous Rents	617,751.99	538,872.22
Miscellaneous Taxes	99,390.39	126,386.98
Results of Separately Operated Properties—Loss	581,816.94	973,613.68
Interest on Unfunded Debt	333,994.64	282,713.40
Amortization of Discount on Funded Debt	1,497,122.72	508,564.04
Miscellaneous Income Charges	4,748,369.76	2,277,975.57
Profit and Loss Items—*Net Credit*	*436,220.25*	*306,054.73*
Total Deductions from Income	$ 8,142,070.29	$ 5,122,670.48
Net Income Available for Payment of Interest	$ 4,057,907.81	$ 11,297,109.39
Interest on Funded Debt—Public	24,302,650.99	23,202,817.69
Interest on Government Loans	21,798,283.58	21,627,032.82
Deficit	*$ 42,043,026.76*	*$ 33,532,741.12*

The Fixed Charges of the System included in the above statement are as follows:

Rent for Leased Roads and Equipment	$ 699,844.10	$ 720,599.32
Interest on Unfunded Debt	333,994.64	282,713.40
Amortization of Discount on Funded Debt	1,497,122.72	508,564.04
Interest on Funded Debt—Public	24,302,650.99	23,202,817.69
Interest on Government Loans	21,798,283.58	21,627,032.82
	$ 48,631,896.03	$ 46,341,727.27

REVIEW OF OPERATION

The results of operation for the year were as follows. The Consolidated Income Account appears on the page opposite.

	1949	1948
Operating revenues	$500,723,386.00	$491,269,950.00
Operating expenses	478,501,660.00	464,739,970.00
Net operating revenue	$ 22,221,726.00	$ 26,529,980.00
Taxes, equipment rents, and other income accounts	18,163,818.19	15,232,870.61
Available for payment of interest	$ 4,057,907.81	$ 11,297,109.39
Interest on bonds held by the public	24,302,650.99	23,202,817.69
Available for payment of Government interest	*$ 20,244,743.18*	*$ 11,905,708.30*
Government interest	21,798,283.58	21,627,032.82
Deficit	*$ 42,043,026.76*	*$ 33,532,741.12*

The less favourable result for 1949 is partly due to the continued imbalance between railway rates and railway costs, partly to a decline of 5 per cent in the volume of traffic, and partly to the inclusion, as from April, of the Newfoundland Railway and Steamship Services. There was also an increase in other income charges, mainly due to foreign exchange and to premiums on bonds called for redemption. The amount available for payment of interest was thereby reduced to $4,057,907.81, being $7,239,202 less than the 1948 figure. This, together with an increase of $1,099,833 in interest charges on bonds held by the public, and of $171,251 in interest charges on Government loans, resulted in the income position being $8,510,286 less favourable than in 1948.

Operating Revenues

The inclusion of the Newfoundland Railway and Steamship Services added $7,756,495 to operating revenues. Rate increases obtained in 1948 and 1949 resulted in increased revenues in 1949 over 1948 of $23,464,100. Freight traffic declined 6·44 per cent. Reductions were experienced in tonnages of coal, pulpwood, lumber, woodpulp, paper and livestock; increases occurred in grain, ores and concentrates, and petroleum products. Passenger traffic declined 9·7 per cent while Express traffic increased 7·6 per cent and Telegraph business 6·3 per cent.

Operating Expenses

Operating expenses increased $13,761,690, of which $10,340,526 was attributable to the Newfoundland Railway and Steamship Services. Increases in rates of pay and changes in working conditions in 1948 and 1949 increased 1949 System expenses as compared with 1948 by $7,356,000. Higher prices of fuel, ties, rail and other materials added $5,399,000. Actual quantities of materials and labour required in 1949 were less than in 1948 due to decline in traffic. Schedules of the details of operating expenses will be found on pages 23, 24 and 25.

Maintenance of Way and Structures expenditures amounted to $3,699 per mile of road operated. Some progress was made during the year on recovery of deferred maintenance and $8,000,000 was charged to deferred maintenance reserve.

The figures for Maintenance of Equipment expenses indicated an apparent increase of $8,576,617 over 1948 but $3,500,000 was charged in 1948 to reserves for deferred maintenance. There was no charge to reserves in 1949.

Transportation expenses showed little change, the effect of wage and price increases being offset by the decline in the volume of traffic handled. Gross ton miles per train hour, one measure of operating efficiency, increased from 25,900 to 27,000. Fuel consumption measured in terms of coal showed an appreciable

reduction, dropping from 121 lbs. of coal per thousand gross ton miles to 117 lbs. in freight service. A similar reduction in fuel consumption was to be noted in passenger traffic, where fuel consumption per passenger car mile was reduced from 15 to 14 lbs. of coal.

Other Income Accounts

Foreign exchange cost $1,568,499 in the year. The 5 per cent call premium on the 40-year guaranteed gold bonds called for redemption on October 1, including the charge for unamortized discount, cost $3,826,000.

Capital Expenditures

Capital expenditures during 1949 amounted to $47,010,441 (details are shown on page 28), of which $28,332,025 was for new equipment.

Finance

Two bond issues were made during the year. On January 3 there was an issue of $35,000,000, 3 per cent, 17-year bonds. These were sold at a cost to the company of 3·075 per cent. On September 15 there was an issue of $70,000,000, 2⅞ per cent, 20-year bonds, the cost to the company being 2·96 per cent. The proceeds were used mainly to finance capital expenditures and to redeem $57,728,500 of 5 per cent bonds, due October 1, 1969, called for redemption October 1, 1949. This refunding operation effected an annual saving of $1,382,548.

Condition of Property

Deferred maintenance, principally in rails, ballast and timber trestles, which accumulated during the war years has not as yet been fully overtaken. The reserves which were set up against this condition have been impaired by the increases in wages and prices which have since taken place. Future maintenance expenditures will be affected. Steady progress was made in the installation of treated ties; 65 per cent of all ties in track are now treated and as a consequence annual tie renewals have declined from 270 to 133 ties per track mile and further declines may be anticipated.

There were slight reductions in the service availability of equipment at the close of 1949 as compared with the close of 1948. Comparative figures are—freight locomotives from 72·0 per cent to 68·7 per cent; passenger locomotives from 76·8 per cent to 73·7 per cent; freight cars from 94·5 per cent to 93·5 per cent. To meet traffic needs, certain older types of equipment were retained in service, thus adversely affecting the average condition of equipment. The programme of purchases for 1950 will permit of the retirement of a portion of this over-age rolling stock.

Traffic Control

In 1949 the installation of Centralized Traffic Control was completed on the Drummondville Subdivision from West Junction to Ste. Rosalie, a distance of 116·1 miles. Now 301·2 miles of line of the railway come under this modern type of traffic control, the balance being on the Atlantic Region between Pacific Junction and Windsor Junction.

Centralized Traffic Control is a system of railroad operation in which electric signal indicators operated by a dispatcher from a central control point take the place of train orders or time table authority.

During the year the installation of automatic block signals between Spence's Bridge and Hope, B.C., was 95% complete. Between Red Pass Junction and Jackman, B.C., 80% of the work in installing automatic block signals was done.

Other Construction Projects

Work was continued on the following major projects:

At Montreal, in the heart of the down-town industrial area, construction of the largest single l.c.l. freight handling facilities and the most modern freight sheds in Canada is proceeding according to schedule. During the year, the outbound freight shed, and portions of two of the three covered transfer platforms were built. Work is continuing on the rest of the project which includes an inbound freight shed, a four storey freight office building, and transfer platforms. There will also be some rearrangement and extension of the train yard facilities. The plan anticipates the completion of the project in 1951. Important street widening projects will be undertaken by the City when the freight terminal construction has been completed.

The rearrangement and improvement of the yard at Mimico, Ont., proceeded and 42% of the work has now been done. This yard was constructed over 40 years ago and the track layout and freight handling facilities have been found inadequate to handle present-day traffic. The proposed changes will increase the yard capacity from 3,133 to 4,176 cars.

An annex to the locomotive shop at Stratford, Ont., was built. This was required to provide adequate space and facilities for shopping of the "Northern" and other large-size classes of motive power. It will facilitate handling of repairs and overhaul of engines and thereby reduce the time they are out of service.

Reconstruction of freight and passenger car repair facilities at Point St. Charles, Que., was 65% completed.

Enlargement of freight yard at Vancouver, required to handle increased traffic was 75% completed.

Work began on the construction of a new freight shed, together with necessary trackage, at Edmonton, Alta. This was required to handle greatly increased traffic. At the end of the year, 27% of this work was completed.

Montreal Terminal

An the International Aviation Conference in Chicago in 1944 Canada was honoured by being chosen as headquarters of the aeronautical world. Montreal became the headquarters for the International Civil Aviation Organization, in which 56 nations are represented, and for the International Air Transport Association, which serves approximately 70 air lines. To house these organizations and others, Canadian National Railways, by arrangement with the Canadian Government, erected the International Aviation Building adjoining the Montreal Central Station. This was 95 per cent completed at the close of the year. Occupancy by tenants began on July 15 and practically all space is now taken up. Principal tenants are I.C.A.O. with offices for the representatives of 17 nations, I.A.T.A., and Trans-Canada Air Lines. Air lines ticket offices on the concourse, with entrance from Dorchester Street, will be completed in the spring of 1950. Facilities include a cafeteria for employees.

The new steam plant on Nazareth Street, serving the whole terminal area, has been completed and is now in operation.

Plans for further development are in hand. These include the rearrangement and extension of the track layout in the Central Station area to facilitate the construction of buildings over the track area. Plans are also being developed for the construction on this site of an office building and hotel.

Equipment

Substantial deliveries of new equipment on orders placed in 1947-48-49 were received during the year. These were as follows:

Freight Car Equipment:

572 50-ton box cars
1000 40-ton automobile cars
1000 70-ton gondola cars
368 overhead type refrigerator cars
50 flat cars for Newfoundland
75 8000-gallon tank cars

Passenger and Express Car Equipment:

8 coaches for Newfoundland
50 overhead refrigerator cars

Locomotive Equipment:

37 1000 h.p. diesel-electric switchers
6 locomotives for Newfoundland

Work Equipment:

20 automatic dump cars
3 diesel locomotive cranes
8 steel snow plows

Equipment on order at the end of the year, delivery of which is expected during 1950, includes:

Freight Car Equipment:

490 60-ton flat cars
2 135-ton depressed flat cars

Passenger and Express Car Equipment:

25 air-conditioned coaches
20 sleeping cars
50 baggage cars

Locomotive Equipment:

3 1000 h.p. diesel-electric switchers
8 1500 h.p. diesel-electric locomotives
18 600 h.p. diesel-electric locomotives
3 electric locomotives

The program of modernization of passenger car equipment which is being carried out in the company's shop was continued and 37 units were completed during the year, consisting of:

8 bedroom buffet-lounge cars
23 sleeping cars
2 parlour cars
4 dining cars

Diesel Power

Dieselization is not a new venture with the Canadian National. The system pioneered in this type of power when, in 1925, it helped to design and put into service the first diesel-electric locomotive in North America.

Exclusive of oil-electric rail cars, the company now has in service 148 diesel-electric locomotives of nine different types.

In accordance with its programme of modernization, the Railway, during 1949, put into service thirty-seven 1000 H.P. diesel-electric switching locomotives, bringing ownership of this type of power to well over one hundred. An order was placed for eight 1500 H.P. diesel-electrics of the road freight type and their delivery is anticipated early in 1950. In December, tests of a 4500 H.P. 3-unit diesel-electric locomotive were commenced in passenger service between Montreal and Winnipeg.

Diesel-electric locomotives supplanted steam power to a greater extent in 1949 than in 1948. Mileage accrued by diesel power in freight service amounted to 2,010,866 miles or four per cent of the total freight service mileage. Diesel

locomotives in yard operated 4,192,824 miles, an increase of 19·1% over 1948. Mileage of all diesel locomotives in 1949 was 6,358,843 miles and represented 6·8% of the System total locomotive mileage in all services.

Newfoundland Railway

When Newfoundland became a province of Canada in April, the Canadian National was entrusted with the operation of the Newfoundland Railway, consisting of 705 miles of line of 3'6" gauge. The main line, 547 miles in length, crosses the island from St. John's to Port aux Basques, whence it is connected with the mainland at North Sydney, N. S., by steamship. It serves such centres as Gander, Grand Falls and Corner Brook. Branches connect the main line with Harbour Grace and Carbonear, with Placentia and Argentia, with Lewisporte, and with Bonavista. A fleet of fourteen ships provides freight and passenger services.

Rolling stock on the Newfoundland District consists of 46 steam and three diesel locomotives, 98 passenger cars, 1004 freight cars and 154 units of work equipment.

Also included in the facilities which were entrusted to Canadian National is the drydock at St. John's which, in addition to repairing the Company's marine equipment, does a general drydock business.

Acquisition of the Newfoundland lines increased the System's staff by about 4,200.

Temiscouata Railway

Effective January 1, 1950, there was entrusted to the Canadian National the management and operation of the Temiscouata Railway which had been purchased by His Majesty in 1949. The railway consists of a line 81·5 miles long between Riviere du Loup, Quebec, and Edmundston, N.B., connecting at both termini with the Canadian National System, and trackage and running rights which extend westerly from Edmunston to Connors, N.B., a distance of 31·3 miles. The territory served is largely agricultural and timbered. Forest products constitute a considerable proportion of the railway's total freight tonnage.

System Mileage

Following the entrustment of the Newfoundland Railway and the Temiscouata Railway, the System comprises 33,046·5 miles of track of various classifications. It is the only railway serving all ten provinces in Canada and, in addition, it operates mileage in the United States as follows: Maine, 133·37; Connecticut 80·65; Massachusetts 67·63; New Hampshire 124·36; Vermont 433·75; New York 44·03; Michigan 1,846·41; Indiana 191·69; Illinois 111·70; Wisconsin 8·36; Minnesota 276·79 or a total of 3,318·74 miles of track in 11 States.

Freight Rates

As mentioned in the 1948 Annual Report the award by the Board of Transport Commissioners of a general freight rate increase of 21% (subject to certain exceptions) effective April 8, 1948, did not mark the end of this vitally important matter. The need of the Canadian railways for a further increase continued to be urgent and the question was before the Board throughout 1949. The only relief granted however, was an interim general increase of 8% which fell far short of meeting the railway's requirements.

At the beginning of 1949 there were outstanding a general freight rate inquiry, an application by the railways for a further 20% increase and a review of the 21% award which the Governor in Council had ordered the Board to

undertake concurrently with its consideration of the railways' application for a 20% increase. The Province of British Columbia had also applied for removal from the railways' tariffs of the "Mountain Differential".

Hearings with respect to the 20% application and the review of the 21% award were held in Ottawa during the first part of the year, following which the Board took time to deliberate. On September 22 the Board delivered a majority judgment granting an interim general increase of 8% on freight rates in effect on July 27, 1948, the date of the application, and an increase of 8¢ per ton on rates on coal and coke, but it postponed the final disposition of the application until certain further investigations and studies had been completed by itself and the Royal Commission on Transportation and until certain other matters referred to in its judgment had been determined.

By leave of the Board an appeal against the Board's action in postponing the final disposition of the application was taken by one of the applicant railways to the Supreme Court of Canada. This appeal was successful and the Court delivered a judgment holding that in so doing the Board had failed to perform a duty imposed upon it by law. The Board then undertook to review its decision and held further sittings in Ottawa at the beginning of February 1950. The ultimate decision in this application can have no effect on the System accounts for 1949.

On April 23, pursuant to the application of the Province of British Columbia, the Board ordered the railways to file tariffs effective on or before July 1, 1949, to provide for rates which would reflect the complete removal of the "Mountain Differential" from the rate structure.

In the United States a further increase of 10% in freight rates was authorized by the Interstate Commerce Commission effective September 1. This superseded an interim increase of 6% effective January 11. Freight rates in the United States are accordingly now 57·3% in advance of those prevailing in 1946.

The Royal Commission On Transportation

Throughout the year the Railway assisted in the enquiries being conducted by the Royal Commission on Transportation. The views and recommendations of the Railway have been embodied in an extensive Submission which has been filed with, and will be augmented by oral testimony before the Commission. The submission concerned itself primarily with the direction to the Royal Commission to review the capital structure of the Canadian National Railway Company and report on the advisability of establishing and maintaining its fixed charges on a basis comparable to other major railways in North America.

The Railway's formal presentation to the Commission submitted that by comparison with other railways, an undue proportion of the capital of Canadian National is represented by interest-bearing securities. The annual financial results accordingly distort the true efficiency with which the System's operations are conducted. It is apparent from the earnings characteristics of the System that a very large proportion of its capital should be represented by non-interest bearing securities, and a submission to that effect has been made to the Royal Commission.

Canadian National has also advocated a uniform system of accounts for Canadian railways, and that such a system should be prescribed in accounting classifications to be issued by the Board of Transport Commissioners under statutory authority.

The Submission also proposed that it is desirable to amend the agreed charge legislation passed in 1938. The purpose of this legislation was to relax to some extent the strictness of the law by which the railways are obliged to grant equal rates to all, and thereby to enable them to meet highway and water competition. The principle of the Act has proven to be sound but experience has

shown that it contains a number of provisions which seriously restrict its usefulness and prevent the public and the railways from obtaining the full benefit of this method of making rates, and for which there are no compensating advantages. The amendments proposed by Canadian National would remove these restrictions but leave intact the basic principles of the 1938 legislation.

The Canadian National endorsed the Submission of the Railway Association of Canada, covering in detail the legislative and regulatory aspects of highway competition.

Wage Negotiations

Following the Union of Newfoundland with Canada and the entrustment of the Newfoundland Railway to Canadian National Railway Company for operation and management, agreements were made with the organizations representing the employees in Newfoundland whereby their wages and working conditions were established on the basis of those enjoyed by employees in comparable classifications in the other Maritime Provinces. The resulting wage increases were made retroactive to April 1.

On June 16th the Railway received notice of two formal demands made by the organizations which represent most of the non-operating employees on its Canadian lines. One group of organizations requested a general wage increase of 7c. per hour and establishment of a five-day 40-hour work week without reduction in the compensation now paid for a 48-hour work week. The other group requested a general wage increase of 10c. per hour, the establishment of a five-day 40-hour week and institution of a check-off of union dues. Negotiations ensued but did not result in agreement and following the procedure of The Industrial Relations and Disputes Investigation Act, 1948, two Boards of Conciliation have been established. These Boards held sittings in Montreal early in January 1950 at which written Submissions were presented by the Railway and the employees' representatives. After receiving these Submissions the Boards adjourned until late in February to afford the parties an opportunity to prepare statements in rebuttal.

As a result of the recommendation of a United States Presidential Emergency Board, the Canadian National was required to grant its non-operating employees on its United States lines a general wage increase of 7c. per hour retroactive to October 1, 1948, and a five-day 40-hour work week without wage reduction, effective September 1, 1949. Further substantial demands on behalf of the employees of the United States lines have been received and are now the subject of negotiations and mediation proceedings.

Hotels

The number of guests accommodated in the 8 year-round Canadian National hotels was 612,608 in 1949, as compared with 634,197 in 1948; the number of meals served, 2,175,446, as compared with 2,288,274; and gross revenue, $7,629,960, as compared with $7,488,789.

The operating results of the Hotel Vancouver and the Newfoundland Hotel, St. John's, are not included in the above figures. The Hotel Vancouver is operated jointly with the Canadian Pacific and the Newfoundland Hotel was taken over late in the year.

Following the completion of an agreement with the City of Edmonton, a contract was let for the steelwork of a 16-storey addition to the Macdonald Hotel. It will contain 300 guest rooms and will more than double the accommodation of the present building which was built 35 years ago. The development of northern Alberta's natural resources, notably the oil fields in the vicinity

of Edmonton, and the increasingly strategical importance of the area north of the city, combine to make Edmonton one of the fastest-growing cities in Canada.

The three summer resorts, Jasper Park Lodge, Minaki Lodge and Pictou Lodge, enjoyed another excellent season, substantially the same number of guests being accommodated as in the year before—61,059 as compared with 61,236. Many of these guests were visitors from the United States. Gross revenue increased from $908,117 to $1,048,103.

Telegraphs

In the volume of messages, private wire teletype services and radio programme networks, the business of the Telegraph Department was the heaviest in the Company's history.

An increase in Canadian telegraph message rates, averaging approximately 15 per cent, was approved by the Board of Transport Commissioners, effective July 4.

The communication services of the Newfoundland Posts and Telegraphs were transferred to the Canadian National for operation on April 1.

New Oil Fields

The discovery of a major oil field extending practically all around Edmonton from Joseph Lake, 20 miles southeast, to Barrhead, 50 miles northwest, indicates that this section of Alberta is one of the important oil reserves of the world. Most of it is served by the Canadian National. The Canadian National serves exclusively the Redwater field which, with an indicated reserve of 500,000,000 barrels is the largest oil pool yet to be discovered in Canada. In 1949, to provide service to these oil fields, the company constructed 40,000 feet of team, passing and industrial trackage, and moved in large quantities of drilling and other material.

The Railway has retained title to the mineral rights in respect of 3,000,000 acres of lands in Saskatchewan and recently completed arrangements for leasing the exploration and development rights on a rental and royalty basis.

Assisting Development

The Development Section of the Department of Research and Development directs its principal attention to studies of natural resources and plans for their development, solicitation for industrial placement, industrial surveys of cities and towns along the railway, market analyses and transportation cost studies and to providing industrial engineering services.

During the year the Development Section was invited by the Government of Newfoundland to make a study of natural resources and industrial potentialities of the province.

In its industrial development the Section works in close co-operation and harmony with municipal, provincial and federal industrial bureaux.

Colonization and Agriculture

Some 94,000 immigrants moved to Canada in 1949. The Railways' Department of Colonization and Agriculture continued its policy of settling vacant farm lands served by the System's lines and of developing the maximum movement of immigrants to this country. Specialized service was provided for these new citizens from their ports of arrival to destination. Restricted shipping space and dollar exchange continued to be major problems.

In its agricultural development programmes, the Department has maintained close co-operation with interested departments of Government and all branches of the agricultural industry.

Research Laboratory

The Railways' Research Laboratory is the only one of its kind in Canada and covers a wide field of research and tests. Its principal function is to enable adequate tests to be made of the materials used by the Railway in order to ensure that they meet its standards and specifications. In addition studies are carried out to further the improvement of the quality of materials, their utilization and the methods of processing them as well as the development of better supervisory and control techniques.

Employee Relations

The System continues to be deeply interested in employee relations. With over 111,000 employees, the System is the largest employer in Canada. Pensioners number 15,671. The company's payroll in 1949 was $311,000,000.

And there follows the balance sheet and various tables which are calculated to give complete information, Mr. Chairman.

The Chairman: Thank you, Mr. Gordon. I presume that now the members of the committee would like an opportunity of asking Mr. Gordon questions concerning the report which he has just read.

Mr. Follwell: In order to refresh our minds as to the duties of this committee, might we have a reading of the rules which are applicable to the duties of members of this committee?

The Chairman: Perhaps the clerk would read our order of reference. That would give you the story.

The Clerk:

"*Ordered,*—That the Annual Reports for 1949 of the Canadian National Railways System, the Canadian National (West Indies) Steamships Limited, the Canadian National Railways Securities Trust, the Auditors Report to Parliament in respect to the Canadian National Railways System and the Canadian National (West Indies) Steamships Limited, and the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships Ltd. for 1950, tabled this day, be referred to the said committee, together with the following estimates for 1950-51:

Vote 493—Maritime Freight Rates Act, Canadian National Railways;

Vote 494—Maritime Freight Rates Act, railways other than Canadian National;

Vote 558—Prince Edward Island car ferry and terminals, deficit 1950;

Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950.

And that the Resolution passed by the House on February 24, 1950, referring certain estimates to the Committee of Supply, be rescinded insofar as the said Resolution relates to votes Nos. 493, 494, 558 and 559."

I think that covers it.

The Chairman: That is the subject of reference. Oh, I beg your pardon.

The Clerk: And the further order of reference is as follows:

Ordered—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1949, and the Auditors' Report to Parliament for the year ended December 31, 1949, in respect of Trans-Canada Air Lines, tabled this day,.....

That is, on Friday, April 24, 1950.

.....be referred to the said Committee.

Mr. GILLIS: According to the annual report, Mr. Chairman, the Canadian National actually had an operating profit of approximately $4 millions. But at the same time there is shown a deficit of $42 millions odd. Might we have an explanation of the reason for that situation? May I ask what steps might be taken to correct it?

Mr. GORDON: If you will turn to the consolidated income account on page 6 of the report, I think you will find the reason.

The $4,057,907 to which I referred was the net income after payment of operating expenses and so on, and that income was short by the amount needed to pay interest on funded debt issued to the public, and which, according to the income statement shows a total of $24,302,650.99 payable on bonds which have been issued to the public, and in addition, there is the sum of $21,798,283.58 which is interest due to the government on loans advanced by the government to the railway over a period of time. The total of these two therefore comes, roughly, to $46 million, and that is the reason why we fall short to the extent of $42 million odd to meet these charges.

Mr. GILLIS: Would it be reasonable to ask the government to waive interest on these loans?

Mr. GORDON: I have made a statement to the Royal Commission on Transportation which is now considering that question. I made various suggestions which may have come to your attention, suggestions of what I think would be a reasonable thing to do in the way of recasting the capital structure of the Canadian National Railways so that we might have a fair chance of being able to earn, on the average, over the years, all charges which the railway may face.

Hon. Mr. CHEVRIER: It may be that I should be allowed to say something in answer to the question: Would it be fair to ask the government to do something about these two matters?

Something has already been done. In 1937 or 1938 there was a revision made pursuant to the Capital Revision Act, whereby a large reduction was made in the interest due to the government, and the capital account was reduced substantially.

But in answer to the question whether the government should not do something about reducing the interest on bonds held by the public, I think that is a different matter and I do not think the government can do anything about it. It may be that the royal commission, in view of representations made, may make some recommendation, but I think we should hesitate before asking for action in connection with those loans. But as to loans due to the government which bear interest, under the circumstances, I think it would be reasonable to ask that that interest be waived.

Mr. GORDON: Well, the question of the Canadian National Railways capitalization has been referred by the government to the Royal Commission on Transportation, as well as the views of the railway in respect to that particular matter, and these details are currently being considered by the royal commission. I am not too sure of my protocol, whether it is appropriate to discuss in the committee anything which is under consideration by the royal commission; but my personal views have been given in detail to the commission, and if any of the committee members would like to have copies of them, I would be glad to see that they get them.

The CHAIRMAN: Might I interrupt? I think, Mr. Gordon, that most members of this committee would like to have an opportunity of studying an accurate copy of your statement to the royal commission, so, if the committee is willing, I shall ask the chairman of the board to furnish it to the committee reporters and we will have it published as an appendix to our meeting of this day.

Mr. FULTON: Might we ask Mr. Gordon if he could make copies available now, because, if the recommendations are printed, they will not be available to us for two or three days.

Mr. GORDON: Yes, we can do that.

The CHAIRMAN: I do not think it would be proper for us, as a committee, to enter into any discussion of Mr. Gordon's statement while the matter is sub judice.

Mr. MUTCH: I would like to agree with you, Mr. Chairman; but if I were interested from the outside, I would not.

Hon. Mr. CHEVRIER: The Speaker has ruled, first of all, that there could not be a discussion in the House concerning certain matters which are now before the Board of Transport Commissioners. And he has also made a ruling with respect to matters which are now before the Royal Commission on Transportation which would indicate that, while certain things might be discussed, certainly, other matters should not be discussed.

I am not going to suggest to the committee that matters which are before the royal commission should not be discussed, other than to say that when reference is made to a body like the Royal Commission on Transportation, I ask myself the question of the propriety of discussing such matters here. However, that is something for the committee to decide.

Mr. MUTCH: The minister having said what he has said, might I say that my reason for saying that I would agree is this: It has been our practice in this committee, after having heard the report of the president of the road, to begin an orderly examination of it, page by page.

Therefore, with the consent of the committee, I propose that we begin an examination of page 6 and go through the report and deal with each of these questions, because, if we begin to probe, we won't be finished for two weeks.

Mr. KNIGHT: Might I say this in opposition: is it not customary, upon receipt of such a report as this, that, perhaps, some of the committee members might be allowed to make some general observations before going into a detailed study of it?

Mr. MUTCH: I did not intend to oppose that course, but I thought that, having regard to an orderly procedure, since we have all the activities of the road before us, it seemed to me that, while the president's report was fresh in our minds, that we should take the opportunity to relate our questions to the time which is current, and that it was a more orderly way. We would get exactly to the same place. I suggest it from my experience. I was not proposing that, Mr. Chairman, but I thought as we have all of the activities here, and while the president's report is fresh in our minds we should have the opportunity to relate our questions to the items which come up in turn. It is a more orderly way. We get exactly the same place. I am just suggesting it, but I am in the hands of the committee.

The CHAIRMAN: Before we proceed, may we clear up these points. I would like to ask about this material that it is proposed to distribute among committee members. I take it that that is a recommendation of Mr. Gordon in regard to the method of amending or altering the capital structure of the Canadian National Railways?

Hon. Mr. CHEVRIER: It is a statement that was submitted to the royal commission by the president of the Canadian National Railways.

Mr. GILLIS: What value would it be to us now to discuss this annual report because everything that is before that royal commission now, and everything that Mr. Gordon has made a submission on are matters that are contained in this report, practically everything.

Mr. GORDON: No, I do not think that is the case. The statement to the royal commission deals with certain specific suggestions in regard to the capital structure and other questions which were referred to the royal commission. I might say that there was a preliminary brief submitted to the royal commission by the C.N.R. which is rather a bulky document but that is not the one I mean. The one that I am referring to is a personal statement which confines itself to the consideration of a few main questions. Now this annual report before us deals with the operation of the railways as such, its workings from day to day; and it is a different thing altogether.

Hon. Mr. CHEVRIER: May I say to Mr. Gillis that the reference to the committee is to study these reports and not the brief made to the royal commission.

Mr. GILLIS: If this matter was not before the royal commission it would be relatively simple to proceed. However, I am in the hands of the committee.

Mr. GEORGE: Would it be in order to put on record the railway operating revenues and expenses broken down into regions?

The CHAIRMAN: May we settle this one point. Is it the wish of the committee that we should print as an appendix to our minutes of this meeting a copy of the statement made by Mr. Gordon to the royal commission and referred to in his report as to the capital structure of the Canadian National Railways? All those in favour?

Carried.

(Statement appears as Appendix A.)

Now, dealing with the matters raised by Mr. Mutch and other members of the committee in regard to the manner in which we should proceed to our work. While Mr. Gordon was reading the report, I was wondering just what would be the best way to proceed with the committee work, and I suppose it should be done by question and answer. I do not think that at this stage it would be fair to the president of the Canadian National Railways and his large staff who are in attendance to listen to speeches or comments that members of committee wish to make. I think that at the present time our work should be restricted to questions and answers.

Now, as to whether it will be better to confine the questions and answers to a page by page examination of the report or to subjects of the report or to the entire report, I frankly do not know enough about the subject to suggest which method to follow, so I think we will start off for a while and see how the questions develop. Who would like the floor?

MR. CARTER: I would like to be informed on one point. There are some matters touched upon in this report that are before the Board of Transport Commissioners and some other bodies. Am I right in inferring that we are not at liberty to discuss these matters because they are before these other bodies?

THE CHAIRMAN: I would rather not make a ruling in advance. As far as I am concerned I always like committee work to be carried on on an agreeable basis and as long as you are reasonably well within bounds, I am not going to stop any questions.

MR. KNIGHT: You have suggested that it might be a waste of the president's time to listen to expressions of opinion. While as a humble member of parliament and a member of this committee I do not suggest that we have anything very valuable to advance, particularly in the matter of financial details, still I believe that as members of the general public perhaps we have views that the president ought to know about, and your answer suggested that while we may not now waste the president's time there might be an opportunity given to us later.

HON. MR. CHEVRIER: I think there will be an opportunity when the matter you are interested in is reached in the report. If it is not in the report, then at the end of the report there will be an opportunity to bring up general matters.

THE CHAIRMAN: In order to keep this work within bounds I would suggest that when one member has the floor and is asking questions he should have the right exclusively unless, of course, he consents to an interruption.

MR. GEORGE: All I want to find out is whether it is possible to have placed on the record operating a breakdown of the two principal items of revenue and expenses on page 6, a breakdown showing these revenues and expenses by regions.

MR. GORDON: If you will turn to page 23, you will see the general breakdown of operating revenues and expenses that we have shown there. A breakdown by regions should be technically possible but it would not be very informative in character. It would take a great deal of work because the traffic overlaps between one region and another, and it is difficult to allocate properly the revenues and expenses pertaining to any one particular region. We have divided the system into regions for operating convenience rather than statistical analysis.

MR. GEORGE: In other words then, the Atlantic region does not show either a profit or a loss according to the report.

MR. GORDON: As far as our books are concerned that is so. I think it would appeal to you that it can be done but you will get into all sorts of complicated questions as to regions where traffic originated and where it is destined, and I might say again that our regional system is based on traffic operations rather than on a revenue and operating expense standpoint.

THE CHAIRMAN: Shall we leave it this way, that Mr. Gordon will think over the question and if he believes that without too much expense a statement can be prepared which will be of any use to members of the committee he will have it prepared.

MR. GORDON: I will do that, but it is not a statement that can be prepared in a hurry; it is something that will take considerable time.

THE CHAIRMAN: If you find that it would not serve any useful purpose, I think members of the committee would be quite willing to leave that to your discretion.

MR. GORDON: I would like during the recess to have a talk with Mr. Cooper in regard to that.

MR. GEORGE: I do not intend to put the railways to any unnecessary work, but I was wondering if the breakdown was available.

MR. MOTT: This is a report of the operations of the railway. As to the future, we do not see any new suggestions in this report. For instance take the city from which I come, New Westminster; are we looking into the future there; is there anything planned there for the future? For instance, you pay rent on a line running between New Westminster and Vancouver that has no real terminals, and there is land available and things like that. Is there any committee or commission within the railway that has been formed to look into the future or what is the future in that particular locality?

Mr. GORDON: With regard to your first point, I would like to say that this report specifically deals with a review of the 1949 operations; it is not intended to be a forecast of the future. On your general question, we have quite a well staffed department of research and development whose job is constantly to keep abreast of events in any particular territory or any particular area of Canada; and, specifically, in your district there are a number of matters which are under examination although they have not reached the stage where I am able to make any specific pronouncement about them. All I can say is that we are alive to

the need for keeping abreast of developments particularly in the territory which we serve directly and we have in mind generally to see to it that our research and development branch is equipped and staffed to perform that job adequately.

Mr. MOTT: The reason I asked is that I have approached the department out there and there is not much chance of getting a satisfactory answer at all.

Mr. GORDON: If you have any specific question concerning your district you wish to be dealt with, Mr. Mott, I shall be glad to give it my personal attention and I shall be glad to hear from you.

Mr. HATFIELD: Mr. Chairman, are the officials ready now to have suggestions from this committee?

Mr. GORDON: Mr. Chairman, I can only speak for myself but I welcome all kinds of suggestions.

Mr. HATFIELD: It says on page 18 of the report that the railway has retained title to mineral rights in respect of three million acres of land in Saskatchewan. What land in Saskatchewan?

Mr. GORDON: These were lands that were originally given to certain lines of the Canadian Northern at the time the railway was first put through, and these lands have been sold off consistently since that time over a period of many years. It goes right back before the formation of the system. However, since 1923 they have been steadily sold, but when we sold this farm land, due to the technical nature of the sale, contract, the railway retained the mineral rights. In other words we still have control of those mineral rights, and we have made an arrangement, as it says in the report, with a company to conduct exploration work on a lease basis and subject to our getting a royalty percentage if they do discover oil.

Mr. FULTON: Could you give us some details of the arrangement, Mr. Gordon?

Mr. GORDON: I would like to answer that question first by asking a question of the committee. I am not certain if it is appropriate for the railway to give particulars of what after all is a private contract.

Mr. FULTON: I just wanted to know the annual rental that the railway is getting. If the negotiations are still under way, I can appreciate it cannot be disclosed, but if the contract is concluded there is no reason to withhold these details. I do not want to prejudice the negotiations or to embarrass the company financially but if the matter is concluded, could we not have the information?

Mr. GORDON: Perhaps I could say this to you, Mr. Fulton: the contract is on a basis which is recognized more or less as standard, but it does contain a variation of classes under given conditions which I think represent the private business aspects of the company concerned. I would be in doubt myself as to whether or not it is appropriate thus to disclose the terms of contracts of that kind; but I am entirely in the hands of the committee and I would appreciate the advice of the minister on it.

Hon. Mr. CHEVRIER: What I was going to say, Mr. Chairman, was this: that in the past we have followed the practice and custom here of not giving information which Canadian National Railway officials thought was information which would be of benefit to its competitors; and this is a rule which has been followed both in the House in answer to questions and in the committee. However, if the committee feels that the information should be given, the committee is the master of its own proceedings. But in the past when an officer of the Canadian National Railways indicated that it was not in the interest of the railway to give certain information and there was some doubt about it, it has generally been the view of the members that such information should not be

given. I have in mind in particular information about salaries of officials of the Canadian National Railways. The Canadian National took the view that that information should not be given publicly.

Mr. FULTON: Mr. Chairman, I certainly agree with the minister there, that information should not be given which would benefit the company's competitors, but is this a matter which if made public would benefit competitors of the railway?

Hon. Mr. CHEVRIER: I do not think I should be the judge of that.

Mr. FULTON: No.

Hon. Mr. CHEVRIER: I should not attempt to.

Mr. FULTON: But I would have thought, on the other hand, this is a source from which the railway is going to obtain some income in the future I presume, in the development of the country; and, surely, those details will have to be given in the report when that becomes the case. Surely we are not going to conceal then items of that kind. I hope that in the future we will not be prevented from obtaining details as to where income is obtained. I think that in future years we will have to be in a position where we can know and get all that information. I do not accept the proposition that this is something which is not of benefit to the country substantially; but if it is a matter which is now under negotiation with companies concerned I will not press the point at the moment, but I do think that when the time comes that returns from these arrangements appear in the income account, then we should have full right to enquire in detail as to what the contracts in each case were.

The CHAIRMAN: If I may interrupt just a moment: Mr. Gordon has asked for an opportunity of thinking this matter over to see just how far he can go in meeting your request, Mr. Fulton; and so we will just let the matter stand without a ruling at the present time. I was under the impression that perhaps there might be some general questions in regard to the report, but it is quite obvious I am wrong, and that the members are interested in specific questions. Shall we turn now to sections of the report?

Mr. ADAMSON: Mr. Chairman, I would like to ask a general question.

The CHAIRMAN: Certainly, Mr. Adamson.

Mr. ADAMSON: The question I would like to ask, Mr. Chairman, is this: Basically the railway is suffering as all railways are from obsolescence, in rolling stock, in stations, and in many of its assets, and I would like to find out from the president whether if the railways put on a program now—a real program of modernization and dieselization—such improvements could pay for themselves, and over what period of time; and approximately what sum, or what obsolescence, or what modernization the board would like to make if they were not so tight for money at the present time. I am thinking particularly, partially of suburban traffic in our metropolitan areas. I am also thinking of dieselization on the main line passenger traffic and the modernization of railroad stations, both along the main line and elsewhere. Now, I realize that I am asking for a general statement from the president, but I think there is a real problem. For instance, the station that I leave from when I do leave was built two years before the Indian mutiny; it is still that station, and everybody in the district I come from says the railway is losing a tremendous amount of revenue because of obsolescence, particularly of equipment which they have to provide for a traffic which they feel could be developed. Now I would like, Mr. President, probably not now but at some time, if you would make a statement as to the possibilities. What would it cost actually to modernize the railway and what would the prospect of revenue be? I have in mind a statement similar to that made by the chairman of the Chesapeake and Ohio Railway just recently.

The CHAIRMAN: Thank you, Mr. Adamson. I think that is a very valuable question and as you rightly observed it will take a lot of consideration. It will be noted and answered before Mr. Gordon leaves. I understand your question to be what capital expenditures would be involved and what economies could be effected and what increased revenue could be obtained?

Mr. ADAMSON: That is it.

Mr. GORDON: I would be prepared to give a tentative answer now and then I might perhaps develop it further later on if so desired. I would say that in a general way the question breaks itself down to three parts. Anyone looking into railway affairs during the depression starting around 1930 will find that the expenditures made on modernization were very limited indeed during that particular period and as a result obsolescence did accumulate. Now, the second period was the one in which the railway was exhausted through its wartime operations; rolling stock, road-bed and whatnot all obsolesced; and it is also true that very large sums of money have been spent. In the years 1940 to 1949 for instance, Mr. Cooper calls my attention to the fact that over $200 millions has been spent for new equipment. It is a very large system, and it must be remembered that you cannot modernize a railway overnight. It takes a long period of time and as far as I can judge the modernization which has taken place, the recovery of obsolescence over the last years has been proceeding at a rate which would indicate the maximum has been done, having regard to the facilities available and the equipment and supplies available. I do not see there is any question about it that that type of modernization has been going forward just as fast as it could. And when we come to the budget you will find that we have included an expenditure of something like $37 millions for 1950. That is just as fast I think as it can be accomplished, because there is such a thing as the physical handling of a program of that sort; it must be consistent. The third part of your question was, what of the future, I take it?

Mr. ADAMSON: That is it.

Mr. GORDON: That is a question I am not prepared to answer because I do not think we have given the matter sufficient study. We have a dieselization program which has been referred to in our statement. We are not yet ready to say to what extent that program could be expanded nor have we completed our examination as to what economies can be effected thereby. That is a study which is currently under way by a committee of officers of the railways and we expect and hope to have some better views on it some time in the course of this year. I made the statement the other day when I spoke at a meeting in Toronto that we are not prepared yet to say that dieselization is the whole answer. Some people think of dieselization as an academic answer which is going to solve all the problems of the railways. There are a number of problems which are unique in Canada all of which will require a good deal of study before we can come forward here with any general recommendation. But we do have in mind very definitely trying to develop a program touching on all the points you have mentioned; that of the benefits of modernization and the benefits of such things as dieselization; what might be termed a new approach—suburban traffic and that sort of thing. We want to be satisfied that we can see results through economies or improved operating efficiency before we undertake expenditures of that sort. Before we make such expenditures we must be sure that there will be a return sufficient to make the change a sound business adjustment; and, as a matter of policy, the railway would of course bring all such matters and recommendations before this committee.

Mr. ADAMSON: Could that report be brought to the Minister of Transport or to the chairman of this committee in any form during this session of parliament?

Mr. GORDON: I have been discussing that matter with Mr. Dingle, who is our new vice president in charge of operations, and I am afraid that we are not ready yet to come forward with any specific recommendation on what might be called our dieselization program. Am I right there, Mr. Dingle?

Mr. DINGLE: That is true. We have made considerable strides along these lines. At the moment we have some 140 odd diesels in use. We are developing our entire program. Many new types of cars are now in service, and there are others ready for delivery. As to station facilities and so on, our budget for the coming year does not cover every point completely; for obvious reasons, it cannot be done. We can do so much each year and we are doing the best we can to try to improve our position from year to year as to stations, trackage and facilities of that kind.

Mr. ADAMSON: I have heard it said that modern lightweight trains are paying for themselves on the American railways within a very short period of time.

Mr. GORDON: It must also be remembered when considering these different matters such as the one which has just been mentioned that traffic density has a large bearing on returns. Where there is a sufficiently high rate of traffic density these new developments pay for themselves very quickly, and under such conditions such a development would be economical. But from the standpoint of economy, if you were to spend a lot of money and put the same type of facilities in some of the areas we have to serve the traffic would never pay for the development. I have come to realize this about the railway in the short time that I have been in office, that everybody knows how to run a railway. I do not say that unkindly, I say it just as a fact; that I have learned that everybody knows how to run it; so we have a lot of suggestions for improvements as to what people think should be done based on their personal observations, but they do not take into account, and I make this observation with respect, what the impact of those suggestions is going to be on the system. But my point is this, that now being up to date, having regard to the facts concerned, there has not been time nor has there been the opportunity either, with regard to availability of equipment and supplies that we have been unable to get, really to consider whether or not a new approach would produce better results. Such may be the case, but that is not something which can be embarked upon just in the light of a few statistics, or picking out certain types of equipment. It has to be done by a much more careful program than that. We cannot spend millions of dollars without proper planning. If we were to do so we would be much worse off than when we started. As I see it, that is the main problem which confronts us.

The CHAIRMAN: Thank you Mr. Gordon. Mr. Cavers, you have been trying to get the floor.

Mr. MACDONALD: Following up the suggestions made by Mr. Adamson I might ask you, Mr. President, with regard to the matter of the needs of the road, what the cost is going to be in this regard? In the 1930's, as Mr. Gordon stated, many things could not be done owing to conditions existing in this country. Then, during the early '40's, on account of the war and the heavy traffic, the roadbeds took a terrific beating. I am wondering what the policy is with regard to the rehabilitation and the establishment of those roadbeds, particularly with respect to main travelled lines.

Mr. GORDON: Our policy is to go forward just about as fast as we can to get the roadbeds into what might be called class 1 condition. Again, you cannot make a generalization. For instance, I have in mind the examination of the conditions existing in the British Columbia area. We have had all kinds of difficulties there and they recur every year. We spend millions of dollars every year to maintain the status quo. I, naturally, have said "Why do we not do this on a

basis where we do not have to pay out that money every year". I sat down and studied the situation and I found that the line was put down in the first instance by the Canadian Northern on the basis of getting it in there as cheaply as possible. They went through on the best gradient possible and, with respect to operations, our expense is much less than that of the Canadian Pacific Railways in the same area because their line has heavier grades—whereas we are down at the bottom of the mountain. The trouble is the whole darned mountain comes down on top of us.

I got the operating officials in and after a lengthy discussion I said: Now, I have heard all of your problems and what happens every year. You have shown me pictures and reports by the score but how much money would it take to put, in that very short area—only about forty-two miles—a good railway line? The worst area is, as I say, only about forty-two miles. I am told that to put in a line where we would be reasonably sure that we would not have trouble would cost $150,000,000 to $175,000,000. At that point I sat back and suggested that we take another look. I have not yet reached the stage in life where I think that $150,000,000 is not a lot of money.

Now, you sit down, deliberately, and say that you will spend $150,000,000 but you must also keep in mind that you are talking about a program that would take twenty or twenty-five years to complete. It is not something that could be done overnight.

Mr. MUTCH: It might stop snowing by then.

Mr. FULTON: You are referring to the Fraser canyon area?

Mr. GORDON: Yes. We have a great deal of difficulty every year with snowslides, washouts and floods. For instance, right now we know that we are facing a probability—I was going to say a possibility but it is stronger than that— of further floods. What can we do? We can send out a certain amount of equipment, and make plans, but if there is going to be a flood there is nothing we can do to stop it. There is not a thing we can do to prevent very serious disruptions of service if we do get floods. We can help a little, but we cannot change the basic condition.

Mr. KNIGHT: If someone else wishes to proceed further I have no objection, but I want to raise another large general question. Mr. Adamson spoke of the deterioration and obsolescence of material. The thing I want to speak of is something more intangible and I think I can get it in under this last item on page 19.

Hon. Mr. CHEVRIER: I hope it is not a spiritual matter?

Mr. KNIGHT: The event may prove that. My point is on the matter of employee relations which I notice has been given the last position in the report on page 19. Also, with that, I would include public relations.

The CHAIRMAN: Before we go on to these specialized subjects are there any further general questions?

Mr. KNIGHT: This is general as you will see when I get through.

The CHAIRMAN: It appears to me that your question is directed towards a special subject which we will reach by going through the report page by page. I do not wish to curtail discussion but I want to do everything I can to facilitate the work of the committee.

Mr. KNIGHT: I think we are working at cross-purposes. As a matter of fact, my chief reason for bringing up the item is that I thought I could get it in here—otherwise I thought you might decide the discussion was too general.

The CHAIRMAN: Well, make a try.

Mr. FULTON: I will not take any time from Mr. Knight but my recollection is that in past years we have dealt with the report page by page. I was going to suggest that to keep our business orderly it might facilitate matters if we adopted that procedure now.

The CHAIRMAN: I agree with what you say but I do not wish to be unfair to Mr. Knight. You have heard the comments, Mr. Knight, is yours a general question or is it with regard to one item, namely labour relations?

Mr. KNIGHT: In my opinion it is a completely general question.

The CHAIRMAN: Yes, but is it with regard to a specific subject or is it a general question?

Mr. KNIGHT: Let me state my question. It has to do with the general public relations and employee relations which exist in the company. I refer there to the feeling between management and employees and to the feeling between management and the company. I also include what I shall call deterioration or suggested deterioration in morale.

The CHAIRMAN: Go on and ask the question of Mr. Gordon. Ask a question; do not put it in the form of a statement.

Mr. KNIGHT: That is going to be difficult. I am going to ask Mr. Gordon's opinion on this general question.

The CHAIRMAN: Ask him the question and he will answer.

Mr. KNIGHT: I want to do some talking about the matter too. We allowed Mr. Adamson to introduce his question. However, I do not want to hold the committee up.

Mr. MUTCH: Mr. Chairman I do not want to take any time but I will say this. I have sat on a lot of these committees and I do not think that there is any question relating to management that cannot be asked and answered when dealing with this report. If we are going to avoid duplication I think we should wait until the item is reached. I will take some gentle disagreement here and there—there are some points upon which I will expect to make statements and expect the president to contradict them if he can. In general, to avoid duplication of discussion and to have our meeting proceed in an orderly way, we might very well take half an hour on Mr. Knight's question when we reach employee relations.

The CHAIRMAN: I think that we will save time if we get the opinion of the committee. How many are in favour of starting at page 7 of the report and taking up one subject at a time?

Mr. FULTON: Start at page 6?

The CHAIRMAN: All right. We shall take up the report at page 6.

Mr. MCLURE: I wish to ask a question about a matter on page 4.

The CHAIRMAN: All right, we will start on page 4 and Mr. McLure has the floor.

Mr. MCLURE: Someone referred a while ago to an amount of $21,000,000 as being interest owed to the government. Could we have the amount of tax that the Canadian National Railways pays to the federal government? For instance, there is one big amount which they pay—if they pay it—8 per cent on purchases. It must be a tremendous revenue for the government. If we find the taxes they are paying are big, we can form an opinion about the government not charging them with the $21,000,000 interest.

Mr. GORDON: Mr. Chairman, as I understand it, Mr. McLure is asking about taxes paid to the federal government?

Mr. MCLURE: Yes.

Mr. GORDON: As distinct from provincial or municipal taxes.

Mr. McLURE: I am not asking what is paid to the provincial governments.

Mr. GORDON: No. The item I have before me in the 1949 report shows $1,942,539 in the form of unemployment insurance; $121,510 in the form of excise stamps and $8,203,000 in the form of sales taxes.

The CHAIRMAN: The last item would be charged to capital?

Mr. GORDON: Mr. Cooper reminds me that there could be duties on imported materials but I have not got that figure.

The CHAIRMAN: Sales tax would be charged to capital account and not to revenue account?

Mr. GORDON: It is part of operating costs.

The CHAIRMAN: Sales tax?

Mr. GORDON: Yes.

The CHAIRMAN: On the purchase of new rolling stock?

Mr. GORDON: On purchases of anything where sales tax is applicable.

The CHAIRMAN: All right.

Mr. MUTCH: Mr. Chairman, these items could be dealt with when we reach pages 24 and 25.

Mr. GORDON: Sales tax on new equipment would be part of the capital cost.

The CHAIRMAN: That is what I had in mind, yes.

Mr. FULTON: Mr. Chairman, does the annual vote by parliament to cover the deficit, when paid, also bear interest or is it a straight payment?

Mr. GORDON: No, that is just a straight payment.

The CHAIRMAN: Are there any more questions on page 5?

Mr. GILLIS: I want to ask a question concerning page 4. Perhaps it will not be a fair question to ask Mr. Gordon.

Mr. GORDON: I cannot think of any question that would be unfair.

Mr. GILLIS: It is stated on page 4 that on December 28 it was found necessary, due to coal shortage, to curtail certain traffic. Now, I know you are not responsible for that, but some of your officials may be able to explain it. The question I want to ask is why did the Canadian National Railways, in the Atlantic region in particular, allow their coal stocks to get into the position where they had to curtail traffic to the extent of 25 per cent in areas where there was plenty of Canadian coal available. Why could we not use our own fuel in areas where Canadian coal is available, rather than getting ourselves into the position where we have to use and are dependent upon United States fuel. I think it was inexcusable because in the year previous the mines in Nova Scotia were idle, working part time, and coal was available. The mess they got themselves into in the United States was very apparent two years ago. I would like some explanation as to just why that happened?

Mr. GORDON: Mr. Chairman, on the first part of the question I would say that the curtailment of passenger service which took place in the maritime region was not because of a shortage of coal in that region. Let us be perfectly clear about that. The reason why the passenger service was curtailed by 25 per cent was that there was an over-all coal shortage, particularly in the heavy traffic region—called the central region. If we had not taken precautionary cuts in the services all over Canada in very short order our central traffic region might have been tied up completely. We had to move coal from where the stocks were in the maritimes. There would be no sense in closing down the central region and running in the maritime region because traffic would be completely disrupted. We had to run the Transcontinental services or there would have been freight lying around all over the country. We felt that we had to keep traffic moving. Therefore, we averaged the cut all across Canada and moved coal from places where there was a long supply to places where there was only a short supply.

With respect to the second part of your question there has been a good deal of misunderstanding. I have had prepared a statement of the economic use of eastern Canadian coal. Provided the coal is delivered to us for movement through the cheapest route to each particular consuming point, and having regard to the present assistance by subventions and so forth, we regard the economic area where maritime province coal can be used and moved by us as being west to Coteau, thirty-nine miles west of Montreal, and as far as Fitzpatrick which is one hundred and twenty-three miles west of Quebec.

Thinking of that as the area where we can use maritime coal, our estimated requirements this year, if we could have it offered by the maritime suppliers, would be 2,330,000 net tons. At the moment we have only had offered to us by the suppliers in the maritimes a total of 1,120,000 tons. This year we will have to move 1,110,000 tons of United States coal into that area because we cannot get enough from the maritime provinces.

Now, in that breakdown we talk about the Atlantic region by itself. I can tell you that in our Atlantic region, under present circumstances, we can just cover our requirements from local suppliers.

Our requirements in the Atlantic region total 1,120,000 tons and we have now proposed to purchase—it is not all confirmed—but we feel we can get supplies from most suppliers and get just enough coal to cover our requirements in the Atlantic region. But there would be another 1,120,000 tons available to the railways in the Atlantic region if the maritime provinces could supply it.

Our policy is that we will take that coal if it is available to us on an economic basis and is of the proper quality for our needs. These suppliers know that. We have told them our requirements quite frankly, and we have invited them to make offers.

Mr. THOMAS: I wonder if Mr. Gordon could give us a breakdown concerning Alberta coal as he has done in the case of maritime coal?

Mr. GORDON: I would be glad to.

Mr. GEORGE: In connection with maritime coal, is it a matter of the price, or is it that they cannot produce it?

Mr. GORDON: No. In the past there was a difficulty with respect to price. We would have purchased more coal if we had been prepared to pay the price.

At the moment the Atlantic region is the area where the maritime province coal can compete with coal from other sources, having regard to the effect of the devaluation of the Canadian dollar, and having regard to the effect of subventions. That economic area has been extended to a point where we can use 1,120,000 tons more. Their total production is not enough to take care of what could be absorbed by the railways plus the other users of their coal.

Mr. FULTON: Are you in a position to offer the railway as a permanent market which would make it worth while for those operators to increase their production, or are they afraid to increase their production because of the market?

Mr. GORDON: You have put your finger right on a difficult point. Our requirements vary from year to year.

I think I should make it clear that the total amount which we will need this year in the area is larger than normal, because we will be replacing, in the Atlantic region, about 430,000 tons, in order to replace our stockpiles which we drew down in order to supply the central traffic region during the last shortage.

The normal requirement for the year 1950 would be 1,900,000 tons. And what we shall endeavour to do is, each year, about this time, to forecast as best we can our needs and try to arrive at an agreement with the operators, so that they can plan better than they have been able to in the past, what they can do about their production.

The CHAIRMAN: Of course, a change in the foreign exchange rates might move your westerly boundary of this economic area.

Mr. GORDON: That is quite true. In 1949, on the same assessment of economic area, the approximate consumption could have been 1,384,000 tons.

The CHAIRMAN: On what point is your mileage based now? Is it not 39 miles west of Montreal?

Mr. GORDON: It varies. The economic area up to September 30 was Quebec City. From October 1, it was Quebec City and Lake St. John. And since then it has been Lake St. John and Fitzpatrick.

The approximate consumption in that area could have been 1,384,000 tons. The actual maritime provinces coal supplied in 1949 was 794,000 tons, and we moved in 590,000 tons of United States coal into the area, which amount could have been currently supplied from maritime mines.

Mr. FOLLWELL: Is that coal from the maritimes as efficient as United States coal?

Mr. GORDON: No. Coal varies considerably and it varies in the maritimes. There is coal in the maritimes to quite a sizeable amount which cannot be used efficiently for locomotive purposes because it is just not good enough.

Mr. MCCULLOCH: But it was used all during the war and it gave satisfaction then, did it not?

Mr. GORDON: In part.

Mr. MCCULLOCH: According to my understanding today the Dominion Coal Company place a price with the Canadian National, and then the independent operators are asked to give a price, take it or leave it, much lower than the Dominion Coal Company's price.

Mr. GORDON: It is quite clear. There was a dispute which raged for some time with respect to the price. There is no doubt about it. But I can only speak in regard to this year and, as far as I am informed, the supplies which are now made available to us by maritime province suppliers are the maximum which they feel they can make available, and as far as I know they are satisfied with the price.

Mr. MCCULLOCH: When you consider the months of June, July and August, the independent mines down there could supply a lot of coal and keep their men employed during those summer months provided they could stockpile that coal.

MR. GORDON: It so happens that in the particular time when suppliers are willing to supply coal to us in large quantities, that is the very time when there is a car shortage. The two things always seem to clash. The very time when the suppliers are ready to give us a lot of coal is the time when we are in trouble about our cars. But what we shall try to do is to build up our stock-piles and get coal coming in an orderly basis and in that way maximize the quantity we can get.

MR. HATFIELD: Surely there would not be a shortage of cars during the summer months?

MR. GORDON: Mr. Dingle will answer the question more specifically, I think.

MR. DINGLE: Yes. During past years, or following the war, we did have very acute shortages. But certainly today, or during the past twelve months, the situation is much improved with respect to handling coal in the Maritime provinces. We broke all records during the first two months of this year in coal handling in these provinces.

MR. HATFIELD: Has there been any research work done on maritime coal to see if it could not be made more useful to the railways?

MR. GORDON: I got into a lot of trouble the other day in connection with that subject in answering newspaper reporters.

So far as I know, there is no research work of the character which you have in mind, but there is research work being done directed to more efficient production of coal, the more efficient digging of coal from the mines. But what I would have in mind in talking about research work would be research of a character which would enhance the utilization of coal in order to get more heat energy out of that coal, or in order to utilize types of coal which cannot be used now, or which would get that coal to ultimate the use by gas turbines which, after all, is a development of gases coming from coal.

Speaking as an amateur and therefore knowing all about my subject, I do not believe that is the answer to the coal problem. With the gas turbine as such we are far removed from the actual utilization of coal, and if the gas turbine proves to be economically successful, then we would use less bulk coal than we do now. But I am thinking of whether we cannot develop some research directed to the question of whether or not we might use for example run of mine coal.

Surely, if we put in some ingenuity and spend some money, we ought to be able to find a way to use some types of coal which, right now, cannot be employed in locomotives.

MR. HATFIELD: Is the coal still shovelled into the furnaces, or is it first ground to a powder and then blown in?

MR. GORDON: Perhaps Mr. Dingle will answer that question.

MR. DINGLE: We have the two types, the stoker and the hand-fired locomotive.

MR. GORDON: But the hand-fired type would not be used on main line traffic.

MR. DINGLE: No. Our heavier class of power is equipped with stokers.

MR. FULTON: Have you any reason to suppose that if you could offer yourselves as a steady market, the producers could expand their production so that they could meet your requirements over the years?

MR. GORDON: Answering that question as a matter of logic, I would say yes. But I cannot say it is a matter of discussion with the company. However, we are currently engaged in talks with the companies with the idea of trying to get stabilized markets on an annual basis which would enable them to plan better in the way of production.

MR. FOLLWELL: Would dieselization and the gas turbine result in cutting your demand for coal considerably?

MR. GORDON: We are also using a considerable number of oil-burning locomotives. In fact, it is one hundred per cent oil-burning in British Columbia, and that has had a definite effect on our utilization of Alberta coal.

Use of oil burners has reduced considerably the usage of Alberta coal, so much so that at the present time, in western Canada, we are facing a definite surplus of coal. If this were not so, our requirements of coal in western Canada would not be sufficient by at least 400,000 tons, in taking up coal which would be available in the western area.

But if we bring it too far west we get into a cost which is exorbitant, that is, based on a proper evaluation of the railway efficiency of Alberta mined coal which we figure is about 80 per cent efficient compared with United States screen coal, that is, just for the actual utilization of coal that is supplied. And on that basis, and also taking into account the usage of locomotive briquettes, then Alberta coal at present Alberta prices can be moved as far east as the Manitoba-Ontario boundary.

On that basis, the total amount of coal which has been offered to us in 1950 is 1,485,000 net tons. But the actual requirements in that economic area which I have referred to are only 1,088,000 tons; so the excess of coal surplus is actually 397,000 tons.

To give you an idea of what would be involved if we tried to move that coal out of that economic area and tried to use it, it would cost the Canadian National at least $1½ million to use that coal outside of that economic area; that is, $1½ million additional cost over and above what we could get coal for from other sources.

The CHAIRMAN: In order to move it where?

Mr. GORDON: That 397,000 tons,—to move it to points where it could be burned.

Mr. KNIGHT: Getting back to the recent coal shortage and the reasons for it: in central Saskatchewan, in Saskatoon, we use bituminous coal which comes from certain mines in Alberta. Our information is that those mines actually worked on short time during 1948 because of lack of orders. That is something that people would like to have a comment upon.

Mr. GORDON: I am afraid I cannot answer a generalization of that kind. As far as I know, we bought all the coal that was usable coal in western Canada and was available to us. But as you see, there was a surplus.

Mr. KNIGHT: Let me be specific. I am thinking of the Cadomin and Luscar mines, which are particularly useful for railroad work, and whose product is particularly amenable to storage, while some coals are not. Those are two mines which worked on short time in 1949 because orders from the Canadian National, on which they had depended, were not available. That is my information. I am asking for a confirmation of it or a denial.

Mr. GORDON: The only answer I can give you now is that as far as I can tell from the figures, and from the information that I have, we bought all the coal we could use satisfactorily.

Mr. KNIGHT: There is another question which relates to the same matter, or in that same area.

I think trains Nos. 3 and 4 between Saskatoon and Edmonton were cut down, but whether from the point of view of general economy in fuel or not I do not know, but that diesel oil that you obtained from Lloydminster is a pretty plentiful product.

Mr. GORDON: What kind of a cut-down did you have in mind? As far as I know we utilized every oil burning locomotive that we had.

Mr. KNIGHT: My information is that trains Nos. 3 and 4 running between Saskatoon and Edmonton were cut; the service was cut down there, I believe, in half.

Mr. DINGLE: No, the trains in through main line service were not cut, but there was a cut in trains 5 and 6 on the Lloydminster line. That particular line was not equipped to use oil-burning locomotives.

Mr. GORDON: We cannot utilize oil except where we are equipped to do so; we must have oil storage tanks built, for instance. There is a difference, I would point out, between Diesel and oil-burning locomotives.

Mr. KNIGHT: Trains Nos. 3 and 4 run between Edmonton and Vancouver—I am sorry, I was wrong. The trains I was referring to were numbers 11 and 12 between Saskatoon and Edmonton, and, I think, through Lloydminster.

Mr. DINGLE: No, they go through Wainwright and Biggar. They were cut to fifty per cent of their normal frequency but just as soon as we got them equipped with oil-burning locomotives and prior to putting on full service again, they were restored to normal frequency. The locomotives only became available after the cut-down was made and we immediately then restored full service.

Mr. KNIGHT: In other words, they were powered by coal-burning locomotives when that cut was made?

Mr. DINGLE: Yes. As our conversion programme progressed, we got additional oil-burning engines.

Mr. GORDON: With respect to your specific question I have the information, Mr. Knight. During 1949, we ordered from Brazeau 261,000 tons as against 246,059 tons shipped, and from the Cadomin Mines we ordered 327,600 tons as against 291,461 tons shipped, so that you will observe we ordered more than was actually delivered.

Mr. FULTON: Why change trains No. 1 and 2 and 3 and 4 between Vancouver and Edmonton which I understand use entirely oil-burning locomotives throughout? Why were those trains consolidated during this time of coal shortage?

Mr. DINGLE: It was because of interruptions in operations by slides and so on in the mountains. There was no cut in passenger service west of Edmonton brought about by the coal shortage.

Mr. FULTON: I do not recollect the facts. Was it the case that those trains were consolidated during the same period as the other cuts were made on account of the coal shortage?

Mr. DINGLE: Yes, but it was because of the conditions in the mountains. Trains No. 1, 2, 3 and 4 were consolidated.

Mr. GORDON: Our operating difficulties in British Columbia were worst of all during the very time that we had the coal shortage.

Mr. FULTON: What I am getting at is that the consolidation began at the same time and continued the same length of time as the cut in the coal-burning service.

Mr. DINGLE: That is true. During the period from January 20 to January 31 the line was completely out of service, and at intervals thereafter.

The CHAIRMAN: The two problems were coincidental.

Mr. FULTON: It seems to me strange that they should have continued for the same length of time as the coal shortage, although the interruption in the line in British Columbia did not last as long as the whole duration of the coal shortage.

Mr. DINGLE: That is true, but our operating conditions were such in the mountains that we did not want to get into more difficulties by tying up trains because of snowslides which might occur at any moment. We did not know from day to day, nor even from hour to hour, when we would have snowslides. By consolidating the trains we cut down the chance of marooning passengers in the mountains.

Mr. GORDON: All these difficulties came so close on the heels of each other than we came to the conclusion that John L. Lewis was controlling the weather in British Columbia also.

Mr. ADAMSON: Can you give us a relative cost of coal per ton, and the relative efficiency as between United States, Nova Scotia and Alberta coal? Does the Canadian National Railways have a captive mine in the United States?

MR. GORDON: Yes, we have the Rail and River Coal Company mine where we get substantial amounts of coal. It produces run of mine, slack and usable coal. We sell the slack or swap it for other United States coal. But we do get a fair amount of coal from the Rail and River Coal Company mine. You wanted to know something about prices?

MR. ADAMSON: Yes. Relative prices of coal from your own captive mine in the United States, your own coal and Alberta coal, and the relative efficiency of coal from the different localities.

MR. GORDON: The Alberta coal has a relative efficiency of eighty per cent against United States screened coal. In Alberta we take some run of mine coal. You wanted the prices in Alberta,—these prices vary again, but from my figures we pay for run of mine coal in western Canada an average price of $5.62.

THE CHAIRMAN: Where?

MR. GORDON: F.O.B. C. N. R. tracks, wherever it may be. Screened coal costs about $6.12. Our United States prices are f.o.b. the mines and have run from $3.65 a ton to a high of $4.60, depending again on the grade, and that is screened coal. Western Canada coal, f.o.b. C. N. R. tracks is $6.12, I see it runs from $5.62 to $6.12. That is screened. That is a comparison I have given you now. The reason we are able to use Alberta coal at all is that there are subventions paid by the federal government for the use of that coal.

Is that sufficient information, Mr. Adamson?

MR. ADAMSON: I think the whole question of coal is so important that the committee would like to have it broken down into the three sources of supply.

MR. GORDON: On the matter of what?

MR. ADAMSON: Price and efficiency. We have now the economic limits of the three areas.

MR. GORDON: Economic limits, you understand, are dictated by price.

MR. ADAMSON: If we get the price and the economic limits, and the relative efficiency, then we have all sides of the equation.

MR. GORDON: I would be glad to make a statement on that. I have the figures here now, but if you would leave it with me I will try to have it made up.

THE CHAIRMAN: We have now reached time for adjournment. I believe it is the custom of this committee to sit twice daily while the railway officers are in attendance. We will meet again at four o'clock this afternoon.

The committee adjourned until 4·00 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

THE CHAIRMAN: Gentlemen, we have a quorum and we will commence. I believe we have finished with pages 4 and 5.

Mr. MCLURE: I have one question on page 5—

THE CHAIRMAN: All right, Mr. McLure:

Mr. MCLURE: —arising out of paragraph 5. "On January 1, 1950, there was likewise added to the system the Temiscouata Railway." Arising out of that I have a question I would like to get a little information on. It may deal with the policy of the Canadian National Railways. I had asked this question of the Minister of Transport but he was not in a position to answer it, I do not think; and I thought it would be well to put the question up to the president of the road. My question is this: Has the Canadian National Railways made a general proposal to all the other provinces of Canada as well as to the government of the province of Prince Edward Island, namely, to take over all the highway, bus and truck services, and to place them under the control of the Board of Transport Commissioners?

Mr. GILLIS: Before Mr. Gordon answers that. When we adjourned at one o'clock were we not discussing the coal situation, on page 4? And we had not completed that discussion.

The CHAIRMAN: I understood you were through with that.

Mr. GILLIS: No.

The CHAIRMAN: If we are not through with it perhaps it would be better for Mr. McLure to withhold his question.

Mr. MCLURE: All right.

The CHAIRMAN: And we will finish up the coal situation.

Mr. THOMAS: I was wondering if the statement which was made this morning that there had been a surplus in Alberta was correct, and if so why that could not have been used on some of the eastern parts of the system, and why it was deemed advisable to bring the rail service on 13 and 14, and on 25 and 26, between Edmonton and Calgary, back to full-strength prior to putting the rest of the system on full passenger service; and in doing so to put oil burners on the line instead of coal burners; and whether the oil burners could not have been used to better advantage on the central or eastern part of the system?

Mr. GORDON: I can give you a general answer to that, it is not one on which it is easy to give a specific answer. If we were able to use oil burners, in fact where we are able to use oil burners we are bound to do so, and particularly where there is a shortage of other fuels. You see, it would not have been practical to have brought these oil burning locomotives into the central region, or further east, because of the fact that oil servicing equipment was not available. However, it was available in that particular area and that is why we put oil burners into service in the area to which you refer. Perhaps I could ask Mr. Dingle to confirm that?

Mr. DINGLE: That is right.

Mr. THOMAS: These oil burners would not have been available for use on any other part of the system?

Mr. DINGLE: No, you see we have to use the oil burners where we can service them.

The CHAIRMAN: Are there any other questions?

Mr. HATFIELD: I would like to ask which is the cheapest fuel, oil or coal?

Mr. GORDON: Generally speaking, oil; but there again it depends on the basis on which you are operating. In other words, we can put oil burning locomotives on certain lines and operate more efficiently than we can by using coal.

Mr. HATFIELD: In regard to the cost of coal—the price in the United States as compared to the price in Alberta—is the price in the United States based on your cost at your own mines or is it based on the market price?

Mr. GORDON: It is based on the market price.

The CHAIRMAN: Are there any other questions on coal?

Mr. GILLIS: I would just like to say this as a start, that I am very much interested in Mr. Gordon's very fine approach to this thing. May I say also that he appears to have gained a very thorough knowledge of the subject in the short time which has been open to him. I am very much interested in what he has told the committee this morning in that it shows that something is being done with regard to developing the fuel policy of the road with the end in view to utilizing our own coal. This is a subject which I have heard discussed a number of times but this is the first time I have heard of a zoning arrangement which has the possibility of increasing the use of our own coal. I would just like to go back for a minute to the small operators in Nova Scotia. They depend largely for their market on the Canadian National Railways, and I would like to ask Mr. Gordon if there is any way by which more of the market can be placed in the hands of these small operators; and I would remind him that the general feeling is that their position is sort of that of having a gun held at their heads. I am reminded

in that connection that they have been required to bring their prices down as much as $2 a ton, and I would like to ask Mr. Gordon if he can give me an answer to that.

Mr. GORDON: I cannot answer that question specifically. I have no knowledge of it. If you would like me to make enquiries about it I would be very glad to do so. But generally speaking I understand from my records that negotiations with respect to coal prices in the Maritime provinces are conditioned by the larger suppliers and having received offers from the larger suppliers negotiations are opened up with the independent mines as to how much coal they can deliver at the price. That is the main factor in the price situation there. They naturally want to get the best offer they can. If you have any specific case in mind, I would be only too glad to look into it for you; in fact, I would be interested in looking into it myself. I can tell you this, that I have heard a great number of allegations which when run down do not turn out to be in accordance with the facts submitted to us. There is a great deal of discussion and talk about this sort of thing but on investigation one finds that it is based either on lack of information or misinformation; so if you have any particular case I would be only too happy to look into it.

Mr. GILLIS: I was basing my statement on one made by the Minister of Mines of the province of Nova Scotia, and they admitted that it did take place. The second thing that I was rather amazed at this morning was in the discussion when you made the statement to the effect that you could not get the amount of coal you required from the operators in Nova Scotia, which had led the public to believe the mines were not producing while that is not the case; rather the opposite is the case because within the last few months Dosco has closed two of its mines that could have and should have been operating for some considerable time; and at the same time you told us that there is a shortage of coal. There seems to be the usual explanation that one always gets, lack of funds.

Mr. GORDON: I want to put you straight with regard to the reference which was made with regard to our reserve coal supply. I dealt this morning with the 1950 requirement, and I pointed out that the economic area I was referring to where eastern coal could be used had expanded considerably since devaluation, for one thing; and further that our demand or requirement this year was inflated to the extent of 430,000 tons arising out of the fact that we depleted our stockpiles during the present shortage, moving it out of the economic areas. That 430,000 tons depleted this year of course cannot be depended on in the future. Nevertheless, in 1949, which is more along the lines to which you are referring, our records show the approximate consumption in the economic area then available would have been 1,384,000 net tons, and of that total the maritime provinces coal which was actually purchased in 1949 was 794,000 tons; so when we move into the economic area you have a total of 590,000 tons that could have been used out of the maritime provinces. Now, another reference that I think may be useful, if I can find it, is this: that of the actual orders which were placed during the 1949 season—orders totalling 903,535 tons, orders which we actually placed with the mines during the period we are talking about—and that is to all the mines, independent as well as Dominion Coal and Steel—amounted to 903,535 net tons; and actually shipped were 793,784 net tons, so there is a shortage on order in the maritime provinces amounting to 109,751 net tons. There is a little overage of 542 tons from one mine, but roughly speaking the shortage against orders was 109,000 odd net tons in that year.

Mr. GILLIS: Is it possible for the coal operators in the maritimes to supply the normal requirements of the Canadian National in that area?

Mr. GORDON: As I say, I am dealing first of all with the 1950 requirement. If we take the 1949 figures and apply them, as they indicate the normal demand, I think you will find that they will keep the operators fairly busy. We are to

get this year from the maritime provinces a total of 1,210,000 tons. That is enough to take care of the Atlantic region, so called. But as I said before this is short by a considerable amount of what we could use in the economic area. The 1,210,000 tons compares with the requirement figure for the 1949 period. I would say that our approximate requirement for 1949 would be 1,384,000 tons. The figure varies, you see. But, as I said, the 1950 requirement will be considerably greater than that because of need to replace the depletion of stocks to which I have referred.

The CHAIRMAN: But the fact does remain that you did have on order 109,000 odd tons in 1949 as to which deliveries were not made?

Mr. GORDON: That is right.

Mr. GILLIS: At the same time I understand that you cancelled contracts for 65,000 tons.

Mr. GORDON: Well, just one moment there; I can't let that pass. My information is that there have been no contracts cancelled at any time. What did take place was that in the period the mines who had the orders to deliver coal were to deliver on a weekly basis and we asked them to defer deliveries for a short period of time. There were no orders cancelled.

Mr. GILLIS: During the period around April 13, 1949, one of the mine workers locals at Stellarton, Nova Scotia, reported they were only operating on half time and they were negotiating at that time with the C.N. for additional orders in order to give them full employment, or as near to it as possible. I wonder if Mr. Gordon could give us some explanation of the situation which developed in April of 1949, particularly in view of the shortage in the stockpiles?

Mr. GORDON: What took place in April, 1949 was roughly this: There was an original offer by which the Dominion Coal Company was to supply 998,000 tons. There was disagreement about the price increase requested by the coal company, and as a result of that disagreement the offer was held in abeyance for several months. Apparently around April some time the disagreement was reconciled and a new agreement made with the coal company. In the meantime that company had disposed of a large quantity of coal to other purchasers so that they were not able to implement the provisions with respect to the 998,000 tons. The net result was that the Dominion Coal Company was not able to supply that amount to the C.N.R. because it had been sold to other customers and the offer of 989,000 tons was reduced to 520,000 tons.

Mr. GILLIS: Why could not the Acadia Coal Company of Nova Scotia have had some of that? They might have been able to supply a good deal of it.

Mr. GORDON: Well, you see, the Acadia Coal Company were not able to make deliveries.

Mr. MCCULLOCH: They were only working half-time, how do you account for that?

Mr. GORDON: I cannot answer that.

Mr. GILLIS: Is the Allan shaft of the coal company a subsidiary of Dosco?

Mr. GORDON: That must be included in the figures I am giving for this area in making up the 998,000. That includes all the Dosco mines. So when you say there was no agreement reached, then I point out that that applies to all the subsidiaries of Dosco who are included in the over-all negotiations in regard to price.

Mr. MCCULLOCH: Acadia would come in with that.

Mr. GORDON: That would come in with the grand total; that is what I was getting at.

Mr. GILLIS: That is particularly so because Dosco has suffered months of slack time.

Mr. GORDON: As I say, the information which I have is that the coal which was originally intended for us was sold to other customers during the period of price dispute.

Mr. GILLIS: I have no intention of holding a post mortem here; you are not responsible. However, there is no harm in discussing these matters so that repetition in the future may be avoided.

Mr. GORDON: I am quite willing to discuss this but as far as I am able to tell from the records and from my own knowledge I have given you the situation.

Mr. GILLIS: Am I correct in saying that as far as the purchasing policy of the C.N.R. is concerned the intention is that in so far as possible they will use all Canadian coal in the areas which you declare to be economic areas?

Mr. GORDON: Yes, I think that is quite right, although it is always subject to the question of reaching agreement as to a reasonable price—all things being considered. I do not think that it is a change in the policy and I do not want to convey that impression. The policy has been to use Canadian coal when available and when its use can be justified economically. My report states, and I quote: "Where doubt has existed preference has been given to Canadian coal, which frequently has been used at times and places when other coals have been obtained at lower costs."

In the actual buying policy, and I think this was fully discussed in the royal commission's report in 1945, the C.N.R. has endeavoured to use Canadian coal whenever it could justify it economically. When the price spread between the United States coal and that from certain Canadian regions was too wide then it became a bargaining battle as to the point at which the two parties would break down and reach contracts.

Mr. GILLIS: The reason I say that it is a change of policy is because there has been an awful lot of American coal stock piled in the Atlantic regions while those particular mines were inactive. You say that it is your intention to buy Canadian coal when it can be supplied, within your zones, as you have said, where the price is competitive?

Mr. GORDON: Yes, allowing for subventions and giving them every benefit we can. However, I do not want to have anything on the record to indicate that is a change of policy. I think, too, that it is apropos of your inquiry to state that the record shows quite clearly that between 1925 and 1929 the C.N.R. used 58 per cent Canadian coal; from 1930 to 1934 it used 65 per cent Canadian coal; from 1935 to 1939 it used 69 per cent Canadian coal; from 1940 to 1944 it used 44 per cent Canadian coal; and from 1945 to 1949 it used 34 per cent Canadian coal. That is not maritime coal only, it applies to all Canadian coal. There has been a very drastic reduction in the amount of Canadian coal used by the system in latter years.

My information is that the coal just has not been available to us at prices which were reasonable, all things being considered.

Mr. GILLIS: Did the C.N.R. purchase any American coal from Dosco—Dosco has imported American coal?

Mr. GORDON: Not as far as I know; it is all Canadian coal. We buy American coal at competitive prices as laid down in Canada.

Mr. HATFIELD: From your own mines?

Mr. GORDON: From our own mines—the price is based on the market price.

Mr. HATFIELD: Do you operate any mines in Canada?

Mr. GORDON: We do not operate any mines in Canada. We only operate one mine, the Rail and River Coal Company in the United States.

Mr. FULTON: Do you take the total output?

Mr. GORDON: We do, except that there is a certain amount of coal from the mine which is slack coal and not suitable for locomotive use. We sell the slack

coal or swap it with a nearby mine for coal which is appropriate for our purposes. The net effect is that we use the total output.

Mr. FULTON: There was a statement which appeared in *Hansard*, made by one of the maritime members, to the effect that a contract for 65,000 tons of coal was cancelled. Following your discussion I take it that is not the case?

Mr. GORDON: I specifically inquired about that statement and my information is that there was no contract as such cancelled. There was a period when deliveries were delayed at the request of the C.N.R.

Mr. FULTON: Why was that? Was the stockpile high?

Mr. GORDON: That was because the stockpile position was regarded then to be adequate and we did not take deliveries beyond the stockpile position that had been determined at that time.

Mr. FULTON: May I ask who makes the decision with regard to stockpiling? Is that a director's decision or is that a management decision?

Mr. GORDON: Well, it works in this way. Each year the purchasing department, in conjunction with the operating department, arrives at an estimate as to what the needs for coal are.

Mr. FULTON: The operating department?

Mr. GORDON: The operating department, in conjunction with the purchasing department, then brings forward a recommendation. That recommendation is put forward by the president to the board of directors and the objective is set in regard to the stockpile for the end of the next year. That is to say that in February I would take the 1950 program to the board of directors. We always aim at an objective for the end of the year but we leave the purchasing department free to buy coal throughout the year, having in mind a stockpile at the end of the year to see us through the critical months of January, February, and March. The buying of coal to implement that program might run all the way from six to seven and a half million tons a year. The rate of progress in respect of buying that coal is a matter of managerial judgment.

Mr. HELME: In regard to Alberta there was mentioned a figure of $6.12 as against $4.00 for similar United States coal. I wonder what the reason for that is?

Mr. GORDON: I left it that I would get further information about the relative efficiency and the difference between the two figures. The figures are not really comparable because the price I gave for the United States was f.o.b. the mine and the price I gave for western coal was f.o.b. the C.N.R. track. I would ask you to delay that matter and I will be able to give you some more specific information on the matter of the comparison. It is quite a complicated thing. Testing of coal goes on all the time. We might get a contract for coal at $4.60 a ton and then in the course of testing deliveries of that coal we might demonstrate its efficiency or burning capacity is not as high as that called for in the contract. We would then discount the price in following payments. That is something which varies all the time but I will try and get a statement by tomorrow which will put the two things on a comparable basis. At the present time the figures which I gave you are not to be regarded as comparable.

Mr. HATFIELD: What diesel oil is used as compared with coal?

Mr. GORDON: In 1949 we used a total of 6,153,000 tons of coal having a cash value of $51,102,000. We used in fuel oil 45,954,000 gallons with a cash value of $2,467,000. With respect to diesel oil we used 12,520,000 gallons having a cash value of $1,502,000. In other words the total oil bill was $3,900,000 as against a total coal bill of $51,102,000.

Mr. HATFIELD: Is it your intention to keep on changing from coal to oil?

Mr. GORDON: That raises a major question of policy, as I mentioned this morning. That will depend upon what our studies reveal with respect to the

modernization program and the improvement of efficiency of the system. Generally speaking there will be a trend that way but it will not be a complete switch-over.

Mr. HATFIELD: Unemployment would not be taken into consideration?

Mr. GORDON: I have already stated in regard to that question that the C.N.R. has very much in mind the fact that it has a big stake in the coal business. Ours is a railway that carries a lot of traffic through coal and we are not prepared to, shall I say "go overboard" in the matter of dieselization.

The CHAIRMAN: Mr. Gordon, you say that the coal offered during the current year by the maritimes is some one million tons short of what you actually could take. I would therefore like to ask a question. What is done in regard to these small operators? After you have negotiated a fair price with the large operators, is that price then announced to the trade and are the smaller operators given an opportunity of supplying coal at that negotiated price.

Some Hon. MEMBER: No.

Mr. GORDON: I do not know who said "no", but I am going to say "yes". My understanding is this. There is a lot of coal in the maritimes, and particularly from the independent operators, which is not suitable for locomotive use. We are constantly negotiating with them to get the maximum amount they can give us. Any price at which we get coal is always the result of a bargaining situation because the quality varies.

Mr. MCCULLOCH: The purchaser of coal will name a price—take it or leave it—and the operators have got to take it. No independent mine in the maritimes can live without an order from the C.N.R.

Mr. GILLIS: That is correct.

Mr. GORDON: If that is so then I confess my misunderstanding to this extent. I do not understand why in the year 1949 each one of those mines you refer to short delivered us on coal ordered.

Mr. MCCULLOCH: I know that but during the war you bought coal from independent operators; you ran trains well during the war and did great service.

Mr. GORDON: There was a serious deficiency in our supply of maritime coal. During the war we had to rail United States coal into that area and used it to a great extent.

Mr. MCCULLOCH: The Acadia Coal Company and the Drummond Valley Company coal is not as good as some of the Cape Breton coal, but those companies employ a lot of men there and we would like to see them working at least five days a week during the dull season.

Mr. GORDON: As a general statement I can certainly say that it is our desire and it will be the objective of the C.N.R. to take all the Canadian coal that we can get on an economic basis, provided that it will operate trains. There is just no use in taking coal that will leave you stranded between one point and another. You only have to send in another train to pull out the one that started on the way with the poor coal. That sort of thing does not get you anywhere.

Mr. MUTCH: On that point is it possible to expect that a small independent operator can meet the price at which it is possible for a big company to lay coal down? I am thinking of large contracts of say 1,300,000 tons. There must be some element of saving through mass production or bulk even on a commodity such as coal. Would it not amount to the fact that an independent, no matter whether he deals in coal or in anything else, if he must meet the price of the large producer, is in fact shut out?

Mr. GORDON: Mr. Mutch you are raising a general economic point on which I can speak with some authority. If what you said were true there would be no independent mines survive. The fact that they are in existence proves that what you have said is not true.

Mr. MUTCH: I hope it is not true. I was hoping that you would bring out the fact that my statement was not true.

Mr. MCCULLOCH: There are some districts where the company will not take run of mine coal—the operators must eliminate the slack, and as they cannot get clear of the slack they cannot run the mine.

Mr. GORDON: That certainly is part of the trouble. Some of these mines can only sell run of mine coal and that fact shuts them out of our market because we cannot use run of mine coal.

Mr. MCCULLOCH: What did you use in the war years?

Mr. GORDON: I doubt whether we used the kind of coal you mean. After all what we are talking about is a physical impossibility. If the coal cannot be burned we cannot run trains with it. Also we can get a situation where the coal is of such a quality that it affects our cost of operation—it is an economic factor as well. What is your experience in respect of using run of mine coal, Mr. Dingle?

Mr. DINGLE: What Mr. Gordon has said is true. The lighter grades, of course, just go up the stack and you do not get burning efficiency. I think there might be some confusion between locomotive coal and our boiler-plant coal where we use slack.

Mr. MCCULLOCH: Pretty nearly every mine in Pictou county has a surplus of slack coal which it cannot get clear of.

Mr. GORDON: I think that is perfectly true and we cannot help very much in that problem.

Mr. MCCULLOCH: Not so long as you demand screen coal.

Mr. GORDON: But we cannot burn run of the mine or slack coal in our engines.

Mr. MCCULLOCH: I know that.

Mr. HATFIELD: I think you said it cost you $51 millions for coal. How much of that money was expended for coal bought in the United States?

Mr. GORDON: I understand your question is: how much of the coal consumption to which I previously referred came from Canada? The figures I shall now give you are not exactly comparable with the figures I gave you before; but these figures contain the coal consumption of all kinds on the railways in 1949. We used steam coal to the total of 6,547,147 tons; and of that, Canada provided 6,001,856 tons.

The CHAIRMAN: And what was the dollar value, Mr. Gordon?

Mr. GORDON: Will you wait a minute. I am wrong. That is the consumption. I am sorry. I have got tangled up here, Mr. Chairman. Could we just strike that out and start all over again.

We received steam coal last year totalling 5,260,151 tons. And of that, 2,237,829 tons was provided by Canada.

I cannot break down the consumption figures because they get mixed up with stockpiles, and we cannot separate them, but as to receipts by us, that is what we did in 1949.

I have the figures for previous years, if anyone is interested.

The CHAIRMAN: A question was asked as to the dollar value of coal purchased in the United States. Have you got that figure?

Mr. HELME: Oh, it is not necessary.

The CHAIRMAN: Then we shall carry on.

Mr. FULTON: How much does the company-owned mine in the United States produce? Can you give me that, Mr. Gordon?

Mr. GORDON: In 1949 the production was 916,317 tons. That, of course, was very much reduced by reason of the strikes in the United States.

Mr. FULTON: Then that mine produced about one-third of the coal which you got from the United States?

Mr. GORDON: Yes, I have not checked your mathematics, but on that basis, you would be approximately right, yes.

Mr. FULTON: Do you pay the coal company for that? Do you keep the account separate?

Mr. GORDON: It is a separate company and the books are kept separately. We pay for the coal just as we pay for coal from any other company.

Mr. HATFIELD: What about the United States lines? Is it paid for from the revenue from the United States lines or from that of the Canadian lines?

Mr. GORDON: It would be hard to state that, but it would be paid for in United States dollars. It is a separate corporation, a United States corporation.

The CHAIRMAN: Are there any further questions on coal?

Mr. THOMAS: Might I ask Mr. Gordon if we are getting a lot of slack coal from the American mines as briquettes?

Mr. GORDON: No, not in the United States. We found, upon test, that it is not economical to briquette. We get quite a large amount of Alberta coal which we are finding very satisfactory for briquetting.

Mr. THOMAS: It is not considered advisable to briquette the slack coal in the United States?

Mr. GORDON: No, it is not economical, in the sense that we buy other coal at a better price. In Alberta the average price runs about $7.73 per ton for Alberta briquette as against $6.12 for screen coal.

Mr. FULTON: Is that American mine included in the accounts of the company? Is the revenue of that American mine taken in?

Mr. GORDON: Yes. It is part of the system accounts. It is a subsidiary company of the system and it is included in the overall balance sheet.

Mr. CARTER: Is it true that several hundred coal cars were sent down to the maritimes and sent back empty?

Mr. GORDON: Sent back empty!

Mr. CARTER: Yes.

Mr. GORDON: I would be surprised if that was so. No, it is not so. You may be thinking of a hold-up when there was a difficulty in the Strait of Canso, and there were some empty cars which were held at that time. But they did not come back empty. They were held until the ice problem was cleared up and they came back full.

Mr. GILLIS: The Minister of Transport has cleared up the difficulty. He is building a bridge there now.

Hon. Mr. CHEVRIER: We hope to have it built soon.

The CHAIRMAN: Are there any more questions about coal?

Mr. GILLIS: What are the comparable prices between American and maritime provinces coal?

Mr. GORDON: Well, again, these prices vary. The prices for screen coal varied in 1949 between $7.75 per ton, screened, to $8.60 a ton, screened. And in the United States the figures which I have vary from $3.65 per ton to $4.70. But let me emphasize this: the prices I give for the United States are f.o.b. the mines, while the prices in eastern Canada are f.o.b. the Canadian National track. There is a differential there which I am trying to clear up, in order to get it on a comparable basis, and I hope to have it on a comparable basis for you tomorrow.

The CHAIRMAN: Subject to the tabling by Mr. Gordon of this memorandum that he is going to supply to you, Mr. Gillis, is it understood now that we are through with the coal question? Now, Mr. McLure, "Temiscouata Railway".

Mr. McLURE: My question arises out of the matter of the Temiscouata railway, inasmuch as Prince Edward Island is situated so as to be a distinct unit.

I have a question which I asked the Minister of Transport and it is this: has the Canadian National Railways made a general proposal to all the other provinces similar to that which has been made to the government of the province of Prince Edward Island, namely, to take over all the highway buses and truck services, and to place them under the control of the Board of Transport Commissioners?

Mr. GORDON: Certainly the answer is no! But I am wondering whether your premise is right with regard to the offer to Prince Edward Island.

Mr. McLURE: You say the answer is no, that they made no proposition to anybody?

Mr. GORDON: To the other provinces, and the answer is no. But I query your premise that we made a specific offer to Prince Edward Island.

Mr. McLURE: The Canadian National Railways made a proposition to the government of Prince Edward Island. Are you aware of that?

Mr. DINGLE: That is right, sir.

Mr. GORDON: I am wondering about it. Would you mind repeating it again?

Mr. McLURE: I say that the Canadian National Railways presented a brief on the 15th of February to the government of Prince Edward Island—

Mr. GORDON: Yes.

Mr. McLURE: —as to how they would operate it and why it was necessary for them to operate it. It is rather too long for me to put on the record.

Mr. GORDON: I know what you mean.

Mr. McLURE: The government of Prince Edward Island did not know whether it could accept it or otherwise, and they replied accordingly. But the negotiations have been going on since the 1st of January 1950. May I ask if that is your policy with regard to Prince Edward Island?

Mr. GORDON: Well, it is a specific proposal to Prince Edward Island which is still under negotiation. It is not a proposal, however, that has been advanced to the other provinces.

Mr. McLURE: It is not a proposal which has been advanced to what?

Mr. GORDON: I say it is not a proposal which has been made to the other provinces. Oh yes, it has only been made to Prince Edward Island and covering special conditions on Prince Edward Island. We have made this proposal which we think will give them better service, by and large, with respect to transportation available. That is the general gist of it.

Mr. DINGLE: That is right.

Mr. McLURE: I do not see why they would ever accept it.

Mr. GORDON: You do not? I did not think it was that good.

The CHAIRMAN: Will you now turn to page 7 and we will take up the different operations one heading at a time.

"Review of Operation." Are there any questions in regard to "Review of Operation"? We have already had the question with regard to deficits. Are there any other questions arising out of that paragraph?

Mr. FOLLWELL: I wonder if it would be in order to inquire about the pool service arrangement between the Canadian National and the Canadian Pacific at this time? Is this the proper heading?

The CHAIRMAN: I think it might come as well now as at any time. This is certainly a general heading.

Mr. FOLLWELL: We have a statement from the president as to what the pool arrangements are, in the brief.

Mr. GORDON: The pool arrangements, you mean?

Mr. FOLLWELL: Between the Canadian National and the Canadian Pacific.

Mr. GORDON: I could not give them to you off hand. I do not know whether Mr. Dingle can remember all the details, but we could easily have it prepared for you.

Mr. FOLLWELL: Might I ask this: I understand that the Canadian National Railways could operate between Toronto and Vancouver twelve hours faster than they do, but there is an arrangement with the Canadian Pacific Railway whereby they will not do so. Is that correct?

Mr. GORDON: Mr. Dingle will answer your question.

Mr. DINGLE: We have no written agreement in the matter but we do check with each other as to schedules. Many years ago we had some difficulties with the Canadian Pacific as to schedules between Toronto and Winnipeg as to matter of speed but this was reconciled in view of the fact that it was not in the interests of passenger comfort. We could, if it was found necessary or desirable, cut our schedules between Toronto and Vancouver by possibly 12 hours with the provision of diesel power, etc.

Mr. FOLLWELL: But you could not do it under existing conditions?

Mr. DINGLE: Not with the present arrangement of service.

Mr. FOLLWELL: Then the information concerning that which I have is entirely unfounded and untrue.

Hon. Mr. CHEVRIER: That might seem to be somewhat leading.

Mr. FOLLWELL: May I ask one other question, it is about train No. 15, which operates from Montreal leaving Windsor station? That is a Canadian Pacific station, and tickets sold there are, of course, pool tickets on train No. 15, I believe, between Montreal and Toronto. All tickets sold beyond Toronto going west would be, no doubt, Canadian Pacific tickets or at least the Canadian Pacific would get the revenue west of Toronto. Is there any particular reason why that train could not operate from the Canadian National central station, or is there an agreement that the train should operate from Windsor station. This question is leading up to the point that the Canadian National could bolster their revenue if the train operated from the Central Station which is the Canadian National station in Montreal.

Mr. DINGLE: On that, sir, the tickets and the revenue are pooled between Montreal and Toronto, and it does not matter whether the passenger travels out of Montreal on the Canadian Pacific or the Canadian National. The particular train that you speak of though it runs out of the Canadian Pacific Windsor station and comes to our line at Dorval and continues to Toronto on it. Now, the revenue beyond Toronto is credited to the particular railway that the passenger travels on.

Mr. FOLLWELL: The point I was trying to make was, would it be more advantageous for the Canadian National Railways to operate that train from Central Station having in mind that, no doubt, more passengers would purchase Canadian National transportation beyond Toronto.

Mr. DINGLE: That is questionable. Is it the Michigan Central tie-in with the Canadian Pacific that you are getting at?

Mr. FOLLWELL: No. If some one was leaving Montreal to go to Vancouver and went on No. 15 to Toronto, the chances are that beyond Toronto they would travel on the Canadian Pacific.

Mr. DINGLE: No, they can travel on whichever road they choose. You can buy your ticket for No. 15 at the Central Station and route yourself on our line to the west through Winnipeg, Saskatoon, Edmonton to Vancouver.

Mr. GORDON: Your point is that the ticket being bought in the Canadian Pacific station in Montreal tends to mean that the passenger doing so would buy a C.P.R. ticket through to Vancouver.

Mr. FOLLWELL: Correct.

Mr. GORDON: That is one of the many questions I want to get answered myself, too. I understand that the station from which the train originates and the equipment on that train and how it operates is all part of the pooling arrangement that was entered into at the time these pool trains were set up. Now, whether it is time to have all those arrangements reviewed is something I am going to look into.

Mr. FOLLWELL: My humble opinion is that it is time for review.

Mr. GORDON: I agree with you completely. After I have solved my 5,639th problem, I will tackle that one.

Mr. FOLLWELL: That is on the record.

Mr. GORDON: That is on the record, but remember that there are only three hundred and sixty-five days in a year.

Mr. ADAMSON: Can you not buy a Canadian National ticket for west of Toronto at the C.P.R. Windsor station?

Mr. GORDON: Oh, yes, but the point to me is that a passenger being physically present in the C.P.R. station, the tendency is for that individual to buy a Canadian Pacific ticket all the way. There have been negotiations in the past in connection with trying to extend that pool train west of Toronto, but the two railways have never been able to agree on that particular point. I know this has been a factor up for discussion over the years.

Mr. ADAMSON: Are both the Canadian Pacific and Canadian National not in competition from Toronto for American traffic? Both of you run a crack train from Montreal to Chicago.

Mr. GORDON: Oh, yes.

Mr. ADAMSON: It is a pool train to Toronto, and from Toronto on it is run in two sections?

Mr. GORDON: I have no hesitation in saying that I regard the situation in respect of the lack of pooling arrangements beyond Toronto as being disadvantageous to the Canadian National.

Mr. ADAMSON: You would like the pooling arrangements to continue?

Mr. GORDON: If the pooling arrangement is to continue it seems to me that the pool should go beyond Toronto in order that Canada get the advantage of continuing the traffic over a Canadian-owned American line. As it stands now, when it goes beyond Toronto, there is a tendency for the traffic to be diverted to American lines, and that is disadvantageous to Canada.

Mr. ADAMSON: I am glad you think that.

Mr. GORDON: But again I have to qualify these statements by saying that I am speaking without having made an extensive study of the matter. In many cases when one makes a study circumstances appear that are not on the surface.

Mr. MUTCH: When you come to discuss the possibilities of shortening the time between Montreal and Vancouver, do not forget that people have to get up at five o'clock in the morning to get off the train.

Mr. GORDON: It is perfectly true that these train schedules are very technical and complicated and often what seems to be the obvious and reasonable thing to do turns out so that it just won't fit in.

The CHAIRMAN: Are there any other questions under the general heading of review of operations?

Mr. FULTON: This is a general question that involves the handling of train crews, although it is confined to the area which I come from. I had a letter within the last few days in connection with this matter and I would like to ask Mr. Gordon about it. This letter indicates that train crews on passenger trains No. 1, 2, 3, and 4 are now being required to work three sub-divisions whereas before they worked two sub-divisions; that when the trains were amalgamated, that is, between Edmonton and Vancouver at the time of the bad weather, the change was made and the crews instead of working over two sub-divisions worked over three sub-divisions. Now, they have again gone back to the separate trains but they are still working the three sub-divisions which brings about the elimination of two complete train crews between Blue River and Vancouver. In other words, there are now only six, whereas before there were eight. All of which gives rise to a good deal of concern. Is it, perhaps, an economy measure? I have been asked to try and see if I can have the first arrangement restored, but apart from that I would also like to have an explanation if you can give any as to why the crews are now required to operate over three sub-divisions instead of two.

Mr. DINGLE: I am sorry, I have not heard of that.

The CHAIRMAN: Would you make enquiries?

Mr. DINGLE: Yes.

Mr. GORDON: As a matter of general policy it is not a decision that has been taken with any such thought in mind as you suggest, Mr. Fulton. The intention was that these trains would go back into operation under the same conditions and schedules as before. Some matters, of course, may not have been straightened out yet.

Mr. FULTON: I would just like to say that when you are looking into it, I have another letter here which is a copy of a letter which was actually written to the Board of Transport Commissioners. In this letter they say that it makes the hours too long for safety of operation, and they are very anxious to have the whole matter looked into, and the two sub-division territory principle restored.

Mr. DINGLE: I will be glad to check on that this evening for you and bring in an answer tomorrow.

Mr. GILLIS: Might I just say while we are on that subject of service expansion and so forth, I know that representation has been made to the railways and to the Minister of Transport by the Newfoundland government on the matter of adequate port facilities at the end of the line through Louisburg and North Sydney.

The CHAIRMAN: We are coming to that in the very next section. Shall review of operation carry?

Carried.

Mr. MUTCH: Where are we now, Mr. Chairman?

The CHAIRMAN: We are at operating revenues, and Newfoundland is especially referred under that heading.

Mr. GILLIS: Due to Newfoundland's entry into confederation its freight movement has increased through that port of North Sydney, and they now find that that port is not able to cope with the problem. They have suggested to the government that the port of Louisburg should be used, it is closer and all that kind of stuff. I understand that there is also representation being made to the government to have the port of Halifax used exclusively. A lot of freight traffic moves on the Canadian National to Newfoundland, and it is suggested that that be moved by water. If that is done it means that it is going to injure the business of the Canadian National Railways on that end. I am wondering if that matter has been brought to the attention of the railway.

Hon. Mr. CHEVRIER: There is in the estimates a substantial sum of money, somewhere in the neighbourhood of $2 million for the construction of facilities at North Sydney. There is also consideration to construct similar facilities at Port aux Basques. I think first of all we should complete those two facilities on both sides before going into the question of looking at Louisburg. I do not know what representations have been made, perhaps the officers of the Canadian National Railways are able to say what representations have been made for Louisburg as an alternative port to North Sydney, but even if they were made, I do not think that they could be acquiesced to at this point until we at least complete the facilities at North Sydney and Port aux Basques.

Mr. GILLIS: I know the matter was discussed at the last session in the house. There was an amendment brought in suggesting that the Maritime Freight Rates Act should be applied to all water shipments from Halifax to Newfoundland and if that kind of thing was done, in my opinion, you could take the rails up east of Truro. All I want is the assurance that it is the intention to continue as you are now. Of course, it will be some time before you get your facilities at North Sydney and Port aux Basques ready, but in the meantime, if you are not able to handle the traffic before you get your North Sydney project completed, any additional movement of freight in that direction could be moved through the port of Louisburg.

Hon. Mr. CHEVRIER: While on that subject I can say it is not the intention as far as I know to amend the Maritime Freight Rates Act at this session. Furthermore, the tender for the work at North Sydney has been granted to T. C. Gorman Limited, of Nova Scotia, for the construction of part of this work, which would indicate the intention to carry out the terms of union.

Mr. GILLIS: I understand then there is no intention of interfering in any way with the present arrangements for the movement of freight to Newfoundland from what is concerned there?

Hon. Mr. CHEVRIER: I don't know just what you have in mind but I would not like to answer that affirmatively without knowing, other than to say that we certainly intend to carry out the terms of union by the construction of these facilities and we are making provision in the estimates for the construction of other facilities at Port aux Basques, which inferentially rules out the other; but there might be some point in the period that you have with which I am not fully conversant, but beyond that I would not like to go.

Mr. DINGLE: May I say this: We do not serve Louisburg by rail.

Mr. GILLIS: That is true. What I had in mind is the heavy increase in freight through North Sydney at the present time; it is now greater than the facilities can handle.

Mr. GORDON: Let me put it this way. According to my information there is no suitable wharf at Louisburg. The one there is only 30 feet wide and could not handle traffic in bulk. If the facilities at Louisburg were to be improved it would involve a very large program of extension and development and our officials are not prepared to recommend any extension of facilities at Louisburg when the North Sydney proposal is already underway.

Mr. CAVERS: Is it not a fact that the port of North Sydney is closed during certain months of the year?

Mr. GILLIS: I was not talking about Sydney, I was talking about Louisburg.

Mr. CAVERS: My question is: is not the port of North Sydney closed part of the year, and while it is closed you have to use the harbour at Louisburg?

Mr. GILLIS: That is correct.

Mr. CAVERS: And for what period of time this year was the harbour at North Sydney closed?

Mr. GILLIS: I imagine about two and a half months.

Mr. CAVERS: And it varies from year to year?

Mr. GILLIS: Yes, some years it might be a month and other years it might be three.

The CHAIRMAN: Are there any further questions on operating revenues or operating expenses? If not, I declare them carried.

Mr. ADAMSON: I would like to ask something down here.

Mr. FOLLWELL: Under operating expenses, I would like to ask the president's intention in regard to the Ontario car ferry at Cobourg.

Mr. COOPER: In respect to the Ontario Car Ferry Company, might I say this, that an application is now pending before the Interstate Commerce Commission for permission to abandon the operation.

Mr. FOLLWELL: Sorry, I can't hear you.

Mr. COOPER: I say application has been made to the Interstate Commerce Commission for permission to abandon the operation. We are now waiting their decision. The present intention is that this service will be closed down on May 1st next, and if the Commission gives permission that is what will be done. That is the present intention.

Mr. FOLLWELL: Mr. Chairman, last fall a delegation went to see Mr. Vaughan and Mr. Cooper regarding the continuance of the operation of this ferry, and it was suggested to Mr. Vaughan and Mr. Fairweather that they might investigate an extension of the service by running from Rochester to Cobourg and running a train over to Oswego, and from Oswego to Kingston in conjuction with the New York, Ontario and Western, which runs from Waukegan, New Jersey, to Oswego. There was a further suggestion that it would be well to investigate the possibilities of acquiring on behalf of the Canadian National Railways the New York, Ontario and Western Railway and operating between Oswego to Kingston or Oswego to Kingston to Cobourg and Rochester, which would give the Canadian National Railways possibly a more direct route for operating into New York City. I was just wondering if anything was done to meet that situation.

Mr. GORDON: I was just going to say, Mr. Chairman, that in respect of this operation there had been a study made by the two railways involved. It is not merely the Canadian National, the B. & O. are also involved in this.

Mr. FOLLWELL: I understand so.

Mr. GORDON: The joint committee made a study and brought in a recommendation in effect that it should be abandoned, and in that recommendation—which I haven't got before me but my memory is quite clear on it—the alternative service was considered to be sufficient under the present circumstances to meet the situation. The alternative service was examined at the time and it was considered that this ferry service could be abandoned without any disadvantage to the area concerned.

Hon. Mr. CHEVRIER: Then, again, the fact that the American company was authorized to place this matter before the Interstate Commerce Commission, that they made an application to abandon the service, puts the Canadian National out of business, does it not?

Mr. GORDON: Yes, and as I said this joint committee has made a study of the situation and recommended the discontinuance of this service, particularly in view of the fact that the alternative service will ensure that the needs of the travelling public there will be looked after.

Mr. FOLLWELL: Yes, that is so, but what I am suggesting to the Canadian National Railways is that it might investigate the possibilities of working out a deal with the New York, Ontario and Western Railway from Oswego.

Mr. GORDON: You suggest that on account of the possibility that the present alternative service might prove to be inadequate; is that what you had in mind?

Mr. FOLLWELL: Yes, not adequate; or, probably would be more advantageous to the development of the Canadian National service down to New York City.

Mr. GORDON: Well, I can only give you a general answer to that. Representatives of the Canadian National Railways sat on that committee. I cannot give you the alternative arrangements in detail, but I do know that it was considered quite advantageous, that they would be quite secure when this Ontario car ferry was abandoned.

Mr. FOLLWELL: I want to make this clear, as things stand at present time that service will be discontinued as of the first of May?

Mr. GORDON: As soon as the I.C.C. have finally disposed of it and handed down their decision.

Mr. CARTER: Mr. Chairman, I take it we are still on operations?

The CHAIRMAN: We are on operating revenues and operating expenses.

Mr. CARTER: I should like to revert to a question raised by Mr. Gillis there under operations.

The CHAIRMAN: Yes, all right, go ahead.

Mr. CARTER: I should like to ask, Mr. Chairman, whether the management of the C.N.R. is aware of the great discomfort and inconvenience caused to passengers by the lack of facilities at Louisburg which has to be used every year over a period of time ranging from one month up to two and one-half months?

Mr. GORDON: I suppose the answer is, yes; but I do not know that we are responsible for the conditions.

Mr. CARTER: I should like to ask this management if it plans to do anything to alleviate this discomfort and inconvenience?

Mr. GORDON: We have no plans in mind for Louisburg, as far as I know.

Mr. CARTER: Is that the final answer?

Mr. GORDON: In my report here, I looked into the matter a month ago and I find that our research and development people do not think that they can see any development that would change present conditions at Louisburg, and I think that if better facilities were provided at Louisburg it would not be because of anything we have in mind now.

The CHAIRMAN: I think what Mr. Carter had in mind, Mr. Gordon, was that during the temporary period ranging from one to three months when the other port is closed owing to weather conditions you must use Louisburg.

Mr. GORDON: That is right. Our position is that apart from the odd occasion when the port of North Sydney is clogged with ice it is not our intention to use Louisburg as a port.

Mr. CARTER: You are compelled to use that port every year, and for several years past you have had to use it for some period of time.

Mr. GORDON: But the periods are spotty, depending more or less on weather and ice conditions.

Mr. CARTER: I might say that last Friday the ship had to be diverted to Louisburg and this is what happened: We found when we arrived at Louisburg that nobody knew we were coming, we were not expected; we got there about 9 o'clock in the evening—no, we got there at 8 o'clock in the evening and the train was leaving Sydney at 9. There had to be a mad scramble then for taxis to get us over to Louisburg station and we got into all sorts of difficulties. We finally got there on the line, and then we had this old ramshackle train that rolls back and forth—some of the passengers could not afford to get a taxi and they had to walk down and the train was delayed till about 12 o'clock that

night for whatever train running on that track came along to make the connection. Now, a week ago, my wife returned from Halifax. She was advised at the Halifax station to leave on Saturday night to connect with the boat on Sunday morning. When she got to Louisburg the boat was not leaving until Monday and there were a number of passengers on the train who had to spend an extra day there, with the increased cost to themselves. Since these conditions exist, with difficulties occurring and recurring again and again, I think there should be at least a small station erected and arrangements made with some transportation company to take passengers up to Sydney.

Mr. GORDON: I can only repeat, Mr. Chairman, that the policy of the C.N.R. has been that there is no intention on the part of the C.N.R. to use Louisburg any more than is absolutely necessary during the winter. I take it your suggestion is that we should look into the matter again. In the light of what you have said I undertake to do that but I will make no commitment as to whether we shall change our minds.

Mr. CARTER: I would like to see some consideration given to the suggestion.

Mr. GORDON: I will take what you have said into consideration and I will undertake to have the matter reviewed but I shall answer your question honestly —we have no intention of using Louisburg. We will review the situation and either decide that we were right in the first place or we shall change the policy.

Mr. HATFIELD: Has there been any consideration given to operating a car ferry between Newfoundland and North Sydney?

Hon. Mr. CHEVRIER: I think I made some statement on that during the discussion of the estimates last year. My recollection is, but I speak now only from memory, that when the road is built by the government of Newfoundland between Cornerbrook and Port aux Basques, we then are obligated under the terms of union to build a motor car ferry. We have been advised that it is the intention of the Newfoundland government to build that highway and we are giving some consideration now to plans and specifications for the construction of such a vessel.

Mr. CARTER: I have now a question on operating revenue and expense. I notice that the operating revenue amounts to $7,716,000 and that expenses were $10,340,000 over the nine month period. Could the president or the minister give us comparative figures for the previous year when these services were being operated by the Newfoundland government?

Mr. GORDON: We have no figures for the operation of the Newfoundland railway as such. We can only give you figures from the date we began operating ourselves.

Mr. CARTER: I speak of figures over the previous year?

Mr. GORDON: These figures here are for the period from April 1—the nine months from the time the C.N.R. started to operate the Newfoundland railway and steamship service. We have not available to us any figures which might have been recorded before confederation in respect of the Newfoundland railway which was operated by the government of Newfoundland.

Mr. CARTER: I take it that you have not yet made any comparison with the previous operating expenses?

Mr. GORDON: We have not got the figures.

Mr. CARTER: But you could get them if you wanted them?

Mr GORDON: I do not know whether they are available. Perhaps Mr. Cooper could tell us something about that.

Mr. COOPER: I have not seen any of those figures. Of course we did increase wages and we reduced passenger fares. We increased wages by $1,500,000 a year, and we reduced passenger fares by $800,000 a year.

Mr. FULTON: Surely the figures must be available somewhere?

Mr. COOPER: I have no doubt that by going to the Newfoundland Government we could get them, but we do not need them and we have not asked for them.

Mr. CARTER: Could you break down those figures for expense and revenue between the steamship service and the railways?

Mr. COOPER: We could get that if you are speaking of the nine months of 1949.

Mr. CARTER: Yes.

Mr. COOPER: We could get that.

Mr. CARTER: For the steamship service?

Mr. COOPER: Yes.

The CHAIRMAN: Have you any further questions, Mr. Carter?

Mr. CARTER: I would like to ask if the earnings of the C.N.R. Express Company for Newfoundland could be given?

Mr. GORDON: The Canadian National Express in Newfoundland?

Mr. CARTER: Yes.

Mr. COOPER: No, we have not that separation here in Ottawa.

Mr. CARTER: Could the figures be made available?

Mr. COOPER: I imagine so, but I had better check before I give you a definite answer.

Mr. CARTER: I have just one more question. Could I have a statement on the comparison of the cost of operation of the Newfoundland service as compared with that in the maritime provinces?

Mr. GORDON: I am quite sure that is impossible.

Mr. COOPER: I am not just sure what is desired. We know what it costs to operate in Newfoundland. What was the other comparison?

Mr. CARTER: How do the figures compare with those for the maritimes?

Mr. GORDON: It seems to me that is the same question which was asked this morning—whether we could break down earnings in respect of various regions. It is not possible. However, we could probably arrive at Newfoundland as a unit. I do not think we could get a comparable figure in the maritime region because there it is an inter-related operation. It so happens that Newfoundland is an island and we could tidy that problem up but even then you would have qualifications with respect to origination of traffic and I do not think that a comparison is possible.

Mr. FULTON: I would like to be clear in regard to the answers given to the requests for figures. Do I understand that the Canadian National Railways took over and commenced operation of the Newfoundland railway without studying the figures, and without having available to it the figures for previous years operating revenue and expense?

Mr. GORDON: The answer to that is yes. The Newfoundland railway was entrusted to the Canadian National Railways by the government, and, as I understand it, it was one of the terms of confederation.

Mr. ADAMSON: Was not somebody curious enough to find out what the liability or the asset was likely to be?

Hon. Mr. CHEVRIER: Yes, there was a complete statement made and a survey made by the officials of the Canadian National Railways prior to confederation. First there was the submission made by the Newfoundland delegates as to the assets. That was checked by the C.N.R., as to value and condition in which the railway was, but the question which is being asked now is an entirely

different one. The question is what was the operating revenue and expense. I do not know whether that was gone into. I imagine that the Canadian government was primarily interested in finding out whether it was getting value for its money. The government was interested in knowing what the figures were on assets. I think the survey indicated that the physical assets on the whole were in fair shape although operating results were not good.

Mr. FULTON: My recollection is that the government of Canada paid Newfoundland in cash for the assets taken over—certain physical assets. Surely one of the considerations in fixing the value of an operation such as a railway is whether it is operating at a profit or at a loss. Was not that investigated?

Mr. GORDON: Your question was whether it applied to the Canadian National Railways. My answer is that the matter did not apply to the Canadian National Railways. The deal you refer to seems to me to be related to the whole question of Newfoundland coming into confederation. It was one of the factors but the Canadian National Railways took no part in the deal.

Mr. FULTON: When you commenced the operation—when you took over the railway to operate it as you were required, why would you not look into the revenue and expense figures for preceding years so that you could get some idea of what you were running into.

The CHAIRMAN: If it was an accomplished fact and one of the terms of confederation, while it might be of interest as a study, it would not change the end result, would it?

Mr. FULTON: I think it would give you some clues as to how you should go about operating the railway.

Mr. KNIGHT: The minister stated that a survey had been made.

The CHAIRMAN: Yes, of the physical assets.

Mr. KNIGHT: I think it would be of interest to this committee to know what shape those physical assets were in as compared to the average for the rest of Canada?

Mr. GORDON: There was an investigation made by Mr. Fairweather and Mr. Dingle. They made an examination of the physical equipment, and a statement was made to the government.

Then, so far as I know, the government included consideration of the Newfoundland railway as one of the factors of confederation. There were a great many factors considered, I assume.

Mr. MUTCH: And it was so recorded in Deliberations of the Committee on Confederation.

Mr. GORDON: Yes.

Mr. KNIGHT: But could we not have a comparison of the state of the equipment in Newfoundland as compared to the equipment in the rest of Canada?

Mr. GORDON: That was all covered in that statement, was it not?

Mr. DINGLE: Yes. Perhaps I could clear up some of the points raised.

At the time I was in Newfoundland in December 1948, we could get no clear figures from the Newfoundland railway as it then existed concerning its operation during the previous twelve months. But as to the physical condition of the railway we found that the road bed was in fair shape, the rails were also in fair shape, and a ballasting program was under way. We found that a lot of their freight equipment was old, but their power was in fairly good shape.

The CHAIRMAN: It is difficult for the reporters to get down your evidence, Mr. Dingle. Would you mind speaking a little louder, please?

Mr. DINGLE: Very well. Where do you want me to start?

The CHAIRMAN: Just carry on.

Mr. DINGLE: I think I was on equipment, and I said some of it was quite old.

We have since received some new equipment, and more is on order. The locomotives are small in type but they are in fair shape. They are being converted from coal to oil. The bridges and other structures were found to be fairly good.

Of course, the Newfoundland railway has heavy grades of two per cent and up on each subdivision and in each direction. In addition, there is a lot of track curvature, and the operations are quite difficult at certain times of the year.

Mr. GORDON: When we come to deal with our budget for this year, the committee will then have before it the details of equipment which has been purchased and which is on order. That should give you a fairly good picture of the kind of thing you are interested in.

Mr. ADAMSON: Am I to understand that in this case there were no books kept and that nobody understood if the railway was operating at a loss, or if so, at how much of a loss?

Mr. DINGLE: No, that is not right. The Newfoundland railway did keep books, but they were not kept up to the point where we could get all that we wanted about the operations.

Mr. ADAMSON: We almost took it over blind, as it were?

Hon. Mr. CHEVRIER: No. That is certainly a misstatement to indicate that the road was taken over blind. I think I said a moment ago that before the government implemented this particular term of union, it asked the Canadian National Railways to make a survey. That was done by Mr. Fairweather and Mr. Dingle, and a complete report of the physical assets of the Newfoundland railway was given to the government, not so much from the point of view of the manner in which it was operated, but rather from the point of view of the manner in which the Canadian National Railways could operate it and at what surplus or at what loss.

This report, which was made after considerable investigation, indicated that, putting into effect the Canadian National Railway rates of pay, the pensions, and the prices which it paid for materials and so forth, the Canadian National Railways could operate the Newfoundland railway at an annual loss of approximately $5 million. That was the thing we were interested in, and that was the thing we got.

If anybody is interested in finding out what are the losses or the profits of the Newfoundland railway, he can obtain the information from the Newfoundland Public Accounts, just as he can obtain similar information with respect to the Canadian National Railways.

Mr. ADAMSON: And what is the estimated loss in connection with the Newfoundland railway? You say it is estimated at $5 millions?

Hon. Mr. CHEVRIER: Yes.

Mr. ADAMSON: Well, now we have got something to shoot at.

Hon. Mr. CHEVRIER: I would not like the impression to get abroad that we were buying a lame duck and did not know what we were doing. Not only did we do it with our eyes open, but we knew what it would cost the Canadian National Railways. That is what the report indicates.

The CHAIRMAN: And nine months of operation discloses what?

Mr. GORDON: The estimated deficit for this year is $4·2 millions.

The CHAIRMAN: Are there any other questions concerning "operating revenues", and "operating expenses"?

Mr. CARTER: What about the terminal facilities at Port aux Basques? Has a definite decision been made to expand the terminal facilities at Port aux Basques?

Hon. Mr. CHEVRIER: We are giving consideration to it now. I do not see how we can have new facilities at North Sydney without having them at Port aux Basques as well. Just what the facilities will be and what the costs are going to be, I am not in a position to state but we are giving consideration to it, and Mr. Gordon tells me that he will make a report to me in due course on it.

Mr. CARTER: Have you any date in mind as to when that expansion might take place? Would it be a matter of years?

Mr. GORDON: It is under consideration. It is really a question of what is possible in the time limit. It is not a matter of years by any means. I hope to be able to see some commencement of that program this year. That may not mean the final program but we would be far enough advanced to get our plans on the minister's desk, and to get a decision whether plan A, or B, or C, or D would be approved, and so forth.

Hon. Mr. CHEVRIER: Another thing which makes it difficult is the fact that we have to give consideration to the new ferry. If Newfoundland builds the new road, then we are obligated, under the terms of union, to build a motor car ferry, and that would mean that the terminal might be somewhat different in that case than it would be in the first case. So I think it is in the interest of all concerned not to go too fast.

Mr. HATFIELD: What do you mean by "motor car ferry"?

Mr. GORDON: A ferry which would carry automobiles.

Mr. CARTER: Is there anything definitely stated in the terms of union which definitely obligates the federal government to put on that car ferry?

Hon. Mr. CHEVRIER: Let us get clear what we mean by "car ferry". If Mr. Hatfield has in mind a railway car ferry, then there is no obligation to do it. But if he has in mind a motor car ferry, a passenger car ferry for automobiles, then there is a commitment in the terms of union to that effect.

Mr. HATFIELD: Why should there not be a car ferry?

Mr. GORDON: Well, there is a different gauge at one end of the line than there is at the other.

Mr. HATFIELD: We had a narrow gauge in Prince Edward Island but you changed it.

Mr. GORDON: There is no action contemplated about changing the narrow gauge track in Newfoundland. That would be very, very expensive. The terrain is very difficult there and the curvature is very difficult, and it would be an extremely expensive proposition.

Mr. HATFIELD: Before the rails were widened on Prince Edward Island, you had a point at Borden where you brought in the narrow gauge cars and you transferred the goods from them into wide gauge cars and then brought them across by car ferry to the mainland. Would that not be feasible in the case of Newfoundland rather than to unload your goods to the ferry?

Mr. GORDON: You should remember that the run to Prince Edward Island is very much shorter and the run could be done with a type of vessel which could not be used in connection with the Newfoundland run. It would be completely different there. It is an ocean run to Newfoundland, and it would be a very expensive operation.

Mr. HATFIELD: But it is expensive to unload the freight and to have to load it again.

Mr. GORDON: That is where the economics of the situation do come in, and that will be one of the studies made; as to whether it is worthwhile, whether the cost of trans-shipping would not be less than trying to make the operation you have in mind.

Mr. HATFIELD: Now, do you not have a lot of damage to newsprint being transferred?

Mr. DINGLE: As far as I know, sir, we do not handle any newsprint across the straits between Port aux Basques and Sydney, but what we do is handle it by charter arrangement out of Port aux Basques in the winter time on occasion, and of course, in the summer months or during the time that the harbour is open at Cornerbrook, the Bowater people do their own handling.

Mr. JAMES: I wonder if Mr. Gordon would mind explaining the policy of cutting off their branch lines which may or may not be running economically. At the moment I am thinking of the little line we have in Durham county running from Port Hope to Peterborough, and smaller lines of that kind.

Mr. GORDON: This question of branch line abandonment is something that is under examination all the time by the research and development branch and they bring in specific proposals from time to time. We have a couple of abandonments that are under consideration now; in fact, they are more than that, they are decided upon. You do understand, of course, that we have to go to the Board of Transport Commissioners to justify each one of these decisions on the basis of the economic situation. Did you have a particular one in mind?

Mr. JAMES: The one from Port Hope to Peterborough. I was wondering if the general policy would not be to tighten up on that or whether the economics of the situation were being considered as against the service rendered to the particular area.

Mr. GORDON: I think it is a matter of business judgment under the particular circumstances. We have always in mind the good will and the feeder value of any particular branch line. They are all considered and then it becomes a matter of judgment as to what is to the advantage of the system. We certainly do include in our considerations very definitely the kind of inconvenience to the community that might be involved, and the Board of Transport Commissioners has that as much in mind as we have. They will not permit us to abandon a line without considering the welfare of the community.

Mr. FULTON: Could I ask a question about operating revenues? This paragraph states that both freight and passenger revenues declined in volume, whereas express and telegraph business showed an increase. What are the indications for 1950? Is the volume of freight and passenger traffic continuing to decline?

Mr. GORDON: We have that specifically dealt with in our budget discussions, and it might save duplication if we were to take it up there because we can discuss it at that time and turn to equipment and recommendations at the same time.

Mr. FULTON: With regard to the express business, what is the cause of the increase there? I mention that particularly because of what I understand is a new service. Are you carrying express in competition with the mail? I understand that you are now offering rates equal to or lower than the postal rates on parcels. Is that one of the factors in the increased express business?

Mr. GORDON: I cannot answer that specifically. I know what you have in mind.

Mr. DINGLE: I do not understand that to be the case in Canada, but I believe there is some confliction in the United States. That is the only information I have on the matter.

Mr. ADAMSON: Under this item of interest on bonds held by the public, what is the method of financing new equipment?

The CHAIRMAN: We have a heading finance that we are fast approaching, and I think that question, Mr. Adamson, would better come under that.

Our next item is Other Income Accounts.

Mr. CARTER: Before we go on that, has any consideration been given to the advantages of tapping the Newfoundland railway system near the middle, somewhere near Gander and running a line down to Baie D'Espoir on the south coast to reach a harbour instead of at each end as it is done now.

Hon. Mr. CHEVRIER: If you are addressing your question to me, I am afraid I cannot answer because the Newfoundland railway has been entrusted to the Canadian National Railways, and I do not know whether they have made an investigation of that angle or not. I would not think they would have at this juncture.

Mr. GORDON: You are talking now about the possibility of developing other traffic.

Mr. CARTER: In the light of keeping operating expenses at a minimum and at the same time improving the service.

Mr. GORDON: May I answer that in this way? Our research and development branch to which I have referred many times today has the job of keeping constantly on the outlook for the kind of thing you have in mind. They are in discussion with various people in Newfoundland to see how they can encourage and develop traffic, and help in the location of plants and industry, and so on. I am not giving you specific examples of their work, but that is the job of that department. They are in touch, not only in Newfoundland but with people all across the continent, to see if we can assist in the developing of a particular community or industry.

Mr. CARTER: If we had a branch line coming out at the centre of the south coast at Baie D'Espoir and you had your terminal there instead of at each end, your service would be much faster.

Mr. GORDON: I can assure you that the department I referred to have these possibilities always under consideration.

The CHAIRMAN: Our next item is other income accounts. Are there any questions on foreign exchange costs and things of that sort? If not, we will take up capital expenditures, which comes next.

Mr. FULTON: I was interested in the income from Rail and River Coal Co. that we heard about earlier but I do not find it listed as a separate item, there is just a general item in the account showing total income from other operations and it shows an overall deficit. Now what was the income from this Rail and River Co. mine?

Mr. GORDON: I am not sure which figure you are referring to.

Mr. FULTON: Other income on page 9, your Rail and River Company is a separately owned company, but I do not find in the breakdown of operation revenues anything to show for the income from that company. All your companies are lumped together and show an overall deficit. Now, what was the income from that Rail and River coal mine?

Mr. COOPER: In 1949, we had a deficit of $156,062. The loss was brought about by excessive stoppages of work due to the trouble in the coalfields.

Mr. FULTON: Can you tell me what it was for 1948?

Mr. COOPER: In 1948 there was a profit of $43,191.

Mr. FULTON: Is that a normal profit for a 900,000 ton operation?

Mr. COOPER: Well one would have to consider that in the case of the coal which they sell to the Canadian National Railways they do not make the normal commercial profit. It is sold at cost to the railway.

Mr. FULTON: I see.

Mr. ADAMSON: As a captive mine, it sells coal to you cheaper that it would to others?

Mr. COOPER: Yes, we buy coal cheaper from the Rail and River Company than it would be sold to other companies.

Mr. ADAMSON: Is that the same thing with captive mines held by the steel companies?

Mr. COOPER: I should think so. That is why they have them.

The CHAIRMAN: Any further questions on Other Income Accounts? Shall the item carry?

Carried.

It is now six o'clock. Would the committee like to meet at 10.30 or 11.00 o'clock tomorrow morning?

The committee adjourned to meet again Tuesday, March 28, 1950, at 11.00 o'clock a.m.

Appendix A

STATEMENT BY DONALD GORDON, C.M.G.
CHAIRMAN AND PRESIDENT
CANADIAN NATIONAL RAILWAY COMPANY

TO

THE ROYAL COMMISSION ON TRANSPORTATION

MR. CHAIRMAN AND COMMISSIONERS:

It would seem appropriate at this time, that I should make a statement on behalf of the Canadian National, speaking to the broad principles involved in this inquiry and supplementing our Submission in respect of the adjustment of our capital structure, a matter of the gravest concern to myself, our Board of Directors and my associates.

While I assumed the responsibilities of Chairman and President of the National System but a few weeks ago, the nature of my duties and experience these past years have afforded me an excellent opportunity to become familiar with the economy of the country and its broader problems. The Railway problem, and particularly the situation of the Canadian National from a financial point of view, are among the more pressing matters which require solution. The financial aspects of the Canadian National have received my careful study and earnest consideration since I assumed office. I therefore welcome this opportunity to come before your Commission.

Our Submission deals in general terms with a national transportation policy and we have suggested that your Commission might well recommend to Parliament the definition of such a policy. No doubt the evidence which has accumulated throughout your hearings has indicated the necessity of properly co-ordinated and fairly regulated services embracing every form of transportation.

The importance of the railways in the national transportation field cannot be exaggerated. They are of prime importance from the viewpoint of national development and national defence. Anything which weakens or affects their ability to operate and maintain their properties efficiently, weakens the country generally. I do not wish to infer that other transportation agencies have not an important place in the national transportation field—they undoubtedly have. Each has its inherent advantages which must be recognized. That each should perform the function for which it is best adapted is essential if we are to have the most efficient transportation system.

It is equally essential that these other modes of transportation should not be permitted to continue competition in an unfair and unregulated manner with the railways in the field in which the railways beyond doubt, are the most efficient and economical agency. These matters are of national importance and are matters with which a national transportation policy must be concerned.

The Canadian National is in a unique position. It is the largest system in the transportation field, it is Canada's largest employer of labour and the nation's largest buyer of materials and supplies. Its influence in the economic life of Canada is extensive. That its prosperity is tied in with national prosperity and welfare cannot be questioned. At the same time the financial results of the

Canadian National distort the true efficiency with which the System's operations are conducted. It is urgent that the true operating results be clarified.

Some of these distortions result from our capital structure which your Commission has been directed to review. Study of this subject will demonstrate that by comparison with other railways an undue proportion of the capital of Canadian National is represented by interest-bearing securities. The advisability of making a realistic adjustment of the capital structure and the extent of such adjustment, are the questions which arise. The Main Submission of the Canadian National which has already been filed with your Commission, clearly indicates that such adjustment is imperative, and that it should be substantial in amount. Apart from the strictly financial aspects of the matter, adjustment is also important for the reasons set out at pages 75 to 79 of the Main Submission, with which reasons I am in entire agreement.

A realistic capitalization of the Canadian National must of necessity be related to its future earning power. The historical record is only of value as offering some basis for forecasting future results. The earning power of the Canadian National from 1923 to date shows wide fluctuations. In some years earnings available for interest charges and other corporate needs have been substantial. In some other years, although there has been an operating surplus, there has been a deficit even before fixed charges. It is significant that the periods of high earnings were short-lived and came under boom or war conditions. They are therefore not to be taken as indicative of the situation which could be expected to prevail normally or in the future. Moreover, during periods of low traffic, maintenance costs were reduced to some extent at the expense of the property and therefore the historical record overstates its earning power.

As to the future, while it is quite clear that the Canadian National will continue to be a powerful and useful instrument for the development of Canada and an essential part of national defence, there are discernible trends which are adverse to net earnings. Highway competition, already sizeable in amount, will tend to increase and will divert from railway earnings the higher grade traffic from which most net earnings arise. Also to be considered is the effect of other competing forms of transportation, such as air transport and coastal and inland waters transport.

Future operations will be burdened to some extent by the deferred maintenance of property and the deferred renewal of equipment resulting from war services of the System. While, during the period of high earnings, reserves were set up to meet such expense, they have been seriously depleted by post-war inflation. Due largely to inflation, rolling stock of the System stands in the accounts at figures far less than replacement cost. As a consequence, as replacements occur there will be an inflation of capital which, in turn, will adversely affect earnings through increased depreciation and interest charges, even when due allowance is made for the fact that the new equipment will be of an improved design, have greater usefulness and be more economical to operate than the equipment being replaced.

Inflation bears with particular severity on the Canadian National by reason of its relatively low-traffic density. There can moreover, be no assurance of the effectiveness, in so far as net earnings are concerned, of offsetting inflationary increases in cost by increases in freight rates since it is conceivable that the railways, by such procedure, might price themselves out of the market.

The construction of additional branch lines to develop the natural resources of the country must also be considered. Such lines are expensive to construct and while they may be justified by the anticipated increases in national wealth and national income, they are not likely for many years to produce sufficient railway earnings to pay the additional expenses which they entail and the interest and depreciation on their capital cost.

The future earnings of the property, which form the basis of a rational capitalization, must reflect the effect of the foregoing facts and circumstances. It is conceivable that in some years the property would do no better than meet its operating expenses. In good times it would be reasonable to expect fairly substantial earnings. For a property having these characteristics, it would be logical to consider that all of the capital should be in the form of equity and that none of it should be interest-bearing. However, since the country is faced with a situation in which the interest-bearing securities of the Canadian National amount to $1,344,000,000 (1948 figures), of which $760,000,000 is held by the Government and $584,000,000 is held by the public, it becomes a matter of practical policy as to how the capitalization should be restated.

After careful study I have come to the conclusion that to show results of operation which would meet commercial tests, the amount of interest-bearing capital which may be included in a restatement of the capital structure should be of relatively small proportions, in contrast to the present interest-bearing capitalization of $1,344,000,000. In arriving at my conclusion I have given particular consideration to the following:

(1) Interest-Bearing Obligations Assumed with Acquisition of Insolvent Railways

The Canadian Northern and Grand Trunk Railway Systems would not have been acquired by the Government had they been able to carry on as private enterprises. As is well known, they were acquired in the National interest as going concerns instead of having been put through bankruptcy proceedings. As a result there was taken into the Canadian National System at its inception, $804,000,000 of interest-bearing debt. Some of this, acquired from the Grand Trunk, included securities which under private ownership had been on a contingent earning basis; these were converted to a fixed interest basis as part of the acquisition. What proportion of this large amount of fixed interest-bearing obligations might properly have been written off or reduced to equity capital as a result of bankruptcy proceedings is, of course, impossible to determine at this late date.

It is however, certain that considering the property as a system which had to be operated in its entirety, and considering the matter from the viewpoint of ordinary commercial standards, there was no hope of attracting private capital in any amount whatsoever. The earning capacity of the property was without promise and hundreds of millions would have had to be invested to take care of the backlog of deferred maintenance, necessary improvement and co-ordination costs. Under these circumstances it seems reasonable that the entire amount of the above-mentioned fixed interest-bearing obligations should be converted into equity capital.

(2) Run-Down and Semi-Finished Condition of Properties Taken Over

The privately-owned properties, when taken over, were badly run down and, in the case of the Canadian Northern Railway System, cannot be said to have been properly completed and equipped. It would appear to have been the deliberate policy of the Canadian Northern to construct railway lines with as little initial capital expenditure as possible, looking to completion after operation had begun. Despite large amounts expended on rehabilitation and construction prior to 1923, a great deal still remained to be done to take care of this situation on the lines of the Canadian Northern and the Grand Trunk Systems at the time of consolidation. Much of the expenditure was chargeable to operating expenses but inevitably a proportion of it was of a capital nature. The net investment expenditures of the System, 1923-1947 inclusive, have amounted to some $707,000,000. It is a reasonable estimate that of this amount at least $100,000,000 represented necessary improvements to the property which did not add to the earning power of the System.

(3) Co-ordination Costs

The Canadian National management following consolidation, was faced with the co-ordination of these previously competing systems. Co-ordination, it is estimated, has required the expenditure of $40,000,000 for main-line connections, belt lines and terminal rearrangements, notwithstanding which, the property falls considerably short of having a proper location of main lines in relation to branch lines and of terminals in relation to its traffic pattern which would have been secured had the property been designed and constructed as an entity.

The System has more mileage than is functionally necessary to meet its requirements. The excess mileage has been reduced to some extent by abandonment of duplicating facilities where this could be done without injury to the national economy. This applies to those instances where the duplicating facilities were located so closely together that one of the lines would serve all needs of the community. Generally, however, this is not the case and the lines which are functionally duplicate as main line also serve the local needs of the communities through which they run. The practice in such cases was to choose the better line as the main line and to continue the other in service as a secondary line.

There are 3,820 miles of line on the Canadian National which were originally constructed as main line and which in the process of co-ordination have been reduced to secondary lines.

The maintenance and operation of these lines is a burden upon the System, even when allowance is made for their use as secondary and branch lines. This burden on revenues should be taken into account in considering the capital structure of the System.

It is estimated that the burden constitutes an operating disability in excess of $8,000,000 annually or an equivalent capital disability of $250,000,000, which in a sense is, and for convenience might be described as negative capital. This amount, together with the money expended upon co-ordination projects, totals $290,000,000.

(4) Canadian Government Railways

The Canadian Government Railways constitute a considerable portion of the Canadian National System. Prior to the formation of the Canadian National System and the entrustment to it of the Canadian Government Railways, capital for these lines was provided by the Government free of interest. During the years of administration by Canadian National a change was made and the System has since been burdened with interest-bearing capital for additions and betterments and for rolling stock, which at the present time has accumulated to some $110,000,000.

There is a pension fund, closed to new members in 1929, which is applicable to the Canadian Government Railways. This fund is more expensive to support than the general pension fund of the Canadian National to the extent of an equivalent capital amount of $25,000,000. Taken in conjunction with the $110,000,000 above mentioned, this makes a total of $135,000,000.

While attention is directed to this situation, and for the purpose of this review, the sum of $135,000,000 is included in the statement of the System's capital burden, it is recognized that the Canadian Government Railways are now an integral part of the Canadian National Railways for management and operation. Therefore, although it is reasonable that the Canadian National be relieved of capital expenditures on the Canadian Government Railways and of their extra pension costs, it is considered that, if the measures recommended herein for the restatement of the capital structure of the Canadian National and the method of finding new capital are adopted, no special relief should be claimed for these items.

(5) Effect of Acquisition of Unremunerative Lines In National Interest

From time to time the Government has acquired and has caused to be incorporated in the National System, in the national interest, lines of railway which had little or no net earning power in themselves, which were in a run-down condition and required rehabilitation. The Canadian National income account was thereby adversely affected. These lines are as follows:

	Cost	Mileage
Inverness Railway & Coal Co.	$ 375,000	60·8
Kent Northern	60,000	26·8
Gaspe Lines	3,500,000	202.3
St. John & Quebec	6,000,000	158·3
Quebec, Montreal & Southern	5,920,361	191·0
	$15,855,361	639·2

The cost of acquisition and of rehabilitation has amounted to about $18,000,000. Incorporation of these lines in the System increased operating expenses applicable to each by reason of the obligation to pay wages at System levels and to assume pension liabilities, while on the other hand rates for transportation service had to be reduced. The effect of these changes was decidedly adverse to the net income of the System and constitutes another example of what has been termed negative capital. It is appropriate therefore to set up negative capital of $12,000,000 which, added to the cost of acquisition and of rehabilitation totals $30,000,000.

Consideration must also be given to the situation created recently through the entrustment to Canadian National of the Newfoundland Railway and Steamship Services and the Temiscouata Railway.

It is anticipated that the operations of the Newfoundland Railway and Steamship Services will burden the System income account to the extent of $4,000,000 yearly. Expressed in terms of negative capital this amounts to $134,000,000. Further, substantial amounts of capital will also be required from time to time to improve the property.

The operation of the Temiscouata Railway will constitute an additional borden on the Canadian National and will adversely affect its net annual income to the extent of $180,000, the equivalent of $6,000,000 in terms of negative capital.

The total of the capital items in this group is $170,000,000.

(6) Effect of Development Lines

Large amounts of capital have been spent upon development branch lines, the whole cost of which by necessity has been provided by the issue of interest-bearing obligations, whereas in sound financing procedure, a substantial percentage of the cost should have taken the form of equity financing. The amounts so expended total $85,000,000, and if a minimum of 40 per cent be taken as the amount which should represent equity capital, the capital burden of the Canadian National is in this respect excessive to the extent of $34,000,000.

Summary

Summarizing the above, the following statement of excessive capital burden upon the Canadian National System is obtained:

Interest-bearing obligations assumed with acquisition of insolvent railways	$ 804,000,000
Run-down and semi-finished condition of properties taken over	100,000,000
Co-ordination costs	290,000,000
Canadian Government Railways	135,000,000
Effect of acquisition of unremunerative lines in national interest	170,000,000
Effect of development lines	34,000,000
	$ 1,533,000,000

This statement evidencing excessive capital burden of $1,533,000,000 (which is in excess of the Fixed Charge Debt of Canadian National of some $1,344,-000,000) supports the conclusion that an undue proportion of the capital invested in the Canadian National System is represented by interest-bearing securities.

It is submitted that by ordinary commercial standards, the entire interest-bearing capital should be converted to equity capital. However, in view of the practical difficulty in the way of converting the interest-bearing capital in the hands of the public into equity capital at this time; and having regard to the potential earnings of the Canadian National System, which are considerable and may in some degree offset the adverse factors here considered; and on the assumption that the present imbalance which exists between railway rates and railway costs will be removed by adequate rate increases, I submit the following as an appropriate adjustment:

(1) The $760,000,000 of interest-bearing obligations held by the Government should be exchanged for equity capital and reflected in the balance sheet as such.

(2) The Government should acknowledge an indebtedness to Canadian National in the amount of $300,000,000 to bear interest at 3 per cent until discharged. This would be set up in the accounts of Canadian National as a capital fund to be drawn on from time to time to retire interest-bearing obligations in the hands of the public or for capital additions to the property. As consideration for the acknowledgment of the indebtedness aforesaid, Canadian National would issue a commensurate amount of equity stock to the Government.

(3) Future development lines should be financed to the extent of not more than 60 per cent by interest-bearing securities, the balance to be supplied by the Government against the issue by Canadian National of a commensurate amount of equity stock.

It is my considered opinion, concurred in by the Board of Directors, that nothing short of these measures can be deemed adequate treatment of the capital structure of Canadian National. These measures, if put into effect, should enable Canadian National, on the average, to meet its fixed charges, including interest on funded debt.

I submit very earnestly that the adjustment of the capital structure of Canadian National is long overdue and that for the reasons set forth in the Submission filed by Canadian National with you in October last, as well as for the further reasons already presented and to be presented during the course of these sittings, your Commission should recommend that it should now be adjusted.

Surplus Earnings

Prudent business management and judgment have always approved the establishment of reserves in years of financial prosperity for use in the leaner years. On the assumption that our proposals are implemented, it is not unreasonable, as I have indicated, to anticipate that Canadian National will in some years have surplus earnings. The task of Management would be greatly eased in my opinion, also concurred in by the Board of Directors, if there were a recommendation from your Commission that the Board of Canadian National use such surplus earnings (a) to provide sufficient funds to cover expenditures for non-revenue producing improvements and betterments; and (b) to establish a rate stabilization fund which it is hoped could be built up in good years and drawn upon in poor years with the view of affording stability to the rate structure and tending, to the extent of the fund from time to time existing, to post-

pone the necessity of applications for general freight rate increases. Your Commission is respectfully invited to recommend the proposals which I have just made regarding this subject.

UNIFORM ACCOUNTING AND STATISTICAL PROCEDURE

Our Company has submitted in respect to accounting, that there should be a uniform system of accounts for Canadian railways and that such system should be prescribed in accounting classifications to be issued by the Board of Transport Commissioners. That there should also be uniformity between the accounting regulations of Canadian railways and United States railways seems equally desirable. Canadian railways have lines in the United States and United States railways have lines in Canada. Comparisons of operating results and statistics do not stop at the International Boundary.

Our company considers that records and reports as maintained and made by Canadian railways should be based upon uniform statistical classifications and considers that the classifications prescribed by the Interstate Commerce Commission should be incorporated in any new Canadian classifications.

There are other matters covered in our Submission. All will be dealt with by our senior officers who will be available to render any assistance to the Commission of which they are capable and also for examination in respect of the whole Submission and the details of the plan which I have enumerated during these brief remarks.

We consider that the establishment of Canadian National on the bases which I have put forward would be prudent and would tend to more efficient management and to greater effectiveness in meeting the essential needs of the nation. Canadian National service is vital to the development of Canada and is a vital part of Canada's defences. Canadian National should be provided with a realistic capital structure.

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, MARCH 28, 1950

WITNESSES:

Mr. Donald Gordon, C.M.G., L.L.D., Chairman and President; Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

MINUTES OF PROCEEDINGS

TUESDAY, March 28, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Adamson, Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., L.L.D., Chairman and President, Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways; Mr. J. C. Lessard, Deputy Minister of Transport.

The Committee resumed consideration of the annual report of the Canadian National Railways for the year 1949.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Adamson, Bourget, Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

The Committee resumed consideration of the annual report of the Canadian National Railways.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

At 6 o'clock p.m. the Committee adjourned until Wednesday, March 29, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

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MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 28, 1950.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, just as the Canadian National Railways run on time, and it is now eleven o'clock, so do we. We have a quorum. We are, I think, at page 9, "Capital Expenditures."

Carried.

The next paragraph is "Finance". I think Mr. Adamson has some questions on finance, so we might let that item stand over until Mr. Adamson arrives.

Now, "Condition of Property".

Mr. FULTON:

"The reserves which were set up against this condition have been impaired by the increases in wages and prices which have since taken place."

I was reading from page 9, the second sentence under the heading of "Condition of Property". I wonder if Mr. Gordon or Mr. Cooper could enlarge upon that sentence?

Mr. GORDON: It is a very simple matter. We set up a certain number of dollars during the war years in the form of reserves. Now, the purchasing value of those dollars today, by reason of increased wages and increased prices, is less than it was at the time the dollars were set up in the reserves. In other words, $8 million will buy less today than it would in 1947 or whatever the date was that we set up the reserves.

Mr. FULTON: That simply means that the railways will not be able to buy as much for it?

Mr. GORDON: That is right, because of inflation in prices and in wages.

Mr. MCLURE: Under the heading of "Condition of Property", I have one question. It is in connection with the condemned bridge which is known as the Hillsboro Bridge between Charlottetown and South Port. This bridge was condemned some years ago for heavy freight and is now used just for local passenger trains.

Mr. GORDON: Yes.

Mr. MCLURE: May I ask if it is the intention of the government to rebuild this bridge with the Trans-Canada highway?

Mr. GORDON: My recollection is that it is a matter under discussion now with the government. Am I right? I remember there was some correspondence with the government of Prince Edward Island the other day. I have forgotten the details of it.

Mr. MCLURE: It is still a toll bridge.

Mr. GORDON: Yes?

Mr. MCLURE: And the province pays a toll of about $10,000 to the Canadian National Railways. The bridge is hardly fit for ordinary truck traffic, because every once in a while a big truck going over it gets jammed.

Mr. GORDON: The point at issue is whether the bridge should be replaced entirely at the cost of the railways or whether, because it may be on a part of the

Trans-Canada highway system, there should be a division as to the cost. I am speaking of course from memory. But my belief is that that point is now under discussion with our officials and the premier of Prince Edward Island.

Mr. McLURE: It was an old second-hand bridge when it was placed there forty-six years ago, and the province has already paid, with interest and the $10,000 annually, over $1 million. So I do not think the province should have to put up any more money for the rebuilding of the bridge.

Mr. GORDON: That is the difference of opinion which will have to be resolved, Mr. McLure.

Mr. McLURE: Perhaps you may have some information about it before this committee rises?

Mr. GORDON: Yes, I think I can find out where it stands and let you have some information about it later on. I shall make a note of it. I am sorry that I did not bring the correspondence with me; but I remember quite clearly that a discussion of it is under way.

The CHAIRMAN: Are there any other questions?

Mr. FRASER: Yes. I would like to ask the president to give us some details as to general conditions of the whole set-up, let us say, as to equipment, and what he contemplates to spend this year?

The CHAIRMAN: We have already had that, Mr. Fraser. But if there is any special point, I know that Mr. Gordon will be glad to discuss it for you. What is the special point which you want covered?

Mr. GORDON: We shall have in the budget discussion which will come later details of equipment and capital expenditure and so forth. So I suggest that you would get them more adequately at that point.

The CHAIRMAN: Yes.

Mr. GILLIS: Under the heading of "Condition of Property", I wonder if Mr. Gordon has taken a trip from Montreal to Sydney, Nova Scotia, since he became president of the railways?

Mr. GORDON: I have not.

Mr. GILLIS: Then I suggest that you should.

Mr. GORDON: I have every intention of doing so just as soon as I feel that I have some time available for the purpose. I have a trip under consideration now which will, during this year at least, take me over most of the main lines of the property. But I have felt because of pressure upon my time and other matters in the last two or three months—and also because the winter time is not a good time to look at a rail property—it would be much better to defer that trip until early spring. However I have it in mind to make the trip as soon as possible.

Mr. GILLIS: I think the condition of that end of the line leaves much to be desired. I feel that the road-beds are bad, and have been so for a long time. There are a lot of grades and curves there, and it looks to me as if most of the antiquated rolling stock of the whole system is relegated to that area.

Mr. GORDON: I think you will find no agreement on that point, because I understand that various parts of the country feel the same way; they think that they have all the antiquated rolling stock. But I can say that there is a fair division of antiquated equipment over the whole system.

Mr. GILLIS: I seem to find a fair improvement after I get west of Moncton. It looks very, very good to me, from what I can see.

Mr. GORDON: I cannot make much intelligent comment on that. But I shall make a note of your observations and keep it in mind when I come down to see you.

Mr. GILLIS: I think the condition of the property in that area is terrible as to the rolling stock, and so on.

Mr. MCLURE: I do hope that the president will not come in a deluxe train, but that he will travel as an ordinary passenger, because I believe he will get more information that way than in any other.

Mr. FRASER: He will get all the bumps too. I feel that the president should travel around in my section and make a check because, at the present time, it is a common saying to hear: I want to go to Toronto in the worst way, so I think I shall go via Canadian National. The trains do not run the way they should there, and the roadway is bad.

Carried.

The CHAIRMAN: "Traffic Control".

Mr. FULTON: I would like to ask the president about the installation of slide detector fences.

Mr. GORDON: I shall have to ask Mr. Dingle to deal with that because it is a technical matter.

Mr. DINGLE: Just a minute until I get my papers in order, please.

Mr. FULTON: Perhaps I should just say that an answer was given to some questions which were asked in the House only recently. I asked for a report on the installation of the slide detector fences, one of which is now in operation at or near Spence's Bridge in British Columbia. And I also asked for a report indicating whether or not these types of installations are satisfactory for the purpose of giving warning of rocks and slides.

The answer given was:

> Not in so far as slide detector fences are concerned.

A further question was:

> If not, in what way are they unsatisfactory?

And the answer given was:

> Difficulty is experienced in keeping slide detector fences in service at periods of heavy snowfall and of interference from snow slides.

And finally, the question was asked:

> What further or other installations for this purpose are contemplated, and when is it expected the work on them may begin?

And the answer to that question was given as follows:

> Additional installations of slide detector fences will be considered after reviewing results achieved from experimental installations.

You will remember, Mr. Chairman, that as a result of a couple of derailments out in that part of the country because of small rock slides, there were, I think, three or four fatalities to the train crew. And the feeling which I have been able to get from the crew is that these slide detector fences are very valuable in that they give a feeling of greater confidence, and consequently the crews are anxious to see the work proceed as rapidly as possible. Therefore I was a little disturbed by the answers given to my questions.

Mr. DINGLE: I think the answer was given for this reason: that through the past winter, with the increased amount of snow in the mountains, it was almost impossible to keep the slide detector fences in service, because one slide after another would come down, and the result was that before we could replace the damage or repair it, another slide would come down. So it was most difficult. But we have found that automatic signals installed in this same area are good detectors in so far as slides are concerned.

Mr. FULTON: As far as snow slides are concerned, I think we should bear in mind that they were an unusual condition this year, and that the snow slides

were unusually heavy. I believe that the slide detector fences are not so much a warning against the massive heavy slides as they are a warning against falling rock in small quantities, but which will, nevertheless, serve to derail an engine if not the whole train, and that it was to guard against such a thing that the slide detector fences were supposed to give protection.

Mr. DINGLE: That is quite true. But this winter we had a combination of both, as you know.

Mr. GORDON: It seems to me that the real point in reply to this question whether or not we intend to continue with further installations, is that we say that as a result of our experience we are studying the results in order to determine whether or not other installations are useful, and also if they are not useful, whether we can find some other means of safety devices which would be better.

We are not suggesting that we are relaxing our efforts in regard to safety. We are merely studying the results of the safety measures which we have already taken to see if we can improve them, or whether they are the last word.

Mr. FULTON: When might it be expected that further installations will be made?

Mr. GORDON: Just as soon as we can receive a reasonable report from our technical officers on the conditions which we have been discussing.

Mr. FULTON: I have a letter, or rather a copy of a letter, from the railway itself addressed to the secretary of the Board of Transport Commissioners, and I understand it has been found that the slide detector fences did give warnings of rock slides on the right of way, and I gathered that on one or two occasions they prevented trains from running into rock slides at those locations. And the letter goes on to say that owing to the fact that they are not satisfactory because they are put out of operation when heavy slides occur, the company is not convinced as to their usefulness.

Would you not say, Mr. Gordon, that the mere fact that they have given warnings would indicate that they are, in fact, useful?

Mr. GORDON: That can be taken into consideration when we receive a full report from our men who are qualified to conduct the necessary checks on them. I agree with what you say, that it seems to be in favour of them, but we are awaiting the study by our safety officers to determine what is the best thing to do.

I would like to emphasize that we are not giving up or relaxing our efforts towards safety. We are simply doing the best we can, with the number of installations that we already have, to see what is the best thing to do.

Mr. FULTON: Could I ask when you expect to have that report?

Mr. GORDON: Momentarily. The vice-president in charge of the western region has been personally examining the situation with his officers over a period of weeks. He made several trips personally out there to examine those conditions. It is not something that I can place an estimate on because it is actively in hand right now.

Mr. FULTON: Could I ask you this? Would it be your expectation that whatever types are found to be desirable that the installation of these would take place this summer.

Mr. GORDON: That would be my expectation.

Mr. GILLIS: I would like to ask this question. I do not know much about the centralized system of traffic control, but I am wondering just how safe it is and how sure you are of it. What I have in mind is this: it is only a couple of weeks ago that around Drummondville there was a head-on collision between the Ocean Limited and the Maritime Express, and I wondered how that could happen on the main line at a place as prominent as that with this system of centralized traffic control in operation.

MR. GORDON: I was wondering exactly the same thing as you, Mr. Gillis, and I made a very deep personal examination in regard to that particular

happening. As a matter of fact I think I made Mr. Dingle's life miserable because I kept asking the same questions as you. I think I can summarize the situation very briefly in this way, that at the moment centralized traffic control is about as safe a kind of signal operation that we know of, but there is no kind of signal operation that is completely accident-proof; it is still subject to man failure. In that particular accident the reports indicate that the signals were working quite properly but that the engineer ran through at least two warnings that should have either stopped the train or brought the train under control. Now, that is complete man failure. It can happen, as you know, in regard to any operation that depends upon human judgment. A man can make a mistake and there is no way I know of to prevent it. These signals are as fool-proof as we can possibly make them—and I would like Mr. Dingle to confirm this or disagree with me—these signals are as fool-proof as anything of that type we know of.

MR. DINGLE: What Mr. Gordon has said is quite true. In this particular case the engineman did run by red signals. He could not explain why he did it, except that he was confused, and in turn I cannot explain why he was confused because everything was there that he needed to bring his train down to the proper control.

MR. GEORGE: I know that that type of signal has been installed between Pacific Junction and Windsor Junction and it was in operation all during the war while I was away overseas, and I do not believe there has been an accident there since it was installed.

MR. DINGLE: We have had in that area only one or two minor accidents since installation.

MR. GEORGE: You had one last summer, but that was something else.

MR. GORDON: That accident happened at the very time I was on the point of discussing the installation of the centralized traffic control system on our Oba sub-division in Ontario, and by reason of that accident I took particular pains to find out whether it was worth the expense if an accident could happen so easily on a line on which it was installed. To repeat, there is just no way of getting away from the fact that a man will occasionally, for no apparent reason, do the wrong thing. Now, anybody knows that a red signal means stop. You do not have to be a railroader to know that. How a man with the experience of this particular engineer—and he was one of our best men—could just run right through that red signal I cannot explain, nor can he.

MR. POULIOT: I would like to ask a question about a collision that occurred around St. Cyrille between West Junction and St. Rosalie last February. I was on the train which was delayed twelve hours and that accident occurred in an area that was serviced by this centralized traffic control system.

Mr. GORDON: That is the same one that we were discussing.

Mr. POULIOT: There were some passengers injured; I was not hurt because I am hard headed. What was wrong? Was it on account of the ice?

Mr. GORDON: No. What happened was the engineer in charge of that train ran through a red signal, more than one red signal in fact. The signals were operating. It was a bad night, it is true, but there is no apparent reason from the reports that we have as to why he should have made that mistake, but it is just one of those mistakes that happen.

Mr. POULIOT: What disciplinary action was taken as a result of that accident?

Mr. GORDON: I do not know whether our disciplinary measures are complete, but the train crew was dismissed.

Mr. DINGLE: The investigation has been completed except with respect to the conductor who had a heart attack following the accident; but the balance of the crew has been dismissed from the service.

Mr. POULIOT: I know in a case like that that the engineer must be held responsible, but I was in the last car and I saw the work of the brakeman there and he walked a long way back and I got up to see what was going on and I heard men walking around the car and this particular brakeman had put the signals in the rear of the train; that is he had placed the fuses.

Mr. GORDON: That was after the accident.

Mr. POULIOT: Yes.

Mr. GORDON: Our investigation showed that all the train crew had not followed operating regulations and we take a very serious view of that in connection with any accident. Each member of the crew has to demonstrate that he carried out the regulations and if they fail they are considered equally responsible for the accident.

Mr. POULIOT: So the weight of evidence is against each one of them and they have to prove that they are above reproach individually.

Mr. GORDON: That is correct.

Mr. GEORGE: They are considered guilty before they are heard?

Mr. GORDON: No, that is not so. There is a very careful procedure followed in order to insure absolute fairness in respect to those investigations. The men are called before an investigating committee and each man is entitled to bring with him anyone he chooses. He is examined and asked to make a voluntary statement as to what took place. He tells his story before any accusations are made against him, and on the basis of his own story, judgment is formed as to whether or not he obeyed the rules. Furthermore, each one of those accident reports is subjected to a review by union officials, and each man who has been dealt with can ask for a rehearing. There is a very rigid system worked out to insure absolute fair play.

Mr. GEORGE: Is it possible to run a train according to the regulations as laid down and keep up time schedules.

Mr. GORDON: Yes, indeed; the time schedules have the regulations in view when they are drawn up.

Mr. POULIOT: Does each man get a copy of this statement?

Mr. GORDON: That is right, and he signs it, and a copy of the whole evidence is given to the chairman of the local brotherhood. The individual himself signs the statement, and he is asked before he signs it whether it is a fair statement.

Mr. POULIOT: But he cannot see the statements made by others?

Mr. DINGLE: He can through representatives.

Mr. POULIOT: Through his local chairman.

Mr. GORDON: That is correct, but not before he himself has been examined; after that he may see the whole thing.

Mr. JAMES: What precaution does the company actually take regarding health inspections and that kind of thing to make sure of preventing as much as possible anybody having a heart attack.

Mr. GORDON: We have a regular medical examination of operating employees. Every man in the operating trades has to undergo an examination twice a year. In fact, we have medical cars especially equipped to make these examinations travelling throughout the system, and they are constantly on the road. Each man is required to submit himself to tests in respect of his duties in any part of the operating trades.

Mr. GEORGE: Were those trainmen hauled out of service or dismissed?

Mr. GORDON: They were dismissed from the service.

Mr. FOLLWELL: With regard to centralized traffic control, how many miles of main line are now under centralized traffic control or automatic block, and what projects are planned for automatic block and centralized traffic control for the balance of the main lines?

Mr. DINGLE: We have at the present time centralized traffic control between Moncton and Windsor Junction, also between Drummondville and Charny. We have a project to instal centralized traffic control on our Oba sub-division between Foleyet and Hornepayne. Our entire main line from Montreal to Chicago is equipped with automatic block signals. We have made two installations in the mountains, one west of Kamloops and one east, and we have another one under consideration at the moment.

Mr. FULTON: Where is that?

Mr. DINGLE: Between Jasper and Red Pass Junction.

Mr. POULIOT: Coming back to the work of the conductors on the Scotian and the Ocean Limited leaving Montreal, they have a hard job, and for a time nobody could go to bed on the train before passing Drummondville or even further east. I brought this matter to the attention of the late Mr. Walton and he saw to it that the tickets were taken up before the departure of the train so as to give a chance to the conductors to do their work. I want to draw your attention to this. I know the conductor who was in charge of the eastbound train. He was about to get his pension, and would have got it because he was qualified for his pension. This particular trip was one of his last trips. That man had a lot of work to do on the train collecting tickets in the coaches, first class cars and the sleeping cars. The berths were not made up in the car at the time of the collision that occurred east of Drummondville. It was precisely on account of the fact that the conductor could not get on with his duties, he was so busy collecting tickets, and he could not do everything. Besides that I have to complain about some brotherhoods that are unfair. I took up the case of a conductor some time ago and the matter was fixed up by Mr. Walton himself. I must say here that I regretted the passing of Mr. Walton; his passing was a big loss to the railways, and a big loss to his friends. He was an earnest man who did very well and I wish Mr. Dingle to follow in his footsteps. I had the greatest and most sincere admiration for Mr. Walton. He redressed a wrong in that particular case. The case I refer to was an accident, a derailment, that occurred about two years ago in the winter time east of Riviere du Loup. The locomotive engineer seemed to have fainted at about the time of the collision—afterwards they found him dead. Probably he had fainted before the collision but he applied the brakes before fainting. The conductor was sure that the brakes were being applied before meeting the other train. It was afterwards thought that he had every reason to believe that the meeting of the trains would be normal. The conductor is in charge of the train but the brakes are necessarily applied by the engineer who, after he applied the brakes, fainted. The engineer may not have died before the collision but they found him dead afterwards. The union did nothing for the conductor. I had to take his case up with Mr. Lomas, Mr. Dingle, and Mr. Walton. I feel very much against the unions because I have had to do their work many times. I even had to go down to Moncton and St. John because these people do nothing but stand around with their big cigars and their gold chains.

Mr. GILLIS: Getting back to this matter of traffic control, I think that Mr. Gordon's statement was very reasonable when he said that the equipment was no safer than the people who handle it. Things do happen, even on these main lines with everything solidly protected. That makes me wonder whether the system has tended to make the men operating the trains careless and to depend too much on the system and not enough on their own judgment? What precautions

are taken by the railway officials when a train is going out to see that at least the engineer and the fireman are in condition to take the train out and haul it to its destination? I am not particularly concerned about the porter and the conductor as they are inside but with respect to the two men in the engine I would ask whether they are inspected to see that they have not been out on a party before taking over their duties?

Mr. GORDON: Perhaps I should make a general comment and then I will ask Mr. Dingle to tell you what takes place before the train crew takes charge of the train. I will say that I regret just as much as anyone that these accidents do happen. I have been very upset by them and I have spent a good deal of time inquiring into them and trying to find out what takes place. However, we must not overstate the case because in point of fact, as nearly as I can find out, the operations of the Canadian National System compared with other railways are as safe as those carried on anywhere in the world. I think our accident record is good—if an accident record is ever good—and accidents on the system have not been increasing, but rather they have been declining. However, every now and then you have a spectacular wreck that stirs up all the doubts you have expressed here. Now Mr. Dingle will tell you just what takes place before a crew takes out a train.

Mr. DINGLE: In the case of the engineer he books on at the roundhouse—he signs a book or form. Once he signs on for a trip he signifies that he is in proper shape to take his train out. In addition to this, the roundhouse staff see the man and, in the final analysis, before the train actually leaves the station, the conductor and the engineer compare orders. In that way there is a further check. Going along a little further there is the matter of rule instruction. We have rule cars constantly going over the line. Classes are set up at various terminals and these are bulletined to all the running trades who are requested to attend same for the purpose of refreshing and keeping up to date in the rules. I do not know just what more could be given on the subject; perhaps there are further questions?

Mr. GILLIS: That is about all you can do provided you can rely upon the people actually taking the train out.

Mr. GORDON: There is one other thing that is important in regard to accidents which are demonstratively the fault of train crews who have disobeyed safety regulations. The discipline is strict. It is one thing upon which we insist and it is one thing in which the unions have supported us. We are not challenged in our judgment with respect to disciplinary measures in regard to accidents. I have had quite a question mark in my mind many times as to whether the responsible officials had demonstrated to my satisfaction that while discipline was strict it was absolutely necessary as far as the operation of the train was concerned. I believe that knowledge throughout the system of the strictness of the discipline is a very useful thing in the matter of keeping the men on their toes.

The CHAIRMAN: Are there any further questions?

Mr. FULTON: There is another question which I have and I wonder whether Mr. Dingle can give me the answer? It concerns the running through three sub-divisions instead of two. The question was whether when they had to run through three sub-divisions the runs were not too long—the men became tired and the practice was prejudical to safety?

Mr. DINGLE: I contacted Winnipeg last night but I have not received a full report as yet. I think I will be able to file it after lunch.

Mr. FRASER: I wonder, with respect to this check on health, if eye tests for colour blindness are taken.

Mr. GORDON: Yes, sir, there is a regular routine of medical inspection covering all the points you would expect to be covered. In fact I examined a medical car a few days ago—Thursday, in fact—in Montreal. I went through the medical car with our chief medical officer and inspected the routine that was followed. I do not know much about medicine but it is, as I saw it, a very comprehensive system of testing.

Mr. FRASER: You might have a check every six months, but anyone who wears glasses and who is doing a lot of checking on different things will find that although today his eyesight is good tomorrow it is not so good. I wonder whether six months is not too long a period and should they be checked every three months with respect to eyes and health?

Mr. GORDON: I would not profess to pass professional judgment but our doctors feel that six month is a reasonable length of time. It is more or less the standard interval followed throughout the North American continent. I do not think unless it was the case of disease that condition of the eyes would deteriorate in six months.

Mr. FRASER: Well, I am not a medical man, but I would think that in the case of the engineer and the fireman that it might be something to think about.

Mr. GORDON: In the accidents we have investigated it has not been shown the deterioration of eyes has been a factor.

Mr. FRASER: I have another question on this matter of traffic control, engines, and trains. I wonder whether anything has been done about the suggestion I made to the Minister some time ago with regard to luminous strips running along the side of the cars. On passenger cars they place the strips every seven or eight feet. A person coming along the highway in a rainstorm does not then smash into a freight car that has been stalled for a few minutes. We have had accidents around Peterboro and there have been accidents in Toronto and in other places. The poor fellow in the car has very seldom a chance to obtain damages from the C.N.R. or from anyone else.

Hon. Mr. CHEVRIER: I think that on that subject the railways must be guided by the regulations of the Board of Transport Commissioners. The Board of Transport Commissioners have to determine whether those regulations should be put into effect. I do not know whether I mentioned it when the matter was raised in the House but thus far the Board of Transport Commissioners have not seen fit to approve of luminous strips. I do not mean by that statement that consideration should not be given to it but the board is frequently faced with all sorts of suggestions. Some of them are good and some are not so good. From time to time the brotherhoods and other groups make representations to the board. I think I undertook to bring the matter to the attention of the board when you brought it up.

Mr. FRASER: I understand that there are one or two railways in the United States that are using luminous strips and they have a better record in regard to accidents than those companies who do not use the strips. The cost per car is very small.

The CHAIRMAN: May we refer back now to finances. Mr. Adamson, I asked that the item stand because you had a question, and you were not here when we reached the item.

Mr. ADAMSON: Thank you very much. The question I wanted to ask about finances refers to the item showing the floating of two comparatively long term bond issues. One is for $35,000,000 and one is for $70,000,000, and on page 29 you have the equipment trust issue. I would like some statement as to the different methods of raising money. This was a refunding of old higher interest securities. Is it the policy of the railway to go to the public or were these sold

to the federal government? What is the method you take of financing these long term securities, and what is the method you take for financing the equipment trust issue?

Mr. GORDON: The first issue you mention—the $70,000,000 is an issue we sold to the public. That was done by exercising the call provision that existed in respect of the higher interest—5 per cent. On a certain day under the contract we had the right to call those bonds in and we exercised that right and sold an issue of the bonds to the public, with the guarantee of the dominion government, to raise funds to redeem the called bonds. It was just a normal market operation. We asked certain syndicates of bond dealers to make tenders to us for the issue. Through the bond dealers bonds are sold to the public—the lowest dealer's tender being accepted.

In connection with the equipment trust those are securities which are of a different type in regard to maturity. They are much shorter term securities and they have specific hypothecation of certain pieces of equipment against the bond. That bond does not have the guarantee of the dominion government and it is sold on its own credit risk with the collateral security of the equipment. Usually those bonds are bought by a select market of banks and insurance companies. Technically they could be sold to the public but practically they are not, because the public is not interested in that type of thing.

Mr. ADAMSON: What is the length of that trust?

Mr. GORDON: That is dealt with on page 29. The last one we sold was a ten year issue and they are also serial issues. They do not all mature on one date but they start in maturing year by year and, as they mature, they are paid off and the relevant security is released from hypothecation.

Mr. ADAMSON: I am just interested in the method of refunding them. If you issue an equipment trust issue as against a new diesel locomotive—

Mr. GORDON: Yes.

Mr. ADAMSON: That diesel or locomotive belongs to the Guaranty Trust Company.

Mr. GORDON: Or whatever trust company it is.

As the bonds mature, certain numbers of them mature year by year, and interest on a particular obligation is paid, it is done in the regular way. They mature at six-month intervals and interest is payable every six months.

Mr. ADAMSON: Well then as the capital amount becomes payable on these bonds, where does that come from? I mean, the road is obviously running at a deficit. That goes into interest accrued?

Mr. GORDON: I think I see your point now. I was missing it. Your point is that as each serial issue matures how do we pay it off?

Mr. ADAMSON: Yes.

Mr. GORDON: We pay it off out of borrowings from the government in one case, or it may be from part of an issue which we float at that time, let us say an issue for a long term at a fixed price, depending on what our situation is at that time.

Mr. ADAMSON: Yes.

Mr. GORDON: Theoretically—and I put this as purely theoretical at the moment—if we had enough earnings we might pay some of these issues off in cash.

Mr. ADAMSON: That would be the normal way of doing it, would it not?

Mr. GORDON: Yes.

Mr. ADAMSON: There is another point there in which I am interested, and it is this: you have an equipment trust issue with respect to a particular piece or class of rolling stock and that is issued for a term of years, and when the time

comes for paying off that trust issue the rolling stock has depreciated very considerably; now, would it be depreciated to such a degree that it would no longer be good enough as rolling stock to be hypothecated against another bond issue at that time?

Mr. GORDON: You mean that particular rolling stock?

Mr. ADAMSON: Yes.

Mr. GORDON: Mr. Cooper has just called my attention to the fact that we have set up also a reserve of depreciation and this is becoming available as a source from which to pay off or retire these equipment trust issues.

Mr. ADAMSON: Then as to the cost of the equipment trust method of financing, I see by rough calculation that it appears to be from one-half to three-quarters of one per cent cheaper than financing through the issue of normal long-term bonds.

Mr. GORDON: Well, it depends on how you are borrowing at the particular time.

Mr. ADAMSON: Yes, but I see here these are at 2, 2¼ and so on while your bond issues are around 3 or up.

Mr. GORDON: Yes, but there is a different term, a much longer term on the bonds. I do not think there is a very great variation between the rate on the equipment trust issues and the rate on long-term bonds in the final analysis. I see what you mean, but the equipment trust issues are usually for a much shorter term than the bonds.

Mr. ADAMSON: What I am driving at is which is the more advantageous method of borrowing, the equipment trust method or the long-term financing. I just wanted to know which method of financing was in the best interests of the road.

Mr. POULIOT: Just glancing at the first page there, I see the January issue was floated at a lower rate than the September issue. I mean the percentage figures on the January issue apparently were lower than what was paid for the September issue. I would like to know how much, in terms of dollars, was paid to the brokers for the January issue as compared to the September issue. Just glancing at the figures here it would appear to have been substantially more.

Mr. GORDON: I haven't got that figure at the moment, Mr. Pouliot, but I can tell you that generally speaking the price we obtained for our last January issue was about the same as in the previous year. These prices are a matter of market conditions. The way we float an issue, as I said a moment ago, is to send out an invitation to bond-dealers to tender on specific issues and the lowest tenderer gets the bid, that would depend on market conditions at the time.

Mr. POULIOT: That is not my question, Mr. Gordon; the first issue was sold at a cost to the company of 3·075 per cent.

Mr. GORDON: Yes.

Mr. POULIOT: And the second issue was at 2·78, at a cost to the company of 2·96 per cent.

Mr. GORDON: Yes, I see your point.

Mr. POULIOT: What I mean is the difference between the 3 per cent and the 3·075 per cent is less than the 2·78 per cent and the 2·96 per cent.

Mr. GORDON: Yes, but you will observe, Mr. Pouliot, that the two issues are not the same. The first issue is a 3 per cent issue with a term of 17 years and the second issue at 2·78 for a term of 20 years. The difference in price is represented by the difference in the term; in other words, one gets a better tender on a 17-year bond than one does on a 20-year bond.

Mr. POULIOT: Yes.

Mr. GORDON: And when it comes to marketing, of course you try to adjust yourself to what the market wants; and at this particular time we were able to work out a deal which gave us so much for 17-year bonds; and that has a bearing on our maturity situation as well. Roughly speaking, the price you get on your issues is directly related to the term involved.

The CHAIRMAN: That is true, Mr. Gordon, but Mr. Pouliot's question apparently anticipates that the broker receives the difference between the 3 per cent and the 3·075, the cost to the company. Does the broker always get that?

Mr. POULIOT: I asked you that because I wanted to know how much the company paid to the broker. I have asked it before but I could not get an answer to my statement, and I wanted to know if the rates were uniform, and whether some brokers were receiving more than others.

Mr. GORDON: Well, I don't know—

Mr. POULIOT: I might say that I am always suspicious about matters of finance and when something cannot be told about financing operations I always like to find out the reason why it cannot be told.

Mr. GORDON: If you would like my personal opinion on that, Mr. Pouliot, I may tell you that I think we made a good bargain.

Mr. POULIOT: If you say that I believe you.

Mr. GORDON: Thank you.

Mr. ADAMSON: There is just one more question I would like to ask about this equipment trust. Are all your equipment trust issues financed in Canada, or are some of them outside?

Mr. GORDON: At the moment they are all in Canada.

Mr. ADAMSON: Does that include all the equipment trust issues for the Grand Trunk Pacific?

Mr. GORDON: I do not recollect that we have any equipment on the United States line companies bought with equipment trust funds. All this equipment trust issue statement relates to Canadian equipment and has been obtained through Canadian issues.

The CHAIRMAN: Are there any further questions? I have one in regard to depreciation: Is a sufficient rate of depreciation provided for out of current revenues to retire the capital liability during the useful lifetime of the assets?

Mr. COOPER: Yes sir, definitely.

The CHAIRMAN: Right, that is all I want.

Mr. POULIOT: I wonder if Mr. Dingle could tell me whether any provision has been made in the estimates this year for the construction of the station about which Mr. Walton gave me assurance when he was before the committee last year?

The CHAIRMAN: Might I suggest, Mr. Pouliot, that you defer that question until we reach the related section in this statement?

Mr. POULIOT: I wanted to know if it was under consideration.

Mr. GORDON: If it is in the budget we can give you the information at that time.

Mr. HATFIELD: I wonder if Mr. Gordon could give us some information about the land which used to be occupied by the old southwestern station in Montreal?

Mr. GORDON: The situation there is that we have been talking over an arrangement whereby certain land that we own is being exchanged for certain land adjoining which is now owned by the city of Montreal. The old station will be removed and our new building will go up west of that point.

Mr. HATFIELD: What about the land?

Mr. GORDON: I haven't got the details on that before me. Mr. Cooper tells me that it was through an arrangement with the city whereby we are turning over to them certain land, or property, and they are exchanging property of equal value with us.

Mr. HATFIELD: How much are you getting for it?

Mr. GORDON: There are quite a few deals of that kind involved in the construction of our new terminal facilities there at Montreal.

Mr. HATFIELD: Are there any freight sheds on it?

Mr. GORDON: Not at that particular point, south of it.

Mr. HATFIELD: That is very nice.

Mr. GORDON: I am informed that in connection with the whole terminal development there, there are six exchanges with the city that have been worked out as part of the program. The principle which applies in the development is that a committee has been set up for the purpose and we sit down with the representatives from the city and the real estate board and study matters very carefully. So far there have been six exchanges of land worked out, and I may tell you that it is quite an operation.

Mr. HATFIELD: I suppose it costs millions of dollars to get a central station in a city like Montreal. How much is it going to cost you to get a station in Ottawa out of the city?

Mr. GORDON: I think that is something the Dominion government will have to answer. It will be a big program.

The CHAIRMAN: Are there any further questions on this section?

Mr. ADAMSON: Yes, Mr. Chairman, under Other Construction Projects. What I wanted to ask Mr. Gordon relates to the Mimico yards. These yards happen to be in my constituency and there have been a number of accidents at those yards, some of them fatal, and a good many people often wonder why there have not been more. The centres between the tracks are much closer than at the Lambton yards of the Canadian Pacific. The yard is not lighted by the big floodlights with the result that the men working there at night do not have adequate illumination, particularly when they are humping, breaking up trains. Then, too, the main line goes right through the centre of the yard, and at that place, at Mimico, the through trains are travelling at 60 miles an hour—it is some distance from there to the Sunnyside station and they really travel, they have not yet reached a point where it is necessary for them to slacken speed and they are really travelling. I would like to find out whether it is the intention to widen the yard by buying land from the provincial government, amongst others, so that the centres between the tracks can be wiped out. Now, what happens is this—and I have experienced it myself—one of the train handlers in the yard is on a car; another car passes him; if there is as much as 6 inches sticking out from a freight car, say a badly loaded car or for any other reason, the man is hit; and at night a man cannot see what is coming at him; and the only really satisfactory way is to widen the distance between the tracks. And another danger is that as the main line passes through there may be an express train passing through at high speed and that just means that the train man is going to be sucked off the train if he happens to be on the track next to the main line.

Mr. GORDON: Are you suggesting that the regulations of the Board of Transport Commissioners are being violated at Mimico? If they are, there are very definite regulations in regard to clearance.

Mr. ADAMSON: They may not be violated, but unfortunately a man was killed in this area simply because of the tracks being too close together. The evidence brought out at the inquest and at the subsequent inquiry, I think,

recommended that the centers between those tracks be widened so that this sort of accident would not happen again. It was also stated that at the Lambton yards the distance between the tracks was greater than that at the Mimico yards.

Mr. GORDON: I take it what you have in mind is a condition which applied but which is now under rearrangement?

Mr. ADAMSON: Oh, yes.

Mr. GORDON: I wonder if you are not referring to the very conditions that we are trying to improve.

Mr. ADAMSON: I understood that you were going to do something about those yards, and I would like to urge now that, if possible, you increase the centers between the tracks. I feel that is one thing which needs to be investigated.

Mr. GORDON: If it is an operating matter, Mr. Dingle would be seized of it.

Mr. ADAMSON: And another thing is that the yards are not flood-lighted. So I would suggest that in order to improve the safety of those yards, they be flood-lighted the same as the Lambton yards of the Canadian Pacific.

Mr. DINGLE: In respect to the question of track centers, you may be assured, Mr. Adamson, that the track centers will be in accordance with the standards of clearance as set down by the board. And as to the main line, one of the purposes of the rearrangement was to get it clear of the switching area. And I may say that wherever necessary, flood-lighting will be installed.

THE CHAIRMAN: Are there any further questions?

MR. ADAMSON: Thank you.

MR. MOTT: In regard to the Prince Rupert dry dock, does the Canadian National still have that under their control?

MR. COOPER: Yes. We are still operating it and we are hoping the Department of Public Works will take it over on the first of April.

MR. MOTT: I do not see anything about it in here.

MR. COOPER: Oh, that is 1950 business.

MR. FULTON: I wonder if the comptroller can give us the values of the properties referred to in Montreal which have been turned over to the city as well as the values of the properties being acquired by the company from the city?

MR. GORDON: That would be a very very big question, Mr. Fulton. We can give you an answer, but it would take us some time to provide it because of the great mass of detail.

MR. FULTON: I understood you to say there were six exchanges.

MR. GORDON: Yes, but included in each exchange there is a great mass of individual properties. We call them exchanges merely to identify them in a particular negotiation. I was looking at one the other day and the papers in it were that thick (indicating); all deeds, leases concerning little bits of property which have been under dispute for years. It is really a cleaning up operation in itself.

MR. FULTON: Do you think it would take very long to summarize each exchange with respect to its total value?

MR. GORDON: I shall telephone to Montreal and we shall make an effort and see what we can do.

MR. MCLURE: Has the hotel project at the Central Station in Montreal been completed or dispensed with?

MR. GORDON: The hotel operation is still a part of the project, but we have nothing in this budget which is specifically in connection with it.

MR. HATFIELD: I think you had better forget about it.

MR. GEORGE: I would like to know if the Canadian National Railways have given any consideration towards removing their tracks in the city of Moncton in connection with the town planning scheme there?

MR. GORDON: I think Mr. Dingle had better answer you.

MR. DINGLE: At the moment, it is just in the negotiation stage. The plan was suggested by the city.

MR. GEORGE: Has it reached the active stage yet?

MR. DINGLE: It is being considered.

MR. FRASER: What is the total cost of construction of the new freight terminal at Montreal?

MR. GORDON: You mean the Bonaventure freight terminal?

MR. FRASER: Yes.

MR. GORDON: In 1947 the estimate for the building was $4,574,378. So far we have spent $1,020,905 up to the end of 1949, and we propose to spend—and this will be dealt with in the budget—a total of $1,039,640 during the year 1950.

MR. FRASER: And does that include the property as well?

MR. GORDON: Oh, no. That is just the cost of the building and the tracks and everything else, but apart from the physical lands.

MR. FRASER: Has provision been made in there for a sprinkling system? I notice that during the last couple of months we have had $30 million of fires in government buildings.

MR. GORDON: Well, Mr. Dingle informs me that our plans contemplate an entirely fire-proof operation, an entirely fire-proof building.

MR. FRASER: That may be, but that would not protect the freight which is in the building. What do you plan to do about that?

MR. GORDON: We can get that information for you. We cannot at the moment remember whether a sprinkling system is included.

MR. FRASER: I understand that here in Ottawa, at the Ordnance Depot, the fire marshal suggested there be a sprinkling system installed but it was not installed and they had a fire shortly afterwards.

MR. GORDON: We can get the answer for you.

MR. HATFIELD: Will the fruit terminal be included as well?

MR. GORDON: Not in the freight operation, no.

MR. FULTON: May I ask about the freight yards at Vancouver. What is the total cost of them to date? I understand you to say that seventy-five per cent of that work is already completed?

MR. GORDON: In connection with the Vancouver freight yards, I understand we have spent $160,032 and that we propose to spend this year $65,000.

Mr. FULTON: Will that expenditure be for work only or for acquisition of property?

Mr. GORDON: That covers work only, just the building so to speak. I do not know whether it includes the property. If we had to buy property, then it would be included in those figures.

Mr. FULTON: Are you having to make any arrangement with the Great Northern Railway there as to the sharing of facilities?

Mr. GORDON: Not in this connection.

Mr. FULTON: Have you any plans in contemplation for buying the line from New Westminster to Vancouver? You run over the Great Northern line there.

Mr. GORDON: We have nothing in contemplation there at the moment.

Mr. FULTON: Your station there is right alongside of the Great Northern Railway?

Mr. GORDON: That is right.

Mr. FULTON: I wondered if there was any property deal or sharing deal in respect to the yards, or whether they were entirely a Canadian National Railways arrangement?

Mr. GORDON: The yard extension is entirely Canadian National.

Mr. MOTT: I would like to have a little more information about the Prince Rupert dry dock. Do I understand you to say that the Public Works Department will take it over on the 1st of April?

Mr. GORDON: No, in May, was it not?

Mr. MOTT: Is there any guarantee now? I know it has been a very heavy expense to the Canadian National. It is something which has never paid, and now it is being turned over to the Department of Public Works. But is there any guarantee that the Canadian National Steamships are going to get their work done there?

Mr. GORDON: The arrangement is that the Department of Public Works will take over the ownership of the dry dock, and the Canadian National Railways will continue to operate it as their agent.

Mr. MOTT: The Canadian National Railways will continue to operate it as their agent?

Mr. GORDON: Yes. In other words, the loss or gain on operations will not be for the Canadian National account.

Mr. MOTT: You are going to operate it, but the loss, if any will go to the Public Works Department?

Mr. GORDON: Or the profit, if there is one. I always have hopes, you know.

Mr. MOTT: Thank you.

Mr. ADAMSON: Just before we leave that, I have two questions concerning the Mimico yards. What is the cost of the proposed improvements, and have you got any more property?

The CHAIRMAN: May I just interject here that during the last half or three-quarters of an hour practically all the questions have been questions which should have been asked under the estimates items. And I wonder if under the budget items you will not reach the same things.

Mr. GILLIS: That is exactly what I am waiting for.

The CHAIRMAN: So I suggest that it would help the work of the committee if those budget items be held over so that we might clean up as quickly as we can the balance of the items in the report, and then get on with the budget.

Mr. ADAMSON: I thought that the Mimico situation was specifically stated and mentioned in connection with this particular item.

The CHAIRMAN: I know.

Mr. CAVERS: Dealing with the International Aviation Building in Montreal, may I ask what revenue the Canadian National Railways will derive from the erection of that building?

Mr. GORDON: That again is a matter of the budget. But we will answer it.

The CHAIRMAN: If it comes under the budget, I think we would make much better progress if we cleaned up the few remaining items in the report and got on with the budget items after that. Is "Equipment" carried?

Mr. FULTON: No. Under the heading of "Montreal Terminal", it says at the very end:

> "Plans are also being developed for the construction on this site of an office building and hotel."

The CHAIRMAN: That will come under the budget items.

Mr. FULTON: I understood the president to say that those plans are not at all definite.

Mr. GORDON: No. You will find in the budget items that they deal with the cost of our plans. I should be glad to tell you about them when we come to that specific item in the budget. The Montreal terminal is a very big project.

Mr. FULTON: I would like to know whether or not the plans to build the hotel are final and that the Canadian National is going ahead with that intention?

Mr. GORDON: We have no final plans about the actual erection of the hotel. Before doing that, we would have to come to this committee for an item in the budget to provide for it. At present we are concerned with the cost of planning. We would have to take it up with the minister before we could bring it before this committee, and then come here with a definite recommendation in regard to the erection of this building or hotel. It is part of the project at the moment.

Mr. FULTON: Before you proceed with the building, or even decide on the type of building, there would be a recommendation to this committee. But at the present time it is a part of the project, and the company desires and intends, if authority is given, to go ahead with the project. That is what I am asking?

Mr. GORDON: It is a matter which the Canadian National management would have to discuss with the government and the government would have to make the decision. And then the question of financing it would have to come before this committee.

Hon. Mr. CHEVRIER: I believe that some two or three years ago this committee discussed the project of the Aviation building, the office for the Canadian National Railways, and also the hotel, at some length. The government gave its approval to the overall project and told the Canadian National Railways to proceed. After the officers had gone into it carefully, it was agreed that the Aviation building would be built immediately, because there was a great need for it. The other two projects are being studied. But when the Canadian National Railways are ready to proceed with them, I surmise that they will submit the matter to the government, and that it would be included, if approved by the government, in their budget.

Mr. FULTON: So no final step has yet been taken?

Hon. Mr. CHEVRIER: There is certainly no final step yet about the hotel. I would think that the railway officials would first want to know what expenditure would be involved and similar information for the office building, because the cost of these two buildings would be much more now than it would have been when they were originally proposed. I think what Mr. Gordon had in mind in the budget was that there is an item in there for plans and specifications.

Mr. GORDON: And for rearrangement of the tracks, and so forth. But it will be dealt with in the budget.

Mr. HATFIELD: In respect to this new equipment—

The CHAIRMAN: Does "Montreal Terminal" carry?

Carried.

Now, "Equipment."

Mr. HATFIELD: On page 12 under the heading of "Equipment," I notice the item of "368 overhead type refrigerator cars." Just what do you mean by that?

Mr. GORDON: Again, the details of that item appear in the budget. In fact, all of those items. What particular item are you referring to?

Mr. HATFIELD: I refer to page 12.

Mr. GORDON: Yes, but there are two. Are you talking about these overhead type refrigerator cars?

Mr. HATFIELD: Yes.

Mr. GORDON: Perhaps Mr. Dingle would give an explanation of it.

Mr. DINGLE: Those are what we call the overhead type, where the ice is put in throughout the whole length of the car as distinct from the end bunker type.

Mr. HATFIELD: How are those cars heated?

Mr. DINGLE: They are heated by underslung heaters.

Mr. HATFIELD: Thank you.

The CHAIRMAN: Does "Equipment" carry?

Carried.

Mr. FRASER: May I ask about the flat cars for Newfoundland. Are they single gauge?

Mr. GORDON: No, narrow gauge. They would have to be narrow gauge or they would not run.

Mr. FRASER: Are you going to widen the tracks in Newfoundland?

Mr. GORDON: We have no intention of widening the tracks.

Mr. FULTON: The equipment on order at the end of the year the delivery of which is expected in 1950 would not be reflected in the 1950 budget? This would be reflected in the 1950 report?

Mr. GORDON: Yes, in the 1950 report; they would not be in 1949 operations because we only pay for them on delivery; so you will find in the budget that we are estimating how much of this equipment will be delivered in 1950 and what the cost will be.

Mr. FULTON: Did you not budget for them in 1949?

Mr. GORDON: Yes, but they are in the budget under what we call a revote. All the items budgeted for but not spent come in the following year's budget as revotes. Mr. Cooper is reminding me that I am not technically correct about equipment which is contracted for under equipment trusts. Would you explain that, Mr. Cooper?

Mr. COOPER: If equipment, such as this, was included in the 1949 budget and the financing is to be through an equipment trust issue then we have sufficient authority both as to the buying of the equipment and the financing of it. We shall not come back to this committee with respect to that kind of carry-over.

Mr. GORDON: I think the issue of the equipment trust itself is shown in the budget.

Mr. COOPER: Not with respect to the equipment which was in the 1949 budget. As far as the equipment which was authorized in the 1949 budget is concerned, we do not have to come back to this committee for further authority.

The CHAIRMAN: The reason being that that authority is a borrowing authority and not a spending authority?

Mr. COOPER: There is a provision in the Canadian National Railways Act that when this committee, or Parliament, has approved of twenty-five per cent of the cost of new equipment, then the railway company has authority to finance the remaining seventy-five per cent by an equipment trust issue.

Mr. FULTON: What I had in mind was this: the last part of the paragraph does not forecast or reflect your equipment program for 1950, this is all a carry-over from 1949.

Mr. COOPER: Quite right.

Mr. HATFIELD: What improvements are contemplated on the Temiscouata Railway?

The CHAIRMAN: May I clear up the next two items?

Mr. ADAMSON: Is this new equipment, all financed under equipment trust issues, or what part of it is?

Mr. COOPER: Speaking broadly all our new equipment is financed by equipment trust issues; (certain items of work equipment and that sort of thing are excluded from the trust and dealt with through our ordinary budget). With respect to equipment which is to be included in an equipment trust issue, twenty-five per cent of the cost is provided through the ordinary financing of our capital budget and seventy-five per cent by the issue of trust notes.

Mr. ADAMSON: In other words, this committee is responsible for the expenditure of twenty-five per cent.

Mr. GORDON: Responsible for all of it.

Mr. COOPER: You are responsible for the authorization of one hundred per cent but as to its financing only twenty-five per cent of the cost is in the annual financing act. As to the remaining seventy-five per cent, we have statutory authority to issue equipment trust notes and we use such authority.

Mr. ADAMSON: So in this budget we will be coming to in due course, only twenty-five per cent—

Mr. COOPER: The budget will show one hundred per cent.

Mr. ADAMSON: Yes.

Mr. COOPER: But the Canadian National Financing and Guarantee Act of 1950 will only include twenty-five per cent, the remaining seventy-five per cent being covered by the existing authority. To repeat, the 1950 budget will show the full amount, one hundred per cent of the cost of new equipment which we are proposing to acquire.

Mr. FULTON: Twenty-five per cent is paid in cash. Does that come out of the depreciation fund?

Mr. COOPER: To some extent, it is a rather involved affair. We have additions and betterments; we have new equipment; we have various kinds of capital requirements, and it is against the gross requirements we apply the funds which we have as a result of depreciation accruals. While probably the depreciation reserves might logically be applied more specifically to new equipment, they are not specifically earmarked for that purpose.

Mr. MOTT: I would like to ask a question about these 1000 forty-ton automobile cars? Are they specially built cars with equipment in them for stacking the automobiles or do they still have to continue at the factories to put in their own equipment built out of wood to hold the frameworks?

Mr. DINGLE: No, they are not equipped with any special device for loading.

Mr. MOTT: In the United States they are. Is not one of the complaints in this country in connection with the handling of those cars that the cost is so high?

Mr. DINGLE: We decided to stay away from that particular equipment for the reason that the car, when so equipped, is tied up and not suitable for a return load. We get better utilization from our equipment if we do not equip these cars with the special device you speak of.

Mr. MCLURE: I want to draw to the attention of the president that during the last two or three weeks the farmers and shippers of Prince Edward Island have taken a real beating with regard to the shortage of refrigerator cars. Now, my complaint against the management of the railway is this: that they did not beforehand look into the conditions and have these cars in readiness for the long haul shipments that are of a great benefit to the Canadian National Railways

and of greater benefit to the farmers and shippers of Prince Edward Island. Now, the information that came through when we asked the question regarding the shortage of refrigerator cars,—and I am not blaming the minister at all with reference to this; I only blame him for one thing, and that is believing the information he got was correct. I knew it was absolutely wrong, and if he had taken my information and forced the Canadian National Railways to get those cars at an earlier date, we would not have had this extreme shortage with a resultant great loss to shippers. Even up to today there is still a shortage of refrigerator cars for the shipment of potatoes, and the people down there, the shippers, cannot accept orders; they are turning them down. I have a telegram today from Toronto in which one man says he had ordered eleven cars, and the shippers said: we cannot deliver or we cannot guarantee to deliver them until we take care of our back orders due to the shortage of reefer cars.

Mr. GORDON: With your permission I would like to read into the record a letter which was sent by the director of transportation of Department of Industry and Natural Resources of Prince Edward Island. It is addressed to Mr. J. C. Lessard, Deputy Minister of Transport, and I have been furnished with a copy. It reads:

March 10, 1950.

Mr. J. C. Lessard,
Deputy Minister of Transport,
Ottawa, Ontario.

Dear Mr. Lessard:

Re Refrigerator Car Situation

Recently statements have appeared in the press to the effect that the refrigerator car situation on Prince Edward Island is the worst for some years.

The real facts are that during the past several months we have had the best refrigerator car situation here for some years and I, for one, have no hesitation in going on record as stating that the Canadian National Railways have done everything in their power to aid us in this refrigerator car situation. I feel very strongly that they should be given full credit for this and to my personal knowledge the Canadian National Railways officials at Charlottetown, at Moncton, and at Montreal, have given every attention to this matter and I feel very confident they will use all means within their power to aid our shippers in the months of March and April. The captains and crews of the M.V. *Abegweit* have also done a fine job and here I might call to your attention the fact that the increased capacity of the *Abegweit* as compared with the capacity of the *Prince Edward Island* has been a big contributing factor in enabling the larger number of cars of potatoes and turnips to be moved this season with resultant advantage to farmers here as well as to the consumers in other parts of Canada and those in the United States who need our seed potatoes on account of their virility and disease free qualities.

There has been an increase in railway car shipments, to date this season as compared with the same date last season, of over 900 cars. This is accounted for by an increase of about 300 cars potatoes and 600 cars turnips. Following are the figures as at this date 1950 compared with this date 1949. 1950 is 4761 cars potatoes vs 4420 for 1949 this date. Turnips 1950, 1534 as against this date 1949, 926. The increase in water shipments from P.E.I. ports this season 2891 cars as against 1430 cars a year ago.

Admittedly we are going to need a lot of cars for the balance of this month and for April—and urgently need them—and it will be necessary for the railways to use extra efforts and this I feel they will do.

I feel very strongly that the Canadian National Railways should be given full credit for the fine over-all job they have accomplished up to date during the present potato and turnip shipping season, and I have absolutely no hesitation in saying so.

We have our difficulties here, and lots of them, and this letter has no bearing on such matters as freight rates, schedules, or other matters that we may have referred to in various submissions before the Royal Commision on Transportation or the Board of Transport Commissioners, or anywhere else.

If you wish to give a copy of this letter to the Canadian National officials in Montreal you are at perfect liberty to do so and if so I trust that you will tell them that we sincerely hope they may be able to keep up the good work as the next six weeks will witness a very large volume of shipments. There is a lot of seed to go yet to the United States on which there are planting time limits and this is in addition to a large volume of table stock to certain parts of the United States as well as to Canadian points for human consumption.

With best wishes and thanking you for the courtesies always received from your good self and from your department, I am

Very sincerely yours,

(Sgd.) B. GRAHAM ROGERS,
Director of Transportation.

In the light of that statement, Mr. Chairman, I suggest there can be no justification for a complaint that the Canadian National Railways system has not done all in its power to meet the situation to which Mr. McLure refers.

Mr. McLURE: I acknowledge they have done a good deal, but they should have been prepared for this beforehand, and not have left it until the shortage existed.

Mr. GORDON: As I understand it, Mr. McLure, and I am now speaking from history, this is an annual complaint that comes up regularly, and as far as I can see from my short time and the evidence I have just submitted, whatever complaint may have been justified in the past is not justified under current conditions.

Mr. McLURE: How is it then that there is a shortage there today?

Mr. GORDON: I do not admit any shortage.

Mr. McLURE: Well, you have got to admit it when a man cannot fill his orders due to a shortage of cars.

Mr. GORDON: You must remember that in handling a bulk movement of that kind that comes in a short period, there are transportation difficulties that will arise, but as long as you are getting service that will move your supplies, potatoes et cetera, in a reasonable time—and competent officials advise me that is so—I do not think your complaint is justified.

Mr. McLURE: To show you the shortage is still there,—and while we have no objections to New Brunswick getting the benefit of the shortage—of all these orders that were coming through to Prince Edward Island, ninety per cent of them have had to be reversed, cancelled and shiped from New Brunswick. Now, that is all right, but I am just using that to show you, Mr. Gordon, that the shortage is there, even today.

Mr. GORDON: My information is that in point of fact, the loadings are taking place just about as fast as the shippers can handle them.

Mr. MCLURE: But if those arrangements had been made beforehand, in plenty of time, it would have been much better. Now, the official who wrote that letter, and it is a very nicely written letter—

Mr. GORDON: I may say to you, Mr. McLure, that it is not a coincidence that I have the letter with me; I expected to make this reply.

Mr. MCLURE: We had it recorded in the House the other day.

Hon. Mr. CHEVRIER: I did not read it all but I read part of it.

Mr. MCLURE: I had a copy of it myself.

Hon. Mr. CHEVRIER: What I was going to add was this. The position is that there are 1,000 cars more, roughly speaking, available for turnips and potatoes this year than there were last year.

Mr. MCLURE: That is true, but there are more potatoes.

Hon. Mr. CHEVRIER: Your position last year was that we were doing pretty well.

Mr. MCLURE: Yes, but this year we had 900 more cars of turnips than last year and 1,000 more cars of potatoes. We still want 1,000 cars down there to move what should be moved before the 1st of April.

Mr. GORDON: Our operating record shows that we have, day by day, had more cars than you are ready to load. Furthermore, and I say this emphatically, the service provided to Prince Edward Island has been better than that provided anywhere else in the maritimes.

Mr. MCLURE: You say there are more cars than—

Mr. GORDON: Than you are ready to load. There are more cars than you were ready to load during the last three months. Those are operating statistics. I have not been down there myself and I have to depend on reports but that is what the reports show.

Mr. MCLURE: If that were so there would be no shortage?

Mr. GORDON: That is exactly what I mean; there is no shortage.

Mr. HATFIELD: From my own experience I know that there has been a shortage from October until now. I just received one telegram complaining about it this morning.

Hon. Mr. CHEVRIER: Are you speaking for Prince Edward Island or New Brunswick?

Mr. HATFIELD: For New Brunswick. The C.P.R. admit the situation but say that they have sent more of their reefers to British Columbia and that was done on account of the cold weather out there. They have never got the cars back.

Mr. GORDON: Let me ask you, Mr. McLure, what your loading capacity per day is?

Mr. MCLURE: Well, according to the report that came through the honourable the minister a short time ago, we wanted at least fifty cars per day for the next forty days to move the crop before the 1st of April.

Mr. GORDON: Can you tell me how many cars you load per day? Then I will tell you how many cars we have got, but I want you to answer me first.

Mr. MCLURE: That is quite easily answered.

Mr. GORDON: How many can you load per day?

Mr. MCLURE: We can load one hundred.

Mr. GORDON: Just let me ask my operating vice president how many cars there have been available.

Mr. DINGLE: I do not have the specific number of cars available each day, but it has been well over two hundred in many cases.

Mr. MCLURE: But if you load them all today how many have you got tomorrow?

Mr. DINGLE: You do not load them all today. Our experience has been that the capacity per day has been about sixty cars.

Mr. GORDON: We have had that many in every day.

Mr. MCLURE: But those cars go out and you have not got sixty for tomorrow.

Mr. GORDON: Our experience shows that there are two hundred cars in the pool all the time. If you load sixty in a day there are others constantly coming in for you to load. There may be spotty cases where it is not so but that is definitely the report which my officials give me. In the light of that situation I want to take you very seriously and to challenge you very definitely on the complaint about which you speak because I do not think it is a fair statement with respect to the C.N.R.

Mr. MCLURE: Mention any part of my statement that is not fair?

Mr. GORDON: My point is this. I say that we have given you excellent service; we have given you an adequate number of cars; and you have not demonstrated that there is reasonable justification for your complaint. I suggest that the evidence I have submitted to the committee is much more factual than yours, and carries much more conviction than the general statement which you have made.

Mr. MCLURE: It may, coming from you and not from me.

Mr. GORDON: Well, I am supporting it with reports here.

Mr. MCLURE: So could I, if I had brought my reports down.

Mr. GORDON: May we leave it this way? I do not wish to get into a debating contest with you but I am genuinely anxious to meet any legitimate complaint which you have. If you will supply me with information that will show that in any way what I have said to you is not true, then I will personally examine the situation and find where the difficulty lies.

Mr. MCLURE: I will do likewise. I will go further. If you can bring any records which show that I have not facts of the highest order I will apologize.

Mr. GORDON: If you are right I will pay for your luncheon in Montreal but if I am right you will pay for mine. I have got to get something out of it.

Mr. MCLURE: Count yourself booked up to pay for my luncheon.

The CHAIRMAN: Having arranged this Montreal appointment may we go on?

Mr. HATFIELD: Has not your road sent more reefers west this year—in January, February and March?

Mr. DINGLE: There have been a few, and return movement has been slow.

Mr. HATFIELD: The return movement has been slow for one reason. Most of these potatoes loaded in Prince Edward Island are going south to South Carolina and Georgia. When the car gets down there it is unloaded and when it is unloaded there is put in a return load of fruit. It is iced and shipped north in moss. Then, when you get the car back it is full of ice and not suitable for handling potatoes. It takes four or five days to get the ice out of it at your terminal point. Now, if that ice and moss were not in the cars you would have a better supply of cars.

Mr. GORDON: You would not suggest that we should bring the car back empty?

Mr. HATFIELD: No, no, no.

Mr. GORDON: What is a practical suggestion to eliminate the condition of which you complain?

Mr. HATFIELD: You should have a far better idea of where your cars are located so that they can be brought back in the best possible condition. If the fruit goes to Boston, or New York, or even to Toronto you should know where the car is.

Mr. GORDON: We do know where the car is but I am not sure whether we have control over the movement of it to that extent.

Mr. DINGLE: We know where every car is every day but we cannot control the car when it is in the hands of the American railroads. We have appealed to the A.A.R. to speed up the return of our cars and they have taken necessary steps to deal with the situation.

Mr. HATFIELD: I will say that the railways do not seem to have the command of their cars which they used to have. I have had occasion to have a car shipped to Dallas, Texas. That is a long haul. I gave notice to the railway a week before the shipment and they supplied me with a Canadian car to make the shipment when they had lots of American reefers on hand.

Mr. GORDON: Let me tell you this—

Mr. HATFIELD: Why was that car sent to Dallas, Texas, when the Lord only knew when you would get it back?

Mr. GORDON: This question of interchange of cars is a current and daily problem in the railway. We get exactly the same complaint from the American railroads in connection with cars loose in Canada. In fact a few years ago it became so extreme that efforts had to be made through diplomatic channels to get over an embargo which the American controller at that time placed on the use of American cars in Canada. It is a constant daily fight and all I can say is that I think we have a fair share in the fight and we get a reasonable response in connection with cars which we have in the United States.

Mr. HATFIELD: Again there is a decided shortage of reefer cars in my province.

Mr. GORDON: I deny that Prince Edward Island is short of reefer cars and I continue to deny it.

The CHAIRMAN: In order to resolve this matter it has been moved and seconded that Mr. Hatfield be added to this dinner appointment in Montreal.

Mr. HATFIELD: Well, wait a minute, I want to get through with this. You send cars to Prince Edward Island and then you take them away from there to other points and, as a result, you then have to send in additional cars and you cause a shortage in New Brunswick.

Mr. GORDON: May I point out to the committee the fact that Mr. Cooper calls to my attention that today we have 4,057 refrigerator cars in our equipment. That is as of December 31, 1949, but on December 31, 1946, we had only 3,198 refrigerator cars. We have added 25 per cent to our equipment and therefore the service should certainly be better, despite your nostalgic memories in regard to previous days, Mr. Hatfield.

Mr. MCLURE: But you must also remember we have 50 per cent more potatoes to ship and 100 per cent more turnips to ship than we previously had. You cannot ship them in the same quantity of cars that you had ten years ago.

Hon. Mr. CHEVRIER: But you have 1,000 more cars than you had even three years ago.

Mr. FRASER: Mr. Hatfield brought out the fact that the company used a Canadian reefer car when there was an American reefer car available.

Mr. GORDON: That is one statement which I am not going to dispute until I have the facts but I am personally satisfied, from similar statements I have

examined, that there must have been some good reason. I do not know what the reason was but there must have been a reason. I am firmly convinced that the operating officials of this system do operate with common sense and when I hear a statement that does not make sense then, like Mr. Pouliot, I am suspicious.

Mr. FRASER: I have never yet found Mr. Hatfield to be wrong in a statement.

The CHAIRMAN: Are there any further questions on the matter of equipment?

Mr. ADAMSON: Yes, I would like to ask a question just as soon as the refrigerator car matter has been resolved.

The CHAIRMAN: Go ahead, please.

Mr. ADAMSON: I want to ask Mr. Gordon whether he has any figures on the improvement in operating costs of new equipment as against old equipment? In other words, does the new modern box car operate more efficiently, or have you any yardstick for measurement?

Mr. GORDON: Yes, we have figures from our research and development department although I do not know that they are available here. You see, under our system of operation, this is what takes place. When the operating department asks for equipment they have to support the reason for it with various statistics in regard to operations. Our research and development department also operates through the budget committee which we set up and their job is to examine the economics of the proposed new equipment. Unless they are satisfied that the new equipment will effect an operating economy, on their method of comparison—and they have very detailed ways of making comparisons, the item is challenged. I shall try to supply you with some information; I am not sure that we can demonstrate in every case the percentage of improved efficiency in respect of new equipment versus old.

Mr. ANDERSON: This committee is being asked to vote a very considerable sum of money for the operation of the railway. Now I think it is a very pertinent fact that we should find out how this new equipment increases efficiency so that the committee may decide how much more new equipment would be desirable, and how much more capital expenditure would be desirable now to improve or increase the over-all efficiency of the service. I am basing my remarks on a statement made by the American Association of Railways, the A.A.R., and particularly by the Chesapeake and Ohio Railway, the officials of which went into the thing in some detail. I think the statement made by the head of that road was, "we cannot afford not to modernize"; and I think it would be very pertinent information to have. You take a simple matter, one which is advertized quite generally, the use of ball bearings on ordinary box cars; would that increase efficiency in operation to the extent the Timken Company claims it does? Could they carry as heavy freight in the wintertime as they do at other seasons of the year? I think we should have information of that sort so we can form a judgment as to whether it is desirable to increase our capital expenditures, to go ahead with an even more elaborate scheme of modernization than you contemplate now, from the point of view of making economies in operation; if economies will be substantial and operation efficiency is to be improved in that way rather than continuing to use the old equipment. I am just wondering whether any of your officials could give us some ideas on that.

Mr. GORDON: It seems to me that what you are asking for would keep this committee in operation for months. As a matter of fact, I suggest you move right into our offices in Montreal and stay there if you want to get the complete answer. I do agree with you, however, that it might be possible for us to bring in information as to improvements and economies which may be expected through the use of new types of equipment. But after all, that is essentially a

question of management, and I think you may reasonably conclude that the officials of the railway are exercising good managerial sense in their purchases; and that they will, as a matter of good managerial sense, keep the importance of such matters constantly before them.

Mr. ADAMSON: Yes.

Mr. GORDON: That is a continual operation, but that is management to which you are referring.

Mr. ADAMSON: I have seen figures published, not only in the annual statements of the American railways but in advertisements by American railways, of just this sort of information; and it seemed to me that if it could be done there it could be done here. There is just one other thing on which I would like some information. I think you have the figures on the percentage of rolling stock, particularly of freight handling stock, which is 5 years, 10 years, 15 years, or 20 or 25 years old, or even over that. I think you have those figures.

Mr. GORDON: We could give you that in just a moment.

The CHAIRMAN: I wonder if it would speed up the work of the committee if that were to be supplied later.

Mr. MUTCH: I wonder if I may ask this question: Do I understand from this report that the road does not anticipate in 1950 the addition of any tank cars? I notice that—

Mr. GORDON: That, again, is a budget item.

The CHAIRMAN: That is a budget item, Mr. Mutch.

Mr. MUTCH: I just noticed it on this page.

The CHAIRMAN: But you see that will come up for discussion again when we are on the budget items.

Mr. MUTCH: O.K.

Mr. POULIOT: I have a simple question to ask: What is the difference in weight between one of the old box cars and a modern freight car?

Mr. GORDON: It depends on what you mean by a modern freight car.

Mr. POULIOT: Let us say a metal freight car as compared with one of the old box cars.

Mr. DINGLE: They are very closely comparable, Mr. Pouliot.

Mr. GORDON: The old wooden box car?

Mr. DINGLE: They are about the same, taking into account the difference in size.

Mr. POULIOT: You say they are about the same in the matter of cost of hauling?

Mr. GORDON: In hauling?

Mr. POULIOT: Yes.

Mr. GORDON: I understand they provide better and more efficient operation.

Mr. POULIOT: I know, but I wanted to get the cost of hauling.

Mr. GORDON: The modern box car is a much more efficient vehicle than the old box car; it is easier to haul. For instance, there have been improvements in regard to trucks and things of that kind.

Mr. THOMAS: I want to ask a question about tank cars. Is it a practice of the oil companies themselves to furnish oil tank cars which they use?

Mr. GORDON: Yes, that is right, the oil companies get them on a rental basis and provide the cars to us. They furnish their own cars.

Mr. FOLLWELL: I have one other question about equipment. I notice here with regard to locomotives that you expect in 1950 so many diesel engines,

including three electric locomotives; as a matter of policy are we to take it that the management of the Canadian National Railways are not going to purchase any more steam locomotives?

Mr. GORDON: I made a statement on that yesterday and I think the point is very well covered. The amount that we propose to spend and the actual number of diesels and so on will be in the budget. Perhaps there is one item to which I should refer. Take the tank cars shown in that statement, those are tank cars which we are purchasing for our own service, for servicing our own requirements.

Mr. CARTER: Would it be possible to table a statement of the new equipment, or all the equipment which is supposed to be delivered to Newfoundland?

Mr. GORDON: It will be in the budget in detail.

Hon. Mr. CHEVRIER: You will get a copy of the budget after we pass this report.

Mr. POULIOT: Mr. Chairman, would it be possible for the management to supply diesel locomotives for switching use in yards generally? There are many small places which are very much annoyed and inconvenienced by what we know as the smoke nuisance and the use of diesel switchers would overcome that difficulty. Is it the intention of the road to make such equipment generally available?

Mr. GORDON: That is a part of the whole dieselization program. We have been sending a number of diesel switchers to the various yards. We are increasing their use as rapidly as we can.

Mr. POULIOT: It is part of your program?

Mr. GORDON: It is a part of our program to add a certain number each year, yes.

Mr. POULIOT: I would be very pleased if we could have one at Riviere du Loup in the near future.

Mr. GORDON: I will make a note of that, Mr. Pouliot.

Mr. MCLURE: I understand it is the policy of the Canadian National to dieselize the Prince Edward Island Railway?

Mr. GORDON: It has been done, hasn't it?

Mr. MCLURE: Well, there was a shipment down there of twenty diesels last year but eighteen of them were returned because they were no good. I was wondering if they are to be replaced.

Mr. GORDON: Our program was a little delayed because our first set of diesels were unsatisfactory, but I thought they had been replaced. Is that going to be completed this year, Mr. Dingle?

Mr. DINGLE: Yes, it is under way now.

Mr. THOMAS: Are these diesels made in Canada?

Mr. GORDON: No.

Mr. THOMAS: The engines too?

Mr. GORDON: Well now, wait a minute; which ones are you referring to?

Mr. THOMAS: The switchers are all Canadian, but how about the main line?

Mr. GORDON: Again, that is a matter which will be found in the budget items.

The CHAIRMAN: Carried.

Newfoundland Railway—

Mr. CARTER: Before you leave this item I have a list of questions here.

The CHAIRMAN: Are they questions which could be put on budget items?

Mr. CARTER: I should like to make my statement. I am the only Newfoundland member on this committee and at the rate we are going it may be tomorrow or some time after that before the budget items come before the committee and it may not be possible then for me to ask what I want to.

The CHAIRMAN: I think it will be a convenience to all members of the committee if we allow these items to pass and then take up the matters to which you refer when we come to the budget items.

Temiscouata Railway—

Mr. FULTON: Mr. Chairman, if a member has a question to ask about the Newfoundland railways I think he should have an opportunity to ask it.

The CHAIRMAN: I thought we had gone into that rather thoroughly yesterday.

Mr. FULTON: I was going to suggest that we might hear the questions before the item is carried.

The CHAIRMAN: I am not closing off discussion for a minute. I am just suggesting an orderly procedure, subject to the wishes of the committee. Unless we hurry along we will not be able to reach the budget items by this afternoon. I understand that these are items which will come up for discussion when we have the budget before us.

Mr. MOTT: But suppose they are not in the budget?

Hon. Mr. CHEVRIER: Let us agree right now that if they are not in the budget we will deal with them. That was my suggestion when Mr. Mutch brought the matter up yesterday; that we would go along in an orderly fashion, and if there was anything any member wanted to discuss which was not covered in the budget items we would take it up as a miscellaneous item at the end. There is no intention of cutting off any discussion here.

Mr. MOTT: But he may have something he wants to bring up which will not be in the budget.

Mr. CARTER: I should like to say I consider it will not take any longer to answer these questions now than it would take if I asked them on the budget, and I intend to ask them.

Mr. FRASER: Why not take them now?

Mr. CARTER: Another thing. Arising out of the reply to these questions I may require to ask some supplementary questions on budget items.

The CHAIRMAN: It would be hardly fair to the other members whom I asked to stand down and wait till the proper item of the budget was before us.

Mr. POULIOT: No one objects.

The CHAIRMAN: Go ahead.

Mr. CARTER: I have a lot of questions.

The CHAIRMAN: All right, let's hear them.

Mr. CARTER: I would like to start with a supplementary question arising out of an answer to a question I put yesterday. The revenues from rail services were given as $5,869,000, would it be possible to show how much of this was due to passenger rates?

Mr. GORDON: You asked a question yesterday about the revenue and operating figures with regard to rail service in Newfoundland. I have the answer to that here:

"Sessional Committee on Railways, owned operated and controlled by the government.

Question by: Mr. C. W. Carter

Newfoundland Railway services—nine months ending December 31, 1949.

	Revenues	*Expenses*	*Other Charges*	*Net Loss**
Rail Service	$5 869 683	$ 7 437 676	$79 323	$1 647 316*
Express	274 798	166 854	553	107 391
Telegraph	515 632	745 923	4 235	234 526*
Steamships	1 096 382	1 990 073	13 068	906 759*
Total	$7 756 495	$10 340 526	$97 179	$2 681 210*

*Figures in red."

Mr. CARTER: It is arising out of that information that I ask this question.

Mr. GORDON: You want a breakdown showing railway revenue from passenger service as separate from freight and other items?

Mr. CARTER: Yes.

Mr. GORDON: We can get that for you.

Mr. CARTER: Then I should like to have, if possible, a breakdown under steamship operation showing the details—I understand steamship operation shows a deficit of nearly a million dollars, $900,000 odd?

Mr. GORDON: Yes.

Mr. CARTER: Is it possible to show the amount with regard to each different ship, and to show which ones paid for themselves and which did not?

Mr. GORDON: Each of the boats, you mean?

Mr. CARTER: Yes.

Mr. GORDON: We could give you that. We would have to send to our Newfoundland division to get the figures. I would hope I could get it this week; but if that is satisfactory to you I will undertake to supply the figures to you in due course.

Mr. CARTER: That is very well, thank you; there is no urgency about the matter but I would like to get the answer.

Mr. GORDON: Before we pass on, what I am really saying is that I wanted to find out if it is possible to get it. I am not sure at the moment whether we can get it for you ship by ship, but we will give you such information as we can when we find out what is available.

Mr. CARTER: Thank you very much. Now, I would like to get back on the main line.

The CHAIRMAN: Go to it.

Mr. CARTER: The statement here in your report states that you have fourteen ships providing freight and passenger service. Has the C.N.R., having regard to the Newfoundland branch, requested additional ships for this service?

Mr. GORDON: Yes, they have.

Mr. CARTER: And have any arrangements been made to supply additional ships?

Mr. GORDON: The question of the number of ships is still under consideration; we have not as yet reached a decision on the matter.

Mr. CARTER: Might I inquire how many ships have been requested?

Mr. GORDON: One ship has been requested on the Canadian National service, plus the ferry which we mentioned yesterday.

Mr. CARTER: Is that all?

Mr. GORDON: That is all.

Mr. CARTER: Then, as to the coastal ships, are they covered by the shipping regulations or the Board of Transport Commissioners, and by the Shipping Act of Canada?

Hon. Mr. CHEVRIER: What was the question? I am sorry, I wasn't following you.

Mr. CARTER: Are these ships covered by the regulations of the Board of Transport Commissioners?

Hon. Mr. CHEVRIER: No, they are not.

Mr. GORDON: Would you repeat your question?

Mr. CARTER: The ships which are operating in the Newfoundland coastal service.

Mr. GORDON: Yes.

Mr. CARTER: Do they come under the shipping regulations of the Board of Transport Commissioners? In other words, do those regulations apply to Newfoundland?

Hon. Mr. CHEVRIER: No. The Board of Transport Commissioners do not make shipping regulations. Shipping regulations are made by the Board of Steamship Inspection of the Department of Transport, and the ships to which you refer come under the shipping regulations of the Canada Shipping Act.

Mr. CARTER: Yes, but the Canada Shipping Act applies to—

Hon. Mr. CHEVRIER: To Newfoundland, yes.

Mr. CARTER: Some acts do not apply, the one relating to wharves, and so on; those regulations I understand do not apply yet.

Hon. Mr. CHEVRIER: I cannot think of any act which would not apply to Newfoundland after the first of April. Oh, yes, I am told that the Harbours Act does not apply yet.

Mr. CARTER: The Harbours Act, yes, the government Harbours Act and the board's regulations.

Mr. HATFIELD: Why not?

Hon. Mr. CHEVRIER: It is brought to my attention that in Nefoundland they have Commissions under which they operate, and that until we are able to come to some understanding it is not possible to put the Harbours Act into effect.

Mr. CARTER: I would like to continue, Mr. Chairman.

The CHAIRMAN: If you have to be away, I think the committee will indulge you to go on a few minutes so you may finish your questions.

Mr. FRASER: I move we adjourn.

Mr. MUTCH: I second the motion.

—The committee adjourned to meet again at 4 p.m.

AFTERNOON SESSION

—The committee resumed at 4 p.m.

The CHAIRMAN: Well, we have a quorum. Gentlemen, we shall commence our sittings.

Mr. Carter has asked that the item of the Newfoundland railway should stand over. He believes it would shorten the work of the committee if he could have time to prepare in writing a number of questions to which he desires an answer. So, with your consent, I shall stand the item of the Newfoundland railway over.

Now, the Temiscouata railway.

Mr. MACDONALD: Mr. Chairman, I notice on page 13 of the draft which was kindly given to us by the railway management last evening, that it says that:

> "The operation of the Temiscouata railway will constitute an additional burden on the Canadian National and will adversely affect its net annual income to the extent of $180,000. . ."

Mr. Chairman, we sat in that committee last fall—I mean the Committee on Railways, Canals and Telegraphs—and I think it was about December that we turned this railway over to the Canadian National Railways. Their liabilities were shown at that time at approximately $31,000, and their assets at $275,000. Now the Canadian National Railway says that it will be a burden on them this year of $180,000. Personally, I think it is a little early to decide whether it will be a burden or not.

Mr. POULIOT: I must thank Mr. Macdonald for bringing this issue to the fore. Let me say, in the first place, that my burden is light when compared to some other burdens which are much heavier. It is a question for the management of the Canadian National Railways, and it is not only a matter of dollars and cents, a matter of finance, of high finance; it must also be considered as a matter of service. The Temiscouata railway is an essential railway for my part of the country, and it has been so far many years.

That railway would have been taken over by Sir Henry Thornton together with the Gaspe railway some years ago but for the fact that the then directors of the Temiscouata railway were men of the Quebec Central which was owned by the Canadian Pacific. That is the reason why the Temiscouata railway was not taken into the Canadian National for twenty years.

The whole question was submitted to the House and was examined with great care. It was studied by Mr. Fairweather for years. It was mentioned in the House that I said a word or two about the Temiscouata railway when the Prime Minister came to Riviere du Loup during the campaign. But the answer of the Prime Minister was made after careful study of the whole matter, and the management knows—although perhaps Mr. Gordon does not know—but the other members of the management know that for many years Mr. Fairweather studied the matter with great care.

I have had many interviews with Mr. Stewart, the president of the railway, and I hope that the Temiscouata railway will be operated by the Canadian National Railways at the earliest possible opportunity.

I understand that there is some question with regard to the men and the unions to which they belong. That is one thing; and also, there must be a survey made of the line to put it into proper shape. Let me say right now that I do not want any crooked politician from New Brunswick trying to gild his escutcheon to the Temiscouata railway and I know whereof I speak.

Mr. GEORGE: Surely you are not referring to me?

Mr. POULIOT: No. I refer to a provincial politician. I have too much respect for my colleagues to say that of them, but everybody who knows about New Brunswick affairs knows whereof I speak.

The Temiscouata railway has been managed from Riviere du Loup since the start. It is an important railway to the shippers in our district and it must be managed, by all means, by Riviere du Loup.

Let me say something else. We are partners in the same job. We are servants of the public, and the only difference between us and the other officials of the management is that they are paid more than we are. But we are here on a footing of equality and there is no floor to be crossed in this committee room.

I am very happy to see my colleagues of the various groups here intermingled. And I say to Mr. Gordon and to his associates that I am ready to stand by them to the limit provided that they are fair to my people.

What do we think of it? We have seen money easily spent to find a fellow who lost himself in the woods, and so on. The population in my county is composed of settlers and farmers. The farms are prosperous and there is timber, a great quantity of timber; and there is also the Fraser Company.

I handed some wires which I received yesterday to the Minister of Transport and to Mr. Dingle telling them that one shipper alone has shipped twelve million feet of lumber on the Temiscouata railway last year. That was doing as much business as the Fraser Company, and the Fraser Company, as we all know, is a big corporation. It is a corporation the funds of which are supplied by the public, and the management of that corporation should be the servants of the public. Their total shipments represent only one-fifth of the total business of the Temiscouata railway, and while they may insist upon having the management of the railway at Edmundston, I do not think it would work. Besides that, as for the superintendent, Mr. Thompson, at Edmundston, I do not want to have anything to do with him.

I did not say anything about it to Mr. Dingle, but I remember that Mr. Thompson came to my office. He crawled to my office to ask to have a memorandum sent to the ex-minister, the Honourable Mr. Michaud, and to the present minister, the Honourable Mr. Chevrier for his transfer from Campbellton to Edmundston where the pay was more.

Do you think I would deal with an individual like that in connection with my people? No, never!

Let me say to the people who say that there should be no politics in connection with the Canadian National Railway that I knew a man who was a former telegrapher. He wanted to be promoted to general superintendent at Quebec City and he used to hold me by my vest button, and every time I met him he asked me about the promotion. And since then he got it. There should be no politics in connection with the Canadian National Railways! And when we make our recommendation to the railways, it is not for our personal advantage. I do not care about any personal advantage, but I do care about serving my people, and I would remind everybody that my burden is light.

The CHAIRMAN: Does the Temiscouta railway carry?

Mr. POULIOT: No, no! Before that I want to have a complete understanding and a direction from the committee to the management. Here we are asking a few questions. We are the people who are in charge of the business of the Canadian National Railways and we are responsible for it. If a blunder is made by anyone in the Canadian National Railways, we have to take the responsibility for it. The people come to us and they say: What is the matter with the Canadian National Railways? I say it is time for the committee to give a direction to the Canadian National Railways and to tell them to start work on the Temiscouata railway at the earliest possible date, and to have the management of it at Riviere du Loup.

Besides that, I hope that the management of the railways will take this opportunity to build a new station at Riviere du Loup, one which is large enough to have room for the officials of the Canadian National Railways at large, including those who will be looking after the Temiscouata line.

Here I ask, as a private member of parliament who has fought for twenty-five years, to have my party respected. And I want my colleagues to be respected too. And I think that the language which was used to Mr. McLure was pretty sharp and brisk this morning. I would never have used it if I had been an official of the Canadian National Railways. Even although my honourable friend does not share my political views, I am here to defend him because he is one of my colleagues in the House, and I want my colleagues to be treated with consideration.

We have had some trouble in getting an answer to the question about the decrease in trains. One man was responsible for it, but no man had the courage to name him in the committee. Yet that fellow will go scott free and get more directorates from people who are more stupid than he is, encouraging him and paying him, even, for his stupidity.

The CHAIRMAN: Would the committee prefer that Mr. Gordon make a statement and answer the question at this time?

Mr. POULIOT: I do hope that he does. But I hope it will not be like the statement he made before the Royal Commission on Transportation. I may say that I was not present at that time and could not answer him right off the bat. I think we have spent enough money on the Canadian National Railways when the management is asking for hundreds of millions of dollars; so I do not see why a picayune matter like that, with regard to money, has not been decided yet.

Mr. GORDON: I understand that Mr. Macdonald wanted me to explain the figure. The increase can be established this way: with the increased rates of pay which went into effect on the Canadian National, and in relating them to the Temiscouata Railway, an additional cost of $125,000 per annum would be entailed. And in addition to that there are some pension matters which are not quite settled yet, where the annual cost may be estimated to be about $24,000 to $25,000.

Mr. Cooper asks me to make it clear that these rates are not in effect yet. The same is true with regard to the pension fund, and indeed there are quite a number of matters that have yet to be settled. But the best estimate that we can make of a possible settlement is of the order that I have mentioned. With regard to the operation of the Temiscouata Railway by the Canadian National, this will entail the rehabilitation of the lines, replacement of locomotives and equipment, reduction of through rates due to putting into effect a one-line rate in lieu of a two-line rate, and the reduction of passenger fares on the line. The financial result of operating the Temiscouata Railway based on 1948 volume of traffic is estimated to produce a deficit of $180,000, after providing interest at three per cent on the cost of rehabilitation. Does that answer your question, Mr. Macdonald?

Mr. MACDONALD: I follow that now.

Hon. Mr. CHEVRIER: Does that take into consideration the increase of sixteen per cent in the freight rates?

Mr. GORDON: No, I said the present freight rates. I was referring to the rates that were in force.

Hon. Mr. CHEVRIER: That is the eight per cent increase?

Mr. GORDON: That is correct.

Mr. HATFIELD: Why do you base your estimate on 1948 earnings?

Mr. FRASER: How many employees are in that section?

Mr. DINGLE: One hundred and forty employees.

Mr. HATFIELD: Before the Temiscouata was taken over by the Canadian National, freight originating on that road was divided between the Canadian National Railways and the Canadian Pacific Railway, and now you take all that freight. Have you considered that?

Mr. GORDON: Yes, that has been included in the calculations. This is an estimate. It is not a firm figure but it is the best estimate we can make.

Mr. HATFIELD: It is my opinion, Mr. Chairman, that this road can be made to pay. I think this was the best buy of any purchase made by the Canadian National Railways. I said that when the Act passed in the House and I still believe it. Knowing the territory the road passes through I know this road can be made a paying road. That is my opinion.

Mr. POULIOT: Thank you, Mr. Hatfield.

The CHAIRMAN: Are there any further questions?

Mr. POULIOT: Mr. Gordon, when do you expect to start work on the line?

Mr. GORDON: You mean the rehabilitation of the line that I referred to?

Mr. POULIOT: Yes, sir.

Mr. GORDON: That will go on this year, as soon as we can make arrangements for it.

Mr. POULIOT: Will it be done by the railway itself or by contract?

Mr. GORDON: That will depend on the nature of the work. Mr. Dingle can you answer that?

Mr. DINGLE: The major part of the work would be done by our own forces, that is the ballasting, the rail laying and the ties.

Mr. POULIOT: What about the bridges and trestles?

Mr. DINGLE: The same remarks apply to bridges and trestles.

Mr. GORDON: I may say, Mr. Pouliot, that our estimate at the moment in respect of the complete rehabilitation of the line up to Canadian National Railways standards, including the renewal of tracks, the steel bridges and wooden trestles will require the sum of $1,144,000. The cost of replacement of freight locomotives and equipment is estimated at $300,000.

Mr. POULIOT: Will you have the Temiscouata Railway managed from Riviere du Loup or from Edmundston?

Mr. GORDON: That question is now under close examination. We have not yet reached a decision on it. Our view with regard to Temiscouata operations will be that we must reach a decision as to what kind of operation will be the most efficient operation to tie it in with the Canadian National Railways system. That matter is under active examination by our local officials. We have not the report as yet; it may take six weeks or two months before we get it.

Mr. POULIOT: And you will please inform me about it?

Mr. GORDON: Yes, we will be pleased to do so.

Mr. POULIOT: You have had representations about that matter from big public bodies at both places?

Mr. GORDON: That is right.

Mr. POULIOT: I want to point out to you, Mr. Gordon, that the Fraser Companies have got much more from Temiscouata county than we got in return from them, and that their total shipments were only one-fifth of the total shipments on the Temiscouata Railway. I am sure that you will consider that point and not be too much impressed by the tycoons of the Fraser Companies. I can tell you this, as Mr. Hatfield has so well pointed out, that this railway is the last link through the east between the transcontinental and the province of New Brunswick and the state of Maine and the old Intercolonial and the St. Lawrence River. There are great projects being made there. I will tell you

moreover that there is a new highway there but it will cause no prejudice to the railways, as soon as the railway is under proper management, and I am ready to stand by you to the limit, to tell my people to encourage the railways. I have told this to them already: encourage the railway for short and long distance hauling. If you finally agree with what I have submitted to you, I can tell you that the management will not regret it.

Mr. FRASER: Mr. Chairman, just one question. This $125,000 increase among one hundred and forty employees would amount to about $900 a year per man. Is that right?

Mr. GORDON: The average rates of pay on the Canadian National Railways are fifty-four per cent higher than those in effect on the Temiscouata Railway.

Mr. FRASER: So each man will receive an increase of nearly $900 per year?

Mr. GORDON: Yes, the average is a fifty-four per cent increase.

Mr. HATFIELD: Is anything being done to straighten the Quebec end of the road, from Riviere du Loup to the New Brunswick border. That portion is very crooked. Has anything been done to straighten that out? As you know they received land grants and when they built the road they built it as crooked as possible to get more land, because the more mileage they built, the more land they got.

Mr. GORDON: That would be something that I would not understand. We really have not had time to make an examination such as you suggest because we have only practically started operation of this road.

Mr. HATFIELD: I can show you how to make the road pay when you have time.

Mr. KNIGHT: Just a general question on these roads which up to the present might be called the uneconomic lines, although I am sure from what has been said here that this Temiscouata railway will get into another category before long. I presume that this $180,000 is only a fraction of a larger deficit which will be expected in taking over an uneconomic road, and I want to point out that I do not think it is fair for the Canadian National Railways to expect them to show a profit under those conditions. I should think it would be reasonable for the government to take some responsibility in the matter because I quite agree that the Canadian National Railways is something more than merely a railway company, it is part of the service in this country and has to do things which a road on a competitive basis would not have to do. I think in rendering service to the people of this country that the people of this country represented by its government should take some responsibility in the matter. I think the sooner we can get this excess capital written off, the sooner we may be able to make some decent showing that will take away from this road that incubus, that lack of success, that has been bedevilling it in the past.

Hon. Mr. CHEVRIER: Perhaps I can say a word there, Mr. Chairman, on the point that Mr. Knight raises. The question is, of course, a difficult and a delicate one. It has to do not only with the capital structure of the Canadian National Railways but also with the policy that the government should follow in connection with lines of this nature, and this committee knows the Royal Commission on Transportation has been asked to deal with it. One of the terms of reference to the royal commission concern not only the capital structure, but also a general rail transportation policy for Canada, and I hope that it will be possible for it to make some recommendations that will be helpful in dealing with situations of this nature.

The CHAIRMAN: Shall the section carry?

Carried.

Now we will take up system mileage.

Mr. FOLLWELL: Is the operation of the Central Vermont Railway financially successful, or what is the situation there?

Mr. GORDON: That is one of those questions that is difficult to give a yes or no answer to by itself. If you just take the balance sheet of the company the answer is no. But when one considers the feeder value and other relationships we have with that line, I would think that on balance it is worthwhile.

The CHAIRMAN: Shall the item carry?

Carried.

Now, we will take up freight rates.

Mr. ADAMSON: Before this carries, I assume this would be the place to ask these questions on freight rates instead of on the budget because I gather the company is not satisfied with the judgment handed down and neither is the Canadian Pacific Railway. I do not see it mentioned in your report, but I would like to know the overall increase in cost per ton-mile over prewar figures, the increase in administrative costs if this is not included in the ton-mile figure, the increase in the cost of replacement, the increase in cost of maintaining the road as compared with the costs in prewar days. I think if we had this we could get some idea of the difficulties facing the railway and which might bolster their claim for increased freight rates.

Mr. GORDON: I could get those questions from the reporter, or if you would let me have them, I would try to answer them at the next sitting.

Mr. ADAMSON: That is fine. You asked for increased freight rates, now, and I think the committee should know how much your costs have increased on a ton-mile basis.

Mr. MUTCH: How far are we going to go on this?

The CHAIRMAN: On the question of freight rates, as members already know, the speaker has ruled, and although I think Mr. Adamson's question is a fundamental question, simply wanting information, and is quite a proper question, generally on the subject of freight rates I do not think this committee has any jurisdiction.

Mr MUTCH: I reserve the right to have something to say, not on Mr. Adamson's question, but about Mr. Gordon's answer because it is a leading question. There is no purpose in asking it unless it involves the whole principle of rate structure which is very interesting to me and others of this committee representing a part of this country that has a vital interest in this matter.

Hon. Mr. CHEVRIER: I think Mr. Mutch's point is well taken. I am sure it is not the intention of the committee to enter into such discussion but the speaker has ruled that the application of the railways before the Board of Transport Commissioners is one which should not be discussed in the House of Commons and members ended the discussion the other evening at his request. Now, would it be fair to allow members to discuss freight rates in this committee and not allow them to discuss it in the House. I think this committee is bound by the rules of the House of Commons and by the decisions of the speaker. I had thought that Mr. Adamson's question was not one which the speaker's decision was aimed at, but when it becomes borderline, it is a matter that is difficult to decide, and if one member is going to be allowed to ask questions on that matter, I suppose all members will want the same privilege.

Mr. MUTCH: I do not think the question is improper or has anything the matter with it. Although perhaps I have no imagination, I do not think that Mr. Gordon or anyone else could answer the question in such a way as would have any meaning without entering into the general freight rates argument. If that develops we may be here for quite awhile.

The CHAIRMAN: I realize that it is a difficult task to make rulings in regard to any question on freight rates. However, I am not going to shirk the responsibility and if any question is asked by any member of this committee purely for the purpose of gaining information within the knowledge of the witnesses now before us, if I think it is a proper question I will allow it. If I think that it is not proper I will rule against it and then I will be in the hands of the committee.

Hon. Mr. CHEVRIER: The answer to one of Mr. Adamson's questions, I am informed, will be found at page 28 of the judgment of the Board of Transport Commissioners—the 21 per cent case.

The CHAIRMAN: Is there any other member of the committee who wishes to ask any question purely for information—not by way of an expression of opinion or anything of that sort, but purely for information?

Mr. KNIGHT: I have one question with respect to rates on one particular branch of the railroad and that is the Hudson Bay railroad. I would ask if it is true that the freight rate on lumber has been increased 70 per cent since 1947?

Mr. GORDON: Is that the volume of freight you are speaking about?

Mr. KNIGHT: No, the freight rate. Is it true that the freight rate has gone up? I do not know whether you would call that a question asking for information?

THE CHAIRMAN: I think it is a proper question.

Mr. GORDON: Does the Hudson Bay Railway come within the scope of this committee?

HON. MR. CHEVRIER: No, the Hudson Bay Railway is a separate matter but we have taken the position that when we could get information for a member of the committee on the Hudson Bay Railway we would get it. I hope that we will not have to produce all kinds of figures, but I think that the question is easily answered and I think that I know the answer. However, I would not attempt to give it without an opportunity of checking on the matter. If you will allow the question to stand I think I can obtain a reply.

Mr. KNIGHT: When can I get the answer, in order that I may follow it with a couple more questions purely on the point of information?

Hon. Mr. CHEVRIER: I think we can get that tomorrow. It is a matter on which we must get in touch with the Board of Transport Commissioners.

Mr. KNIGHT: Has the C.N.R. any authority with regard to the setting of rates?

The CHAIRMAN: I do not think that is a correct question and I think you must confine yourself purely to questions aimed at information.

Mr. KNIGHT: Who sets the rates?

Hon. Mr. CHEVRIER: The Board of Transport Commissioners now has jurisdiction over the Hudson Bay Railway. The Board did not have that jurisdiction at this time last year when the committee was established but now it has, so that any judgment of the Board of Transport Commissioners with reference to freight rates would, I take it, affect the Hudson Bay Railway.

Mr. KNIGHT: We, like our friends from Temiscouata, are anxious to give the road a chance. We are anxious to know why a cord of pulpwood from Hudson Bay up to Fort Frances only costs one-third of the rate applied on a similar distance from Churchill. I understand there has been a shipment of 2,000,000 feet of lumber cancelled this year because of the very reason that the freight rates are so high. Naturally we want to know who sets the rates and why they should be that high?

Hon. Mr. CHEVRIER: The Board of Transport Commissioners has jurisdiction over freight rates and, as I said, the last judgment of the board provides for

a 16 per cent increase. I take it that judgment would apply to the Hudson Bay Railway. I would think that the ordinary local rate on the Hudson Bay Railway, compared with the local rate off the Hudson Bay Railway should be the same.

Mr. KNIGHT: I have just one last question. If it is as the minister says, and I am going to accept his word, that this is not the place to get information on the Hudson Bay Railway, can he designate where I should get the information?

Hon. Mr. CHEVRIER: In the House of Commons.

Mr. KNIGHT: I see; I have made some attempt there before.

Mr. HATFIELD: I would like to ask if the Canadian National Railway management is aware that American railways are asking the Interstate Commerce Commission for a reduction of rates?

Mr. GORDON: A reduction of rates? Certainly I am not aware of any request for a general reduction in rates. There may be some specific applications having to do with competitive factors but I am not aware of any general request.

Mr. MCLURE: I would like to ask one question. Who sets the truck freight rates on the S.S. *Abegweit*, crossing Northumberland strait? Where does the authority come from to set rates?

Hon. Mr. CHEVRIER: Are we going to have a constitutional debate again, Mr. McLure?

Mr. HATFIELD: They cannot supply the cars and they have to use trucks.

Mr. GORDON: If I understand the question the answer is that it is part of the general tariff. It would be authorized, as far as I know, by the Board of Transport Commissioners as part of the general tariff.

Mr. MCLURE: They have no authority over water rates.

Mr. GORDON: I do not know whether this is regarded as a water rate.

Mr. MCLURE: The *Abegweit* was turned over to the C.N.R. for operation.

Mr. GORDON: Correct.

Mr. MCLURE: The question is should she be turned over to operate without any instructions being given by the federal government and consented to by the Prince Edward Island government. Those two parties come into the question. This is a service rendered according to the terms of confederation of 1873 when we went into the union, and as long as that remains a service it is an obligation of the government to give us rates across there which should not be in excess of the cost of carrying by truck over the same mileage on the highway. According to the terms of confederation it should be absolutely free.

Mr. GORDON: It seems to me that definitely is an argument in respect of freight rates—in respect of that particular vessel it is a matter of government policy.

Mr. MCLURE: And it should not be argued here?

Mr. GORDON: I am in the hands of the chairman.

The CHAIRMAN: I think the first question was quite in order; it has been answered. The second question, however, I am afraid is not in order, Mr. McLure, and I will have to rule against you.

Mr. FOLLWELL: Could I have figures on what it has cost the C.N.R. to make application to the Board of Transport Commissioners for the increased rates?

The CHAIRMAN: What costs do you refer to? Do you mean costs of counsel and so on?

Mr. FOLLWELL: Costs of counsel and of preparation.

Mr. GORDON: The application is made, technically, by the railway association which consists of all the railroads in Canada and the cost is shared when the

case is completed. I have no figures on the matter and I do not think you could break down the actual cost because a good deal of the work is done by railway officers themselves.

Mr. FOLLWELL: You would have an approximate idea eventually.

Mr. GORDON: We would have an idea of the additional cost but we could not break it down with respect to the time spent by our own officials. A great deal of the work is done by our own officials and counsel. We have our own legal department.

Mr. FOLLWELL: In other words you will only know the cost when you get the bill from the railway association?

Mr. GORDON: We will then know what the cost is.

Mr. FULTON: You also retain counsel?

Mr. GORDON: Yes, that is the railway association retains counsel.

Mr. FULTON: Do you not retain counsel in addition?

Mr. GORDON: Yes, we would have our own counsel in respect of our own particular interest.

Mr. FOLLWELL: He would be a company counsel?

Mr. GORDON: Our own counsel is Mr. N. J. MacMillan who is general counsel and vice-president of the C.N.R.

Mr. FOLLWELL: You will only know the cost when you get the bill?

Mr. GORDON: That is true, in respect of the Railway Association.

Mr. FULTON: The other railways do the same thing. They have counsel for their own interests in addition to the counsel retained by the railway association?

Mr. GORDON: Yes.

The CHAIRMAN: Shall this item carry?

Carried.

With regard to the Royal Commission on Transportation I have carried out the instructions of the committee and the submission will appear as an appendix to yesterday's proceedings of this committee.

The next item is wage negotiations.

Mr. FOLLWELL: Regarding that matter may I just refer to the bottom of page 16 were it says:

> As a result of the recommendation of a United States Presidential Emergency Board, the Canadian National was required to grant its non-operating employees on its United States lines a general wage increase of 7 cents per hour retroactive to October 1, 1948, and a five-day 40-hour work week without wage reduction, effective September 1, 1949. Further substantial demands on behalf of the employees of the United States lines have been received and are now the subject of negotiations and mediation proceedings.

I understand at the present time the same request is being made by railway employees in Canada?

Mr. GORDON: There is a similar request being made. As a matter of fact it is very difficult really to give a simple answer to your question because we have a great number of wage negotiations outstanding all the time. At this moment we have forty-nine individual applications from various labour organizations throughout Canada and we have ten of them outstanding on our own United States lines. The first of the two big applications that I think you have reference to is one which covers fifteen international non-operating groups, covering

some 45,000 employees, for a 7 cent hourly increase in rates effective the 16th of July, 1949, and a 40-hour week without reduction in take home pay. There are other factors but those are the two main requests. The second large application is from the Canadian Brotherhood of Railway Employees, representing 27,347 employees in non-operating groups, who have requested a 10 cent hourly increase rate of pay effective July 16th, 1949, a 40-hour week without reduction in take home pay, and check off of union dues under the Rand formula. Those are two matters being negotiated before the conciliation board now sitting in Montreal.

Mr. FOLLWELL: There has been no report yet?

Mr. GORDON: The men and the railways have each made submissions and have filed a rebuttal. The board is now engaged in considering its report.

The CHAIRMAN: Mr. Gillis, you have been trying to get in a question?

Mr. GILLIS: Yes, I would like to ask this question which has something to do with wages. On the C.N.R. from Montreal east the porters are obliged to pay income tax on $300 which they are supposed to receive by way of tips. That does not apply in other sections of the system. Can you explain why the government fixed a policy that penalizes those boys but yet the government does not make the rule applicable straight across the country?

Mr. GORDON: I have not got the faintest idea—it would be an income tax ruling.

Hon. Mr. CHEVRIER: When Mr. Gillis says "the government" I must admit, immediately, my ignorance of the matter. It may be a ruling of the Income Tax Department with which I am not conversant.

Mr. GILLIS: I have raised the matter in the House on several occasions but Mr. Abbott just says "that is it," and that is all. I merely bring it to Mr. Gordon's attention.

Mr. GORDON: I am glad you did. I have never heard of it and I do not think my officials here have either. I can only assume from your description that it is an income tax ruling and there I cannot defend or explain a ruling by that department.

Mr. GILLIS: I bring it to your attention because today you need the co-operation of all your employees and it is a piece of rank discrimination.

Mr. GORDON: I am very glad to have the information.

Mr. GEORGE: Under wage increases last year the matter of pension increases was raised, and I think one of the matters which came up was the efforts being made by the Pensioners' association to try to get an increase in pensions. I wonder if the minister would care to make a statement about it?

Hon. Mr. CHEVRIER: I do not know that I can make any lengthy statement on it; but I can say this, that the question of pensions for the group you have in mind has to be considered along with all other groups. There are the superannuated civil servants, then there is the pilots group—you were with that delegation which sat in this room asking for that very thing—but I do not think it is possible to deal with pensions of one group without considering them all. Then over and above that there is a committee which is to be established by the Minister of Health and Welfare. He is about to get it appointed but he is having some difficulty, although I am sure it will be ready to function shortly. When that committee is appointed I think representations will be made there along the lines of general policy. I do not think it would be wise and I think the government feels that we should not make any decision with regard to one of these groups without considering the interests of all the groups concerned. That is the way the matter stands at the moment.

Mr. POULIOT: On this matter of pensions I had a particular case to submit. I will request the management to approach this problem from the broadest point of view and give such applications the most favourable consideration. I will call to attention the case of a particular brakeman with respect to whom I think their approach was most formidable. This man worked for thirteen years, gave good service to the railway at various places. He had to go to the north and everywhere to get his time in, but he finally got in his thirteen years, and then he served in a temporary capacity for another two and a half years which gave him a total of fifteen years and a half of actual service. Now we find that a pension cannot be granted to him, or is not being given to him because he worked as a brakeman for only thirteen years, notwithstanding the fact, as I said, that he was employed an additional two and a half years in a temporary capacity. I have a letter concerning that case here of which I have copies for Mr. Gordon, Mr. Minister and the chairman.

The CHAIRMAN: Shall the item on wage increases to employees carry?

Mr. KNIGHT: Is there any provision for coming back to it, Mr. Chairman? I would like to reserve the right to deal further with employee relations.

The CHAIRMAN: You had better do it now.

Mr. KNIGHT: Well, Mr. Chairman, I would like to say at the outset that as a Canadian I am particularly wishful for the success of the Canadian National Railways. However, I wanted to bring up the matter of employee relations and public relations in regard to the road. I think there has been a general feeling throughout the country within the last year or two that there has been a deterioration in railroad matters which I think was pointed out by the incident of the coal trouble, which was perhaps bad enough in itself, but it all combines to put the sign of comparative inadequacy on the Canadian National Railways. I am not giving my own opinion at the moment; I am trying to give you the benefit of people with whom I have come in contact throughout the country, to give you some idea as to how they feel in this particular matter. The whole point about which I am concerned is how to bring about better employee relations. It seems to me that there is a feeling among certain employees of the Canadian National Railways that they have somehow been let down by the executive department, and I would like to have a statement from the president on that. Right here let me say that I have great appreciation for all he has accomplished; I compliment him on the very able way in which he has taken over his new position and the enormous grasp which in my opinion he has shown of this new thing which he has undertaken within such a short time.

Some Hon. MEMBERS: Hear, hear.

Mr. KNIGHT: And let me assure him that we have every confidence in his ability. I would like to ask him this question: Does Mr. Gordon not think that one of his greatest challenges as the new president of the road is to establish, or to re-establish (if the use of that term is correct) a high morale among the employees of the road and the confidence in the road as a road belonging to the nation, one of which we can be proud? We all know what pride railroaders take in their work. We have only to consider the splendid work they have done during this past winter with all the snowslides and other difficulties they have had to face in British Columbia, and the very fine way in which service has been maintained. In my opinion we have one of the finest railroads in the world. However, this is a situation which worries me. It is becoming generally accepted that this Canadian National is a pick-up of rag tag ends in performing a public service while the C.P.R. gets all the glory. That is where this matter of employee relations comes in; the men feel they are being let down. I should like to ask the president if he does

not think there should be more steady employment with the years and years of work on reconditioning the road which we have had indicated to us. I think our railroads should smarten up in every respect, and that applies not only to the railroads of this country but to the railroads of the United States as well. There is the matter of the modernization of equipment, the improvement of the road-bed; taken by and large there is work for years and years and years in improving and maintaining the efficiency of our public system.

Then, on this matter of public confidence, I would like to ask the president if he does not think that much of the public confidence which has been lost could be largely restored by this business of putting the structure of the Canadian National on a proper basis so it would not always be the underdog as it is coming to be considered by the people on the street. It would take the auditor general to understand the financial statement of the Canadian National. Here is this same position year after year, year after year; and for the employees' morale and for public confidence I do not think it is a good thing. And I would ask if the president does not think—well, I know the president agrees with the statement, as a matter of fact—that the sooner the thing is remedied the better. I do not think the Canadian National Railways should be following the C.P.R. It should set the example, it should be giving the lead. I think what this railroad needs is a shot in the arm, a stimulus such as would result if these things were remedied. Mr. Gordon should put back into this country and into the employees of this road the spirit which was inspired in it and them by the late Sir Henry Thornton whose men worshipped him.

Then I might go a little further. I want to ask Mr. Gordon if he does not think that the attitude of the government to this road could be improved. The general impression seems to be abroad that this is not a system but rather an agglomeration of odds and ends of roads which were just picked up and handed over to the government; for instance, we took over a road in the maritimes, we have taken over a road in the far west and there is, with all respect, also the matter of the Temiscouata line. All these put together form what we know as our Canadian National system, while the C.P.R. is generally considered the official railroad with a record that seems to be better known all the time.

I apologize for having made something of a speech, but at least I have got that off my chest, and I think these are things which should be said. They might not represent my own opinions but they represent the opinion of people in this country, and I should like to have the comments of the management on it.

The CHAIRMAN: Mr. Gordon.

Mr. GORDON: Well, Mr. Chairman, without admitting for a moment the premise that you make, Mr. Knight, I agree at once that the morale of the men on the railroad is probably one of the most important challenges to management. I feel very definitely that the higher the morale on the railroad the more successful it is going to be, and that is particularly applicable to the Canadian National Railways system. Now, in view of the fact that the proceedings of this committee become public property in a very short time I want at once to deny any suggestion that the personnel of any other road are any more efficient than those of the Canadian National. I do not agree with your suggestion—

Mr. KNIGHT: Might I interrupt? I did not insinuate that that was my opinion.

Mr. GORDON: I accept that, but I understood from your premise that you are reporting, so to speak, feelings that you have come across in certain parts of the community, and I felt that in view of the fact that that might not be the

kind of publicity which would be desirable, that on behalf of the men, since we are talking about morale, I do not accept that feeling as being a genuine analysis of the operating efficiency of the two railways. I cannot say too much on this subject because I have not yet had an opportunity, unfortunately, of meeting as many of the personnel as I should like to meet. It is my intention, as I stated earlier to the committee, to get out on this road just as quickly as I can and to meet the men on their own ground, see them at their jobs, get to know them as much as a president of the road can, and to try to get the morale at the highest possible level. I believe very strongly that in every attitude, both in regard to service to the public and in regard to the accident record, that the state of mind of the men and their feelings should have a big part to play in this picture. I need not repeat what I said in my statement to the royal commission just last night. I agree with you fully that the deficit record of this system has had an injurious and deleterious effect on railroad men who cannot understand why such results should continue for so long when from the standpoint of the operating personnel they are doing such a good job.

That is all I think I need to cover. If there is anything further which Mr. Knight would like me to touch upon, I would be glad to do so.

Hon. Mr. CHEVRIER: I think I should say something in view of the statement from which it might be inferred that the attitude of the government is one of grudging support of the Canadian National Railways. Again I must say to you that that is not so. I do not know of any submissions that are made by the Canadian National Railways to the government that are not supported by the government, provided we are of the opinion that they are in the general interest of the country.

Then again, we have established through parliamentary authority the Board of Directors of the Canadian National Railways to operate and manage this railway for us. We have confidence in them and I can think of eight or ten important projects, important to the country as a whole, that the Canadian National Railways have recommended to the government for approval and the government has approved of them. But if the thought is in your mind that because we did not recommend revision of the capital structure we are giving but grudging support, it should not be forgotten that there is a difference of opinion in the country on that very important subject.

I hold strong views on that subject and the views which I hold are the same as those of the Canadian National Railways because I have been in contact with them, and have given the subject some thought. But everybody does not think alike about it. And it was because of that fact that it was thought best to submit the matter to the Royal Commission on Transportation.

And as to the question of efficiency, I think that all one needs to do is to turn to two reports: one is that of the Duff Commission which stated in clear language that the Canadian National was operated as efficiently as the Canadian Pacific.

Mr. KNIGHT: I think it stated that it was the most efficient railway in the world.

Hon. Mr. CHEVRIER: And the other authority I refer to is the judgment of the Board of Transport Commissioners in the twenty-one per cent case, which also supports that view.

Mr. GORDON: May I say that one of the first actions I took in respect to this general question of staff and personnel was to appoint a vice-president in charge of personnel. So a new department of the railway will be set up to modernize and to bring up to date the relationships between management and employees as well as senior personnel. That department is just getting started

and we shall make studies of the most modern methods we can find, and compare them not only with the railroad business but with other business in general.

Mr. MUTCH: It is my privilege to represent one of the largest Canadian National populations in Canada, certainly the largest in western Canada. I live very close to them. I saw them through the war and through the depression before the war, and through the period since then. In addition I questioned the officers of the railway itself. If there is anyone in the room who, during the last ten years, has travelled more miles by railway than I have had the opportunity of doing, I would like to know it. I travelled the railroad in the days of Sir Henry Thornton. I think it would be most unfortunate for anyone to carry away the idea that the railway could be served by a more loyal group of men than there are in the Canadian National Railways as I know them.

And as for the service. I am one who has hopped from Calgary to Edmonton over night and instead of staying in the hotel I preferred to come back on the train the next morning because I knew the service I would get. I might say that I have been down six or seven times to Halifax during the last few years.

We all boast about the kind of esprit de corps there was in the Canadian National Railways in the days of Sir Henry Thornton, when a man might be digging in his garden and have his neighbour, a brakeman of the Canadian National Railways, come over and suggest to him that he send his stuff by Canadian National rather than by some other railway; and we all know of the pride the employees take in their work. In fact, I do not think any employer in Canada has less to apologize for than the Canadian National Railways.

Mr. GORDON: Thank you!

Mr. HATFIELD: I found on both roads, the Canadian Pacific and the Canadian National, over which I have shipped for forty-five years, that in the olden days the freight agents were allowed to use their own judgment in making decisions upon matters and in deciding what ought to be done. But I find now there is a hard and fast rule laid down that they cannot do that, but that they must wire to someone to find out whether they can do this or do that; it may be some small matter which would bring business to the railway.

The CHAIRMAN: Would you care to comment on that thought, Mr. Gordon?

Mr. GORDON: Oh, I thought you were just making a statement, Mr. Hatfield.

Mr. HATFIELD: No. I will be glad to have your reaction.

Mr. GORDON: My reaction is that I do not think it has come to my attention that there is a rigidity of that kind. Certainly it is not part of my philosophy that men should be so hemmed in with regulations that there is no scope for individual judgment.

Mr. HATFIELD: You will find there has been a great change.

Mr. GORDON: But I would like to verify my position because I am not sufficiently familiar with the subject to make a general comment. I do believe, from what I have seen, that there is sufficient local autonomy to enable a man to exercise his individual judgment if he wishes to do so. But we must remember that there are some men who do not want to take that responsibility; and if that is so, then we are prepared to take the responsibility and to issue the necessary instructions.

In connection with rate making, traffic matters, freight matters, and all sorts of things, I certainly do not have the impression that there is centralized control of such a character as to remove individual initiative. I have not got that impression at all.

Mr. HATFIELD: Well, I obtained that impression over a period of forty-five years.

Mr. GORDON: I got my impression over a period of only three months, so you have the advantage of me.

Mr. FOLLWELL: I think you can combine wage and employee relations together. I see that it says:

"Pensioners number 15,671."

There is in my city a group of railroad pensioners who feel—that is, one man particularly feels—that they have been unjustly dealt with in regard to the amount of pension they receive.

I have here a booklet entitled "Canadian National Railway Pension Fund". It gives a summary of voluntary contributions to the pension plan effective January 1, 1935, and I have a table of the approximate monthly amounts required for an annuity for an employee. The complaint is that the pensioners are not getting the amount they believe they are entitled to, and for which they believe they have paid. I know this matter has been discussed with a number of departments over a number of years; but this one individual particularly feels that he has been unfairly dealt with.

I was pleased yesterday to hear Mr. Gordon say that if there was any matter we wanted to bring to his personal attention, he would be glad to deal with it. So I bring this matter to his attention now and I am sure that he will bring it to a satisfactory conclusion.

In passing, may I say with regard to the morale of railroad men that I think I know them fairly well having, at one time, had the privilege of working for the Canadian National in swinging a line. And may I say that the Follwell family is a railroad family, that six boys and one girl all worked for the Canadian National Railways at one time; and there is still in the employ of the railways one who is a foreman, and another who is an assistant foreman. You certainly raised the morale of the Canadian National Railways when you appointed Mr. Gordon as the president.

Mr. GILLIS: I would like to say that I think you are dealing with the most important angle of the whole problem in the matter which was raised by Mr. Hatfield, namely, this matter of absentee management which never gets close to the employee. I think that is the curse of large industries, and I think it causes a great deal of friction. There is a considerable amount of apprehension now. Previous to leaving Nova Scotia—this was since Mr. Gordon's appointment—I heard the rumour—and this is what you hear—that Mr. Gordon is going to clean up. And they talk about the huge deficit. How is he going to clean it up? The average employee gets the impression that Mr. Gordon is going to clean it up on him because he is the easiest guy of them all.

So when little things like this take place, it adds colour to it. For example, a one-legged war veteran is employed as a janitor. Over night he is told that in addition to his duties as a janitor he is to be the freight agent and is to handle the freight. Now, a man in that condition cannot drag and push trucks and handle freight. I brought that particular case to the attention of the minister and he is taking it up. That fear goes right along the line, when an action such as that in one of the little spots is taken, and you get the reaction to it, and you hear about the clean-up which they anticipate will come in that direction.

I was glad to hear Mr. Gordon say that he was appointing a personnel section in the railways. It is not good enough to work with the top officials of the unions because many times they are too far away from the regular employees; and also, I think it is well to have well trained personnel who can get out and circulate among the men and bring management closer to them.

Another point which was suggested by Mr. Hatfield is this matter of small decisions that could be made by local officials and which would serve to avoid hours upon hours of time as well as a lot of confusion. If there could be a decentralization of management to that extent it would enable local decisions like that to be made without causing delay in wiring to Montreal, and all that sort of thing.

I suggest now there is a fear of lay-offs and cut-downs, and that economies are to be applied to the men, to the little chap. I say there is that fear right along the line.

In coming up to Ottawa on the train, you sometimes get into conversation with men who do not know who you are and they will talk quite freely among themselves. And I heard opinions expressed when I was coming up here recently along these lines: I actually heard three employees in a car talking together, and the conversation went something like this: "It won't be very long now. There is going to be an amalgamation. Gordon is going to put this amalgamation through. There is going to be one line, and we are the line which is going."

I asked: Where did you get that information? It is just a rumour. That kind of stuff has got to be kept down.

I think it is a step in the right direction to have personnel management come closer to the people and cut through that top strata. Union leadership is sometimes too far away. The centralization by management on small matters causes a lot of delays. One thing may be managed from Montreal and it causes a loss of money and creates friction because the local management has not got any authority.

Mr. GORDON: Thank you. I think one of the most useful functions of this committee is to let the management of the Canadian National Railways know things of the character you just described. We are interested and you may rest assured that your suggestions and your comments and criticisms will receive careful attention.

Mr. HATFIELD: Another matter. Practically every day in the year we receive inquiries about the shipment of carloads of goods to certain points which are not in the tariffs. The local agent, either of the Canadian Pacific or of the Canadian National, will telegraph to the district freight agent for a rate, and may hold you up for two or three days. Then we may go back to him and ask him, after waiting eight or ten hours, because we must answer our message in order to sell a car of goods—we go back and ask him if he cannot hurry up a rate to that particular point. Then he says: "It is laid down in the regulations that we must wire the district freight agent and that is all we are going to do about it". He will say: "I dare not call him up on the telephone or wire to him because that is the rule and we have to abide by it".

Therefore we do not bother him anymore. We have, right across the border from our shipping point, experts who are put there by the Boston and Maine and by the New York Central Railways. So we call them up and get a rate over the telephone. They will have one of their men look it up, and they will give us the rate. Sometimes we may call them up ten times a day to get rates to certain points.

I feel that the local freight agent should be able to telephone to his district freight agent and get the rate. That is happening across the country.

Mr. GORDON: I do not quite understand why as a shipper you would not have made serious complaint about it.

Mr. HATFIELD: The same thing is true with Prince Edward Island. We ship from Prince Edward Island and we call up there about rates or we wire to the agent there to give us a rate to a certain point. Well, it is delayed just as long.

Mr. GORDON: On your statement I would certainly say at once that if that is the kind of service that is happening you are entitled to much better.

Mr. HATFIELD: We are losing a lot of business through those delays. A man is not going to wait for two or three days to be quoted a rate.

Mr. FULTON: This might be the time now to ask the question about the number of sub-divisions the men are called to work on. I would like to discuss this question because they are very concerned about that in Kamloops.

Mr. GORDON: Have you a copy of the information received about that, Mr. Dingle?

Mr. DINGLE: Yes, I was going to read it:

Assignment of Crews to Trains 1, 2, 3, 4

Referring to question as raised by Mr. Fulton yesterday concerning assignment of passenger train crews to trains 1, 2, 3 and 4 between Edmonton and Vancouver I would like to state as follows:

Up to the time of interruption of service through the mountains this year, the crew assignments on trains in question were as follows:

Trains 1 *and* 2

Conductors ran between Edmonton and Blue River and between Blue River and Vancouver. The trainmen were assigned Edmonton-Jasper, Jasper-Kamloops and Kamloops-Vancouver.

Trains 3 *and* 4

Both conductors and trainmen were assigned Edmonton-Blue River and Blue River-Vancouver.

The reason for difference in assignments as between trains 1-2 and 3-4 was that in the case of trains 1-2, two or three of the trainmen had their homes at Kamloops and on this account it was recognized that a hardship would be created by making assignment the same as trains 3-4, and the arrangement was to stand as long as these men held these particular runs. These assignments were broken because of the interruption to service during the past two or three months, and when full service was restored, because of more normal conditions, the crew assignments on the four trains in question were re-bulletined after conference with the conductors' and trainmen's representatives and assignments set up for both conductors and trainmen to run Edmonton-Blue River and Blue River-Vancouver, or, in other words the same assignment now applies to trains 1-2 as to trains 3-4, and as the crews were formerly assigned to trains 3-4. It is my information that the conductors' organization will protest any change and the trainmen's organization go along with the rearrangement as I have outlined but reserve the right to bring in any grievance that may arise, and we stand ready to consider these.

You will readily see from what I have said that the rearrangement of crews was effected only after due consultation with the men's representatives and this is the way such matters are handled rather than by listening to complaints of individual men who may or may not have an actual grievance.

As to the safety feature, it cannot be said that the men are on duty too long as we have many similar assignments in other territories and we have had no difficulties as a result.

Mr. FULTON: Is that the end of your statement?

Mr. DINGLE: Yes, sir.

Mr. FULTON: I appreciate the facts that Mr. Dingle has brought out in his statement. I should say that I have a letter here from the brotherhood of railway trainmen, lodge 519, Kamloops, British Columbia, dated March 21, 1950, which brought the matter to my attention. This letter is signed by a committee of the brotherhood of railway trainmen: Z. L. Shaw, C. M. Lee, W. G. Emmington and enclosed is a copy of a letter which I am advised was

directed to the Board of Transport Commissioners at Ottawa, dated Kamloops, British Columbia, March 14, 1950. This letter to the Board of Transport Commissioners reads as follows:

> We the undersigned working in train service on the Kamloops Division wish to protest 'Train crews in passenger service on continental trains Nos. 1, 2, 3, and 4, operating over three sub-divisions Vancouver to Blue River in mountain districts.'
>
> Train crews on this service are too long on duty. Leaving time on Nos. 2 and 4 is 1930K, and 20K respectively ex Vancouver and arrive Blue River next morning 855K and 945K. Leaving same day on numbers 3 and 1 at 1710K and 1825K respectively—

Mr. FULTON: I might just pause here to observe that that means the running time would be approximately thirteen hours.

> . . . arriving Vancouver next morning at 745 and 845K., which in our opinion is too long a tour of duty without sufficient rest at turn around point in mountain district.

I might pause again to state that the turn around point is Blue River.

> In mountain territory where hazardous conditions prevail these train crews frequently have to double out of turn around point when trains are late. These trains are delayed quite frequently for three to five months of the year due to weather conditions in this territory, necessitating these crews to be on duty from thirty to sixty hours. WE CONTEND THAT THIS IS TOO LONG ON DUTY TO ENSURE THE SAFE OPERATION OF THESE PASSENGER TRAINS.
>
> cc. J. P. Johnson, Vice-President, Winnipeg, Manitoba.
> F. H. Keefe, General Superintendent, Vancouver, B.C.
> E. D. Fulton, M.P., Kamloops, B.C.
> A. E. Elliot, Lodge 519, Kamloops, B.C.
> P. R. Lewis, General Chairman, B. of R. T., Winnipeg, Manitoba.

I will not read all the names placed on here as indicating agreement with the letter, but I can assure you that from there to the bottom is a list of names of members of this organization in Kamloops. I should say there are at least sixty names on the letter.

Now, I should point out that I got this the day before the committee commenced its sittings and brought it to the attention of the committee and the management immediately. I confess that I have not contacted the organization at Kamloops because I have not had time, but I believe, and I have no reason to assume to the contrary, that the letter speaks for itself, and is in fact sent by the men whose names appear on it. It seems to me that it is sent by a majority of the Canadian National Railways' employees at Kamloops. It is headed Brotherhood of Railway Trainmen.

Mr. GORDON: This is typical of the kind of dispute which arises from time to time in regard to assignments of this character. There is a regular procedure for dealing with them. In this matter we have been dealing with the various heads and representatives of these particular men. This committee represents a local, a unit of that organization, and the proper action, in my opinion, is for that local to get in touch with their own general chairman, and clear that dispute there before coming to this committee or before coming indeed to the head management of the Canadian National Railways. The procedure and the mechanics are there, well established, recognized. You really are dealing with an inter-family dispute at that point, and it should be cleared up there before it comes to the Canadian National Railways' management.

Mr. FULTON: I do not think that I can agree with you, Mr. Gordon. You said you desired to be informed of difficulties. There is obviously a disagree-

ment, from the terminology of the letter, and it is not said that men living in Kamloops alone want to have it changed, but it says that the men are of the opinion that the hours of service are too long.

Mr. GORDON: You do understand that this matter has been cleared in discussion with the acknowledged representatives of the men, the head representatives. They have spoken for the men. Now, after we have agreed with their own representatives, it would, I think, be quite improper to reach down underneath them and talk to the lesser members of the family.

Mr. FULTON: When was a discussion held that led up to that arrangement?

Mr. DINGLE: It was prior to March 25th.

Mr. GORDON: It was before the time of the change.

Mr. DINGLE: It was prior to the time when the bulletin was put out. It would be somewhere around the 15th of March.

Mr. FULTON: The bulletin would be put out on the 15th of March? This letter is dated March 21st, so they had not taken very long before protesting the change.

Mr. GORDON: Yes, but they should have protested to their own representatives first.

Mr. FULTON: I imagine they have done so.

Mr. GORDON: There is no evidence there that they have. It has not been referred back to us by the representatives of the men as to any difficulty or disagreement. The acknowledged representatives of the men have agreed with us; they have told us what they want; we have not forced this on them. They asked for it, and we agreed. It is not something that the railway is forcing down the throats of anyone. It is an agreement arrived at in that normal course of employee relations, and I am suggesting to you—I am interested to hear it naturally—but I am suggesting to you the procedure ought to be that the local people in Kamloops should tell their own representatives that they do not agree with them and have it ironed out there first and then if they want to review the matter, they can do so.

Mr. FULTON: What is the opinion of management on the question of the hours shown on the running schedule?

Mr. GORDON: We have agreed with the men's representatives that this particular run is a reasonable one, and our western vice-president has informed us that it is not a factor that would affect safety. As Mr. Dingle said in his report, it is an agreement between the two of us. If they asked us to do that and we felt it was unreasonable in regard to safety or anything else, we would not have agreed and perhaps would have refused to do it, but it has been talked out and it has been agreed upon.

Mr. FULTON: Just before letting the matter go, I agree with you that it should be further investigated with the men's representatives, but before letting it go, perhaps the management could give consideration to the fact that the Canadian Pacific Railway works their passenger crews over two subdivisions in similar mountain territory. It might be a factor when representations come from the men.

Mr. GORDON: We will take note of that. Now, just to be sure there is no misunderstanding, our attitude at the moment is that this ruling stays, unless the men, through their representatives, inform us that they choose to reopen the matter for discussion.

Mr. FULTON: If it develops that the men and their representatives are in disagreement, will you abolish that procedure and allow the men to make representations directly?

Mr. GORDON: I do not think it happens that way in unions.

Mr. MUTCH: If it did it would be the end of the unions and the men. That is a practical matter I think you find will work out if you advise them to do that.

Mr. MCLURE: One question, Mr. Chairman, arising out of the freight rate question that Mr. Hatfield asked a few minutes ago. He said there was difficulty sometimes getting a rate on certain kinds of shipments or something to that effect. Now, does a farmer coming from the west to the east get a special rate if he is coming back to farm in the east or vice versa? If he is bringing in equipment with him, does he get special rates on that?

Mr. GORDON: Passenger rates?

Mr. MCLURE: No, immigrant rates.

Mr. GORDON: That is a technical tariff question that I cannot answer at the moment.

Mr. MCLURE: I had a specific case last September. A fisherman from Prince Edward Island wanted to go to the Pacific coast to fish, and we had difficulty in arranging the rates. He was taking his boat, just one boat, that was his equipment, and when we got the rate supposedly from Montreal, the rate to take the boat from Hunter River, Prince Edward Island, to Vancouver was given as $305, which seemed a high rate. Nevertheless, the man was anxious to go and he was told it was really a special rate. He bought the boat and when he had it loaded on the flat car satisfactory to the railway authorities, just the day before he was going to set out, when the train was going to take his boat away, word came that "the figures given to you are wrong. You must pay $596.60." He had bought the boat and had all arrangements made. He and his four sons were going to the west, and he paid the $596. Now, he has not been able to get any adjustment on that. The man is surely entitled to get at least $250 or $300 back.

Mr. GORDON: Mr. McLure, I have passing over my desk every day complaints of that character and I have a system of having them investigated. They are thoroughly investigated and I find so often the facts given to me in respect of the complaint are incomplete or that they do not measure up on analysis. I must say to you I cannot offer any comment in regard to your complaint and I would have to have an opportunity for investigation. If you would care to send the particulars along to me I would be very glad to do that.

Mr. MCLURE: I would be very glad to get you the facts from the fisherman himself. It would be better if he signed them.

The CHAIRMAN: Shall the item carry?

Carried.

The next item is hotels.

Mr. FRASER: On this item you have given the gross revenue but you do not give the net. The gross revenue does not mean an awful lot.

Mr. GORDON: You will find that information on page 6 in the statement headed "consolidated income account". The net revenue from hotel operations over all is shown there as being $1,053,279.49.

Mr. FRASER: Where is that?

Mr. GORDON: On page 6 of the report. That is the total operation for the hotels—the net figure.

Mr. FRASER: Is the figure also given for the summer lodges?

Mr. GORDON: It is included.

Mr. FRASER: It is all included? You have not got a breakdown.

Mr. GORDON: I have not got a breakdown in the report. I do not know whether it has been customary to give the figures for the individual hotels but I certainly have no objection to doing so.

Mr. FRASER: Perhaps you could break it down between the all year hotels and the summer hotels?

Mr. GORDON: I think the best way to do would be to read the figures into the record. It will only take a minute.

The Charlottetown, a loss of $14,351.

From now on I am reading profits. The Nova Scotian, $108,459; Pictou Lodge, $10,666; The Chateau Laurier, $415,209; The Prince Arthur, $61,019; Minaki Lodge, $28,900; The Fort Garry, $49,066; The Prince Edward, $20,481; The Bessborough, $88,358; the Macdonald, $136,396; Jasper Park Lodge, $149,072.

Those figures amount to the grand total of net profit of $1,053,279.49, which ties in with the figure I referred to on page 6 in the consolidated income account.

Mr. HATFIELD: Is interest on investment charged?

Mr. GORDON: No, just gross revenue less operating expense and taxes.

Mr. FULTON: What result did you get for the Hotel Vancouver?

Mr. GORDON: The Hotel Vancouver is not included in this report. It is a joint operation, but I can give you the figures. The net operating profit for the Vancouver Hotel Company Limited was $496,629.61 out of which we paid a rental of $280,000 and our share is $331,088 under the joint agreement.

The CHAIRMAN: In order to complete the previous answer which you gave, could you give the committee the total capital cost of the hotels for which you gave us the composite revenue and operating costs?

Mr. GORDON: In detail?

The CHAIRMAN: No, just the total.

Mr. GORDON: The grand total of capital invested as at December 31, 1949, with respect to hotels was $27,438,286.

Mr. MUTCH: Before anyone starts to sharpen their pencils and to figure out the relative returns from hotels on the basis of capital invested, I think it would perhaps be wise to remember that in the case of the summer hotels particularly, and to some degree the others, there is brought to the railway a revenue which is out of proportion to the net gain in the buildings themselves. I should think that the summer population in Jasper would bring more to the railway by coming and going and hauling of supplies than it does in the lodge. Unless you give the whole picture the comparison is meaningless.

Mr. GORDON: The actual figure, to save the pencil sharpeners, shows that the return on investment is 3·8 per cent over-all. In the light of the fact hotels are considered as feeders of traffic, it is very difficult to consider that figure as the assessment of the return on investment.

Mr. MUTCH: In other words the picture is always better than it looks.

Mr. GORDON: Yes.

Mr. FRASER: What about the St. John's hotel? You do not give a figure for that because you have just taken it over?

Mr. GORDON: Yes, we took it over on January 1, 1950.

Mr. FRASER: What do you intend to do about that hotel?

Mr. GORDON: We have a program under consideration for the rehabilitation of that hotel. It is being held up at the moment by reason of some technical matters affecting the transfer of the property.

Mr. FRASER: It would be quite a large outlay.

Mr. GORDON: Yes, it would be a fair outlay but I would prefer not to give the figure because it might affect the negotiations in respect of the property.

Mr. FRASER: If Newfoundland wants to get tourists they have to have that hotel put into first class shape.

Mr. GORDON: I beg your pardon?

Mr. FRASER: If Newfoundland wants to get tourists in the new province they must have that hotel put into first class shape. It is certainly not in that shape at present?

Mr. GORDON: We have made a very careful review of it and there is no doubt about it but a lot of work has to be done.

Mr. ADAMSON: Before we leave the item I want to make a suggestion to the president regarding Jasper. I noticed that there was a profit of $149,000 which is I think rather more substantial than one would have expected. However, I wish to suggest to the chairman this possibility. Jasper Park in the winter at present has some of the finest skiing in the world but there is absolutely no accommodation provided by the Canadian National to take the people to those slopes.

I speak with some knowledge having been there, and having skied there and in the ice fields. There is, as I say, excellent skiing—fine powdered snow and magnificent terrain. It is as good as any in the world. This year, from the city of Toronto alone, four special parties were made up, taking several cars or separate accommodation on the trains. Three of those parties went to Aspen and Sun Valley, one went to Banff, and one went by special plane over to Switzerland and Austria. Now the summer season for these resort hotels is extremely short but it has been found, both in the United States and on the continent of Europe, that the winter season can become as profitable as the summer season.

I want to suggest to the president that he at least investigate the possibility of establishing facilities for winter tourists at Jasper Park. I realize that Jasper Lodge is iself out of the ski belt and construction would probably have to be undertaken in Tonquin Valley, Marble Valley, or up the Athabaska river; but the demand is there. If you had accommodation I am quite satisfied that the business would be profitable. It has proved so. From the figures I have given you for Toronto alone you can see that our people are going to Europe and to the United States simply because they have not got accommodation in our own country. I do hope, Mr. Gordon, that you will look into this because I think you are missing one of the greatest bets that exist in Canada today as far as the tourist business is concerned.

The lack of snow here in the Laurentians was estimated, I think, to cost $2,000,000 a month. There certainly was no lack of snow, and there never was any lack of snow in the Rockies. The skiing is assured.

I feel that there is a tremendous market there if you are prepared to go in and build the facilities which are necessary. I hope during the next year a real survey of this will be made because I think you are missing a source of considerable revenue.

Mr. GORDON: Thank you, Mr. Adamson. I am interested in any constructive suggestion which will mean the provision of service which can be rendered on an economic basis and where we can make some money. However, I must say that I cannot refrain from making this comment, and I hope I do not sound querulous in so doing. I take it to be my job to get this railway to a position where it can be run and operated to make a decent return and to the point where we get results which measure up to the effort. However, all the suggestions I have had so far are aimed at spending money. I am, personally, not afraid to spend money if the expenditures, following proper investigation, indicate that we can make a decent return. I think your whole propostion will have to be conditioned to that test.

Mr. ADAMSON: I am merely asking you to make a survey.

Mr. GORDON: I appreciate your suggestion and I recognize that it is a constructive one but I warn you of the sort of test that will be applied.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. FRASER: Before you go to the next item, may we have answered the questions which were asked this morning. I believe Mr. Dingle now has the information.

Mr. DINGLE: There was one question Mr. Fraser asked with respect to the new Bonaventure sheds as to whether they had a sprinkler system. I can tell him now that there is an up to date, modern sprinkler system throughout the entire layout—both sheds and platforms. The buildings, as I said this morning, are fireproof. In addition there are fire doors which divide the sheds into 400 foot sections.

The CHAIRMAN: I wonder if the rest of the answers might stand until we clean up these further matters in the report. We have only four more headings. Shall the item "telegraphs" carry?

Carried.

"New oil fields"?

Mr. FULTON: I wonder if we could have the answer to the question asked yesterday regarding royalties?

Mr. GORDON: Shall I deal with that now?

The CHAIRMAN: The president was going to consider to what extent he could answer the question.

Mr. GORDON: Well, I have considered the question and it seems to me that it is a matter of policy. We must remember that this is a contract which was let after applying for tenders from all interested oil companies. To reveal the nature of the successful tender would be to reveal the private business of that company. I question, Mr. Chairman, very much if it is in order that through this committee competitors of that company should be put in possession of information as to the conditions under which they successfully tendered. There may be other tenders of that character and it would not, in my opinion, be a wise policy to make information of that nature generally available through the medium of this committee. Now, there is no particular secrecy about it; it is, on the other hand, a question of policy. If you still feel we should give you this information, and the committee so directs through you, Mr. Chairman, we will of course produce it. In the meantime may I suggest that if the member interested, Mr. Fulton, would like me to I will be pleased to make it available to him privately. But as I say, I do not think it would be good business to make the information public through a statement on this matter before this committee.

Hon. Mr. CHEVRIER: Well, Mr. Chairman, as far back as I can remember it has always been the policy of this committee to give as much information as possible, but when an officer of the Canadian National Railways makes the suggestion or gives it as his opinion that it might not be desirable to give out certain information, it has been my understanding always that such information was not made public; that in the past the committee has always followed the advice of the officers of the railway.

Mr. FULTON: That brings us right back to the point I raised yesterday. If the information is of such a nature that it would be an advantage to a competitor of the railway then the president might quite probably recommend or refuse to produce such information as a matter of policy. In this case it is not a matter which affects the railway or its competitors and therefore, I submit, the principle does not apply. In this case we have the offer for sale of certain mineral rights with respect to which a number of ore companies submit bids or tenders. I do not think making the information available to us would affect anybody seriously; certainly the unsuccessful companies would know fairly well what their bid was, and could figure out what the bid of the successful tenderer must have been.

Mr. GORDON: But they do not know the actual terms of the successful tenderer and that might quite easily have an influence on the business of that particular company and it might have an effect on future operations of that character as they relate to this railway.

The CHAIRMAN: Mr. Fulton, would you care to take advantage of the suggestion made by Mr. Gordon, that he would convey certain information to you personally; and if after that discussion you feel that you require further information you could then again bring the matter up.

Mr. FULTON: I was just going to say with respect to or in answer to your suggestion, Mr. Chairman, that it seems to me it is a case where a capital asset is being disposed of. I am afraid there are all sorts of questions which would develop from that, many of which we might expect to be ruled out. We cannot understand it without going into the situation generally, the percentage of royalties and that sort of thing. Then, too, I take it, from reading the report, that arrangements have been completed. The report says:

"The railway has retained title to the mineral rights in respect of 3,000,000 acres of lands in Saskatchewan and recently completed arrangements for leasing the exploration and development rights on a rental and royalty basis."; so we will take it that the whole thing is now complete.

The CHAIRMAN: Well, then, Mr. Fulton, in order to finalize the matter, how would this suggestion appeal to you? That you write out a motion clearly indicating the information for which you ask. We will leave it on the table for half a day to give every member of the committee an opportunity to consider the matter in his own mind, and also give Mr. Gordon an opportunity to see how far he can go in meeting your request. I think that we would only, perhaps, be losing valuable time by any further discussion now.

Mr. FULTON: I have just been advised that Alberta is also involved from the standpoint of the successful tenderer. I will do that.

The CHAIRMAN: Thank you.

Mr. FOLLWELL: Following that point up, does the Canadian National control or own certain lands in other provinces with respect to mineral rights?

Mr. GORDON: I think not, but I would like to be sure about it. If there is anything more it would be very small.

Mr. HATFIELD: They used to be shown in the financial statement of the road as assets of the railway; do you still show them as that?

Mr. GORDON: Just the mineral rights.

Mr. HATFIELD: Just the mineral rights?

Mr. GORDON: We have always had the mineral rights. We carried that land as an asset so long as we had any land, but when we sold our land we ruled the asset out. Those mineral rights at that time were considered not valuable. The land has been sold for quite a number of years now.

Mr. HATFIELD: Do you lease these mineral rights to one company or to dozens of companies?

Mr. GORDON: We offer the mineral rights for sale by tender and any oil company in Canada can put in a bid, and the rights are usually sold to the highest or successful tenderer. The actual number of acres involved is 3,146,249.

Mr. FULTON: That asset would not be carried at a nominal dollar?

Mr. GORDON: No, we did not value our mineral rights at all. We still do not know what they are worth, or that they are worth anything; they are not worth anything unless or until oil is found on the land.

Mr. FRASER: Is there any reason why this committee should not know the name of the oil company?

The CHAIRMAN: Mr. Fulton has adopted the suggestion of the chair and will draft a motion which he will lay on the table and then we can all see and consider it.

Mr. ADAMSON: Just on this point, Mr. Chairman, I want to say that I support Mr. Fulton in his request because it involves public funds. I think it is the duty of this committee to find out how mineral rights belonging to the people of Canada were disposed of.

The CHAIRMAN: That is the motion which is now before the chair and there will be a full opportunity to discuss it.

Assisting development is next.

Carried.

Colonization and agriculture:

Carried.

Research laboratory:

Carried.

Mr. FRASER: On this question of agriculture and colonization, have you an agent in the United Kingdom?

Mr. GORDON: Yes, and on the Continent. We have an agent there who travels from place to place.

Mr. FOLLWELL: May I ask Mr. Gordon the policy with respect to vacant farmlands? Are there any vacant farmlands owned by the Canadian National?

Mr. GORDON: In some cases, yes. But it does not necessarily mean that we own the farmland, what we are trying to do is to get the farmers located on farmland adjacent to our lines.

Mr. FOLLWELL: I am trying to get some information about where the farmland owned by the Canadian National is, and whether when it is offered to the public it is offered at a reasonnable price; is that right?

Mr. GORDON: We have been disposing of farmlands as a matter of managerial policy for many years. We try to sell them at the market price. We have an efficient real estate department which looks after that; and in dealing with settlers we have in mind making it as attractive as possible; but we do have an eye on the market price.

Mr. HATFIELD: I would like to ask if the Canadian National Railways do any research along industrial lines?

Mr. GORDON: Yes, the traffic department also has the matter in hand. Research and Development are trying more specifically to investigate the possibilities of establishing industry at points adjacent to our lines, and they are doing very good work in that respect.

Mr. ADAMSON: When you are placing orders for new equipment do you write your own specifications, or do you follow American standards? I understand that generally you follow the accepted engineering standards.

Mr. GORDON: In most cases I believe that is right. We write our own specifications, although we naturally have in mind more or less standard specifications and standard equipment.

The CHAIRMAN: Carried. Now, gentlemen, our next item is the budget.

Mr. FULTON: Should we not wait until we have received all the other statements which have been asked for?

The CHAIRMAN: I thought that the general feeling of the committee was that we would consider them in relation to the various headings in the budget

items, and if, after we have dealt with the budget, any items are found, or any point is found which has been overlooked, Mr. Fulton, we will certainly allow questions.

It is now 6 o'clock and I think it is rather apparent from the comments of the meeting that a majority would like to sit tonight. I believe, however, a minority feel that it would not be fair to have to do that. I suggest we do not meet tonight but that in our work tomorrow and in our future sittings members should be content to ask questions in regard to specific items which happen to be before us. I think we should go around the table and permit every member to have an opportunity to clear up his first questions before he is interrupted. I believe that would save a lot of time.

The committee adjourned to meet again tomorrow, March 20, 1950, at 11 a.m.

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

WEDNESDAY, MARCH 29, 1950

WITNESSES:

Mr. Donald Gordon, C.M.G., LL.D., Chairman and President; Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

MINUTES OF PROCEEDINGS

WEDNESDAY, March 29, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Adamson, Bourget, Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman and President, Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways; Mr. J. C. Lessard, Deputy Minister of Transport.

The Committee resumed consideration of the annual report of the Canadian National Railways for the year 1949.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

The annual report of the Canadian National Railways was adopted.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Adamson, Bourget, Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

Mr. Cooper tabled a statement respecting the nature and purpose of the Canadian National Securities Trust, which is printed as *Appendix A* to this day's minutes of proceedings and evidence.

The Committee proceeded to consideration of the Budget of the Canadian National Railways for the year 1950.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

The Budget of the Canadian National Railways was adopted.

At 6 o'clock p.m. the Committee adjourned until Thursday, March 30, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

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MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 29, 1950.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, it is eleven o'clock and we have a quorum. I understand that in the past it has been the practice to call each of the headings of the financial statement, so, if you will turn to page 20 of the report, the first heading is assets and liabilities.

(Table follows on next page)

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1948

ASSETS

INVESTMENTS:			
Road and Equipment Property	$2,118,250,616.54		
Improvements on Leased Property	2,522,805.19		
Miscellaneous Physical Property	65,360,316.14		
		$2,186,133,737.87	
Capital and Other Reserve Funds:			
System Securities at par	$ 866,500.00		
Other Assets at cost	4,020,002.00		
		4,886,502.00	
Deferred Maintenance Fund		9,000,000.00	
Investments in Affiliated Companies		63,478,623.15	
Other Investments:			
System Securities at par	$ 80,000.00		
Other Assets at cost	829,247.53		
		909,247.53	
			$2,264,408,110.55
CURRENT ASSETS:			
Cash		$ 20,126,213.87	
Temporary Cash Investments		6,238,905.13	
Special Deposits		9,678,474.08	
Net Balance Receivable from Agents and Conductors		17,296,655.43	
Miscellaneous Accounts Receivable		12,288,618.54	
Government of Canada—Balance due on Deficit Account		8,043,026.76	
Material and Supplies		61,126,536.28	
Interest and Dividends Receivable		144,004.77	
Accrued Accounts Receivable		3,950,939.03	
Other Current Assets		116,180.60	
			139,009,554.49

LIABILITIES

STOCKS:			
Capital Stocks of Subsidiary Companies held by Public			$ 4,560,290.00
LONG TERM DEBT:			
Funded Debt Unmatured:			
Held by Public	$ 612,380,194.23		
Held in Special Funds	12,485,725.45		
			624,865,919.68
GOVERNMENT OF CANADA—LOANS			743,661,161.77
CURRENT LIABILITIES:			
Traffic and Car-Service Balances—Credit	$ 9,797,700.77		
Audited Accounts and Wages Payable	22,430,248.95		
Miscellaneous Accounts Payable	6,182,844.39		
Government of Canada — Interest Payable	20,938,744.49		
Interest Matured Unpaid	4,570,152.14		
Unmatured Interest Accrued	5,461,480.75		
Accrued Accounts Payable	7,401,453.03		
Taxes Accrued	5,109,070.08		
Other Current Liabilities	6,728,515.57		
			88,620,210.17
DEFERRED LIABILITIES:			
Pension Contract Reserve	$ 50,514,000.00		
Other Deferred Liabilities	5,786,035.88		
			56,300,035.88
RESERVES AND UNADJUSTED CREDITS:			
Insurance Reserve	$ 12,296,327.00		
Accrued Depreciation—Canadian Lines—Equipment only	126,931,715.41		
Accrued Depreciation—U.S. Lines—Road and Equipment	25,967,313.92		
Accrued Amortization of Defence Projects	3,183,007.34		
Deferred Maintenance Reserve	9,000,000.00		
Other Reserves	800,268.05		
Other Unadjusted Credits	7,448,620.78		
			185,627,252.50

DEFERRED ASSETS:			
Working Fund Advances		$ 457,327.06	
Insurance Fund:			
System Securities at par	$ 5,465,225.45		
Other Assets at cost	6,831,101.55		
		12,296,327.00	
Pension Contract Fund:			
System Securities at par	$ 6,074,000.00		
Other Assets at cost	44,440,000.00		
		50,514,000.00	
Other Deferred Assets		2,519,592.26	
			65,787,291.32
UNADJUSTED DEBITS:			
Prepayments		$ 1,061,759.35	
Discount on Funded Debt		4,045,362.91	
Other Unadjusted Debits		3,771,507.20	
			8,878,629.46
			$2,478,083,585.82

Sterling and United States currencies converted at par of exchange.

GOVERNMENT OF CANADA—PROPRIETOR'S EQUITY—(See Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000.00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	378,518,135.02	
Capital Expenditures by Government of Canada on Canadian Government Railways	377,930,580.80	
		774,448,715.82
CONTINGENT LIABILITIES:		
Major contingent liabilities, as shown on statement attached.		
		$2,478,083,585.82

NOTE.—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1949. The total amount of the Investments in Fixed Properties and Equipment as brought into the System accounts at the 1st January, 1923, from the books of the several Corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for Equipment has been applied from the 1st January, 1940, retirement accounting continuing in effect for Fixed Properties.

Subject to the foregoing, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1949, and that the relative Income Account for the year ended the 31st December, 1949, is correctly stated.

As required by The Canadian National-Canadian Pacific Act, 1936, we are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1950.

Any questions on assets and liabilities?

Mr. FULTON: Where is the figure for the oil rights carried, or is it carried this year? You told us it had not been carried in the past. Is there anything on that in this year's balance sheet?

Mr. GORDON: Nothing in 1949.

Mr. FULTON: Is it intended to include the item for that in subsequent balance sheets?

Mr. COOPER: It will be in the income account; that is to say, we will receive certain payments under the arrangement and they will appear in our income statement rather than in our balance sheet.

Mr. FULTON: Could you give us a general account of the increase in miscellaneous physical property? I see it has gone up this year as compared with last year judging from a very quick survey of the previous year's operations. The item is miscellaneous physical property. That item appears to be going up $2 million a year. What sort of property does that cover?

Mr. COOPER: That account, Mr. Fulton, carries our investments in non-transportation property. The principal items in this balance sheet account are the costs of the International Aviation Building in Montreal, which at December, 1949, amounted to $3,977,000; it also includes the investment in the Vancouver Hotel, $11,666,000; investment in Canadian National Hotels, $27,438,000; subsidiary companies, $14,670,000; and grain elevators and warehouses, $3,945,000. Those are the principal items. The increase during the year is very largely in connection with the construction of the International Aviation Building at Montreal.

Mr. FULTON: Thank you.

The CHAIRMAN: Any further questions on assets and liabilities?

Mr. FULTON: Mr. Chairman, the total assets are shown to be in the neighbourhood of $2½ billion. I would like to ask Mr. Gordon whether the interest-bearing debt of $1·3 billions or approximately one-half of the total assets is considered high in comparison with other companies, say other normal companies.

Mr. GORDON: I think Mr. Cooper could handle that question better than I can.

Mr. COOPER: Are you thinking in terms of percentage relationship to total capital, Mr. Fulton?

Mr. FULTON: Yes.

Mr. COOPER: At the end of 1948, the percentage of total capital represented by funded debt for us was 63·3 and for the United States railroads was 55·3. I have comparable figures for 1945, including the Canadian Pacific railway: For the Canadian National, it was 61·8, for the Canadian Pacific, 45·2, for the United States railroads, as a group, 55·3.

Mr. FULTON: The Canadian National in 1945 was 61·8?

Mr. COOPER: 61·8, yes.

Mr. FULTON: Do you take the American figures as more or less normal?

Mr. COOPER: Well, they represent the average of the United States railroads as a group, and I think it is indicative of the situation in the United States generally.

Mr. FULTON: And yours, from 1945 to 1948, has gone up approximately 5 per cent, when you said yours is now at 63·3 and the corresponding figure for the American railroads was still 55·3 in 1948?

Mr. COOPER: That is correct.

Mr. FULTON: So that your is 8 per cent higher than theirs?

Mr. COOPER: Yes.

Mr. FULTON: Is that considered of itself sufficient to completely distort the picture as to the effect on the earnings of the Canadian National Railways?

Mr. COOPER: We think, sir, that the proper comparison should be the amount of fixed charges in comparison with the earning power of the railway. That is to say, we would express our fixed charges as a percentage of gross earnings, and we would make our comparisons on that basis. I will give you now the average ratio over the period from 1923 to 1947,—for the Canadian National Railways, the relationship of fixed charges to gross operating revenue was 18·46 per cent; for the Canadian Pacific Railway it was 9·87 per cent; and for the Class I railroads of the United States, 10·98 per cent. From that you will see that the ratio of the Canadian National runs about twice that of either the Canadian Pacific or the American railroads.

Mr. FULTON: Yes, thank you. Can you tell us how much the figure for investments in property—that is the item in the balance sheet under assets, the first general item—has increased over the last ten years, and since 1923, when I believe the system was consolidated? That is, how much have your physical assets been increased over those two periods?

Mr. COOPER: Our investment expenditures in the period 1923 to 1947, amounted to $707,556,744. This includes investments in road and equipment, et cetera, and investments in affiliated companies.

Mr. FULTON: So that, from 1923 to date, your investment expenditure amounted to $700 million odd. Does your balance sheet reveal the cost or are your figures of capital assets in accordance with the increase in value?

Mr. COOPER: At cost. We do not change it because of changes in the price level. It represents the additional capital investment.

The CHAIRMAN: I wonder, Mr. Fulton, if the answer you want is not this: would you give us, Mr. Cooper, the figure in your 1923 financial statement comparable to the investment and assets figure in the statement now before us of $2,186,133,737?

Mr. FULTON: I think it should be taken as the figure of $2,264,000,000, because there are investments in other companies included there.

Mr. COOPER: I have a statement here which shows what it was at the end of 1922: it was $1,502,552,672, and at the end of 1947, is $2,009,365,828. That is the first figure on the assets side of the balance sheet i.e. investment in road and equipment.

The CHAIRMAN: Mr. Fulton has asked for the offsetting figure comparable with the present figure of $2,264,000,000.

Mr. COOPER: I am sorry, but I do not have a balance sheet for 1923 here.

Mr. FULTON: You are still carrying though your original investment represented by road and equipment property and such other investments as you had in general in 1923 at the same figures as they appeared in 1923. You have not allowed for any increase in actual value of these properties.

Mr. COOPER: No increase due to variation in the price level. There was a certain amount of writing down in 1937 as the result of the Capital Revision Act. I wonder if I may put this small statement on the record.

Mr. GORDON: I will read that statement in connection with it:

> Investment in road and equipment as it appears in the balance sheet is presumed to represent original cost. In accepting the figures at their face value, however, one would have to take a great deal for granted. This railroad goes back to the beginning of railroading in Canada more than one hundred years ago. There have been hundreds of separate companies which have been organized, built their lines, operated them for

a while and then ceased to exist, their properties passing by purchase, amalgamation or otherwise. Their accounting was not under regulatory authority. It followed the judgment of the accountants or the policy of the owners. On transmission the investment account often was determined by the par value of the securities issued in exchange. All one can claim then for the present ledger figures is that they are historical costs recorded by many persons under different accounting theories, in many different books, over a long period of time.

The CHAIRMAN: What about depreciation, Mr. Gordon, over the period? Are you carrying those figures at the original amounts without any depreciation write-off?

Mr. COOPER: We have the amount accrued as depreciation, on the liability side of the balance sheet.

The CHAIRMAN: Where is that?

Mr. GORDON: You will find it under reserves and unadjusted credits.

Mr. FULTON: The point I want to establish is—unless it has been modified by that statement—that there has been no increase in capital valuation of your assets from the time you took them over and fixed the value except for subsequent capital expenditures, which you have made.

Mr. GORDON: I think I see your point, Mr. Fulton. The figures shown on this balance sheet are the historical figures only. To get an up to date valuation of the property would be almost a superhuman job.

Mr. FULTON: I do not want to transgress on the ruling that has been made, and I do not think this question will do that, but will it be necessary, or is it contemplated in your brief before the royal commission to make a survey of the actual values of your capital assets?

Mr. GORDON: Not on the submission as it stands. It will depend in due course whether the argument leads to a conclusion that the Canadian National becomes a base for making rates in this country.

Mr. FULTON: But not otherwise?

Mr. GORDON: I see no reason for it otherwise.

Mr. FULTON: Can you tell me the practice, and I am genuinely asking for information here, of other comparable railroad companies?

Mr. GORDON: Before you ask that may I just add something which Mr. Cooper suggests to me. There would be another reason—if a decision were made in respect of depreciation accounting along the lines now being considered by the commission.

Mr. FULTON: Can you tell the practice in other comparable railroad companies? Do they make periodic adjustments of the figure at which the assets are carried?

Mr. COOPER: They are carried on the basis of historical cost.

Mr. GORDON: There have been some pretty widespread revisions through bankruptcy and other reasons. I am speaking there of companies in the United States and it was particularly true during the 1930's.

Mr. COOPER: And the 1940's.

Mr. FULTON: Coming to the figures on the liability side, you have contingent liabilities entered but no figures shown. Again I am genuinely asking for information, would it not be more realistic to show contingent liability at some figure, for balance sheet purposes?

Mr. GORDON: If you will turn to page 23 you will see that we have a statement there in regard to contingent liabilities.

Mr. FULTON: I see that but I notice in most cases, or at least in one case the liability is several and not joint and it could be calculated with some accuracy, but you have not got it at any figure on the balance sheet. I wonder if it would not be more realistic if you had some figure on the balance sheet itself?

Mr. COOPER: No, sir. I do not think that is possible. It is not possible to compute the contingent liability and express it as a figure. The contingency is so indeterminate that I do not believe it can be resolved and computed as a figure and stated on the balance sheet.

Mr. FULTON: For instance, you have under the Toledo Terminal Railroad Company, on page 22, a liability assumed of $5,800,000 in respect of first mortgage bonds. Would not that be classified as funded debt, and, although the liability may be contingent, could you not assess a figure for it and put it in the balance sheet?

Mr. COOPER: If I were assessing the liability which we may actually have to meet under that particular obligation I would say that it was zero; it is so remote that the C.N.R. will never be called upon under that guarantee.

Mr. FULTON: Does that apply to all contingent liabilities?

Mr. COOPER: I would not say all of them. Take the bottom one, the Canadian National pension plan. We say there that we are not accruing for pensions for people presently in service. That would be a very sizable figure, but it is not one that can be accurately computed or one which would be especially informative if it could be computed.

Mr. POULIOT: This is like a fireside chat.

Mr. COOPER: I thought you were going to say a fire without heat.

Mr. FRASER: Without the fire.

Mr. FULTON: Can you tell us the figure at which Canadian National steamships on the British Columbia coast are carried?

Mr. COOPER: You want the investment figure at which they are carried?

Hon. Mr. CHEVRIER: That figure is in the accounts of the railway, it it not?

Mr. COOPER: At the end of 1949 the figure was $4,279,673.60.

Mr. FULTON: I will not object if the chairman says that I should ask this next question under either expenses or under the budget, but I will indicate the question now. I understand that new regulations are contemplated or are actually in the course of preparation as a result of the *Noronic* fire. I understand they will involve very considerable expense if they are put into effect on all steamships. Have you any figure for the cost of complying with those regulations, or have you been able to make an estimate?

Hon. Mr. CHEVRIER: Perhaps I can give some reply to that. Following the *Noronic* disaster I made a statement in the House that we would carry out the recommendations of the Kellock Commission and proposed regulations were immediately enacted by the Board of Steamship Inspection to put the recommendations in to effect. The proposed regulations were sent to all operators on the east coast and the west coast and in the Great Lakes area. It was indicated to them that these were regulations which would meet with the recommendations of the Kellock Commission and they were asked for their reactions. The three groups came to Ottawa and made representations indicating that to put all these regulations into effect would be a tremendously costly thing. It would in fact put some steamship companies out of business entirely. While we have not yet arrived at a conclusion we are very much impressed—I am at least—by the counter-proposals that have been made by the operators. I think it will boil down to this. In the amendments to the Canada Shipping Act which will be made at this session we are bringing into effect the provisions of the Safety of Life at Sea Convention.

If we can get the operators on the east coast, the west coast, and on the Great Lakes to abide by that convention I think we will, in a large part, meet the recommendations of the Kellock Commission although it will not wholly meet them. If we are able to do that I think we will have gained a great distance in substantially strengthening the effect of the regulations on all our ships, in order to avoid a catastrophe such as we had at Toronto on the *Noronic*.

Mr. FULTON: I take it from your answer to the question that the expense of complying with the new regulations will not be as great as for complying with the original suggestions or recommendations?

Hon. Mr. CHEVRIER: No, but it will be quite a substantial cost and the proposals have been objected to to some extent by the operators. I think, however, that we will be able to get agreement by all sides on the submissions that we will bring forward under the Canada Shipping Act amendment.

Mr. FULTON: Have the negotiations proceeded far enough to enable a company such as the Canadian National to estimate what it will cost for its ships?

Hon. Mr. CHEVRIER: No, I do not think so.

Mr. FRASER: The reason that they object is because of the fact that most of the ships are of ancient vintage?

Hon. Mr. CHEVRIER: The point is that in the past in all countries new regulations have applied only to new ships and they have not been made retroactive. The Kellock Commission recommendation is to the effect that the regulations should be made retroactive.

Mr. FRASER: It would take them all in.

Hon. Mr. CHEVRIER: Yes. For instance, in the cases of present ships like some which C.S.L. operate on the Saguenay in the summer months, and it would also apply to some operating on the west coast, the installation of steel bulkheads and so on would be a tremendously costly matter. It would mean that some of the ships would have to be scrapped entirely. I think we will have to temper justice with common sense and try to reach a conclusion that will meet, as far as possible, the recommendations of the commission, but still allow those ships to operate. We have a middle way if we can get the operators to abide by the International Safety of Life at Sea Convention.

Mr. FRASER: If you have another disaster you will have to have more regulations.

Hon. Mr. CHEVRIER: We hope that we will not have a disaster. The point is that we may have to decide between the regulations I mention and more drastic regulations which would put some people out of business entirely.

Mr. FULTON: And deprive others of service.

Hon. Mr. CHEVRIER: Yes. I know of one instance on the coast where, if a ship is put out of business, there will be thousands of people who will not receive service at all. I am afraid that with reference to that particular route we will have to make an exception to the recommendations of the Kellock Commission. However, I think that when we have the Canada Shipping Act before the House it will be in such shape that it will commend itself to most members. We have given it very careful study.

Mr. ADAMSON: Have C.S.L. ships stopped operating on the upper lakes?

Hon. Mr. CHEVRIER: I think they have just one or two ships—oh, I am informed that there are none left on the Great Lakes.

Mr. ADAMSON: They now have a purely lower St. Lawrence service?

Hon. Mr. CHEVRIER: Yes.

Mr. McLURE: If the regulations went into effect in our province we would not have any communication with the mainland.

Hon. Mr. CHEVRIER: Perhaps you had better convince your friend from Peterborough.

Mr. FRASER: I am thinking of the safety of the people.

Hon. Mr. CHEVRIER: That is very much in our minds too.

Mr. HATFIELD: What does temporary cash investment consist of?

Mr. GORDON: What was the question?

The CHAIRMAN: What does temporary cash investment consist of?

Mr. COOPER: There are two items in this balance sheet account. On the liability side of the balance sheet under reserves and unadjusted credits there is a reserve entitled "accrued amortization of defence projects," $3,183,007.34. Funds against that reserve are carried in this particular account. The other item is an amount of $2,730,000 which represents bonds which were carried in the deferred maintenance fund during the year. When a portion of the fund was transferred to operating expense the bonds were released from the deferred maintenance fund (which is carried back into the investment group) and moved down to "Temporary cash investments."

The CHAIRMAN: Are there any further questions?

Mr. FULTON: I have just one more question in regard to the west coast steamships. Can you give us the breakdown there? All you have is a figure showing the total income, but can you say whether the service operated at a profit or a loss and, if so, what is the figure?

Mr. GORDON: The over-all operations of the Canadian National Steamships Pacific Coast Services showed a loss of $232,011.52

Mr. FULTON: I was going to ask what the anticipation for this year is, but I will leave that until we get to the budget.

Mr. FRASER: What do you mean by defence projects?

Mr. COOPER: During the war a number of facilities were constructed at different points—tracks into war plants and things of that sort—and we anticipated that at the end of the war there would be no particular use for those facilities and we would have to write them off. This reserve was established for that purpose. We found that subsequent to the war there was a need for those facilities and they have been continued in use.

Mr. FRASER: They are being used?

Mr. COOPER: Yes. The lowering of business activity since the war which was anticipated has not taken place.

The CHAIRMAN: Mr. Pouliot, would you speak a little louder, please. You cannot be heard up here.

Mr. POULIOT: So nice of you to call my attention to it. I will speak louder. I was asking Mr. Cooper about interest and these bank accounts, and I wanted to know whether these funds were carried in current accounts or savings accounts?

Mr. COOPER: Not in savings accounts. They are carried in current accounts. Take the first item there under current assets, cash, $20,126,213.87—do you see that there?

Mr. POULIOT: Yes, what is the difference between cash and temporary cash?

Mr. COOPER: Temporary cash investments represent securities which are negotiable.

Mr. FRASER: Of what are they made up?

Mr. COOPER: They are deposits or funds which have been earmarked for payments such as bond interest, or for the purchase of equipment; and things of that kind.

Mr. POULIOT: How many bank accounts have you in all for the system?

Mr. COOPER: I would say that we have altogether some hundreds of different accounts in Canada, the United States, Great Britain and elsewhere.

Mr. POULIOT: In any event you have many accounts?

Mr. COOPER: Yes.

Mr. FRASER: In that item of temporary cash investments, is that really cash that is shown there or bonds to that amount? Because if you put them in that form in your account it would be a little misleading.

Mr. ADAMSON: I would like to ask Mr. Cooper—

The CHAIRMAN: You might permit Mr. Cooper to answer the question.

Mr. ADAMSON: Oh yes, I am sorry.

Mr. FRASER: I think to show that as cash there is wrong.

Mr. COOPER: You mean it would indicate—

Mr. FRASER: Temporary cash investments. I think the word "cash" there is wrong and misleading in a statement of that kind.

Mr. COOPER: I would not be inclined to agree that it is misleading. All of this money is invested in Dominion of Canada 3 per cent bonds.

Mr. FRASER: But it is a temporary investment and might be in equipment trust and that sort of thing.

Mr. GORDON: Oh, no; that is all in bonds.

Mr. FRASER: That is all bonds in it?

Mr. GORDON: Yes.

Mr. COOPER: The caption is in accordance with the usual railroad terminology.

Mr. GORDON: In other words it would be quite easy to dispose of the bonds and get the cash. You see, as we set aside a certain reserve for this purpose out of operating revenue we invest that amount in Dominion of Canada bonds in order to get an interest return on that money which would otherwise be idle.

Mr. POULIOT: And you get more for it that way than you would if you held it as cash?

Mr. GORDON: Quite so.

Mr. HATFIELD: But what happened; how did you get bonds back to that amount?

Mr. COOPER: As regards these war plants, we anticipated that we would have a loss at the end of the war if we then had to write them off and we established a reserve against that loss. We invested the funds representing that reserve in securities of the Dominion of Canada, 3 per cent bonds; and that is what you see here. It has nothing to do with the investment in the physical property. Investment in physical property is carried under road and equipment property, which is the first item of that table.

Mr. GORDON: I think I see what you mean, Mr. Hatfield. It is a very simple matter. The real point is that during the war we took a certain number of millions of dollars out of our revenue and set that aside as a cash reserve against future needs, and that cash reserve in turn was invested in Dominion of Canada bonds and is ready whenever we need it.

Mr. ADAMSON: I want to ask Mr. Cooper to go back to the question of maturity of stocks shown there on the liability side, an item of roughly $5,000,000, and more particularly to the 5,000,000 shares of no par value capital stock of the Canadian National Railways security trust shown at $378,000,000.

Hon. Mr. CHEVRIER: We will deal with that when we come to the matter of the security trust.

Mr. ADAMSON: I want to get some clarification as to that situation. I want to know something about this method of financing the security trust. How do we get this item on the liability side of the security trust? Yesterday I think you said the security trust was kept separate.

The CHAIRMAN: Mr. Adamson, I wonder if you would mind waiting. We will have to deal separately with the report on the security trust and I think it would be much more orderly if we deferred questions on the security trust until we are dealing with that report.

Mr. ADAMSON: Yes, I agree with you, Mr. Chairman, but I thought the comptroller might be prepared to give a short general answer to my question.

Mr. COOPER: I wonder whether it would be satisfactory if I were to file a statement, Mr. Adamson, so it could be included in the proceedings of this meeting.

Mr. ADAMSON: Yes.

Mr. COOPER: On the other hand, if you wish—

The CHAIRMAN: No; he said, yes. It will be entered in the record of today's proceedings.

(See Appendix "A")

Hon. Mr. CHEVRIER: In the meantime I will arrange to have copies made for distribution to members of the committee for their immediate use.

Mr. FULTON: That will be very helpful. I have two other questions, Mr. Chairman. The first is this: Is there an item in the budget for pensions and so on? If so I will defer my question on that.

Mr. COOPER: There will be an item for pensions in the 1950 budget.

Mr. FULTON: Then, the other question is this: In last year's balance sheet "other assets at cost" were given at $17,856,000 odd and this year the same item is shown as being $4,010,000 odd; can you tell us what disposal was made of the items included in the difference between these two entries for last year and this year?

Mr. COOPER: What items are you speaking of?

Mr. FULTON: Last year's balance sheet, the consolidated balance sheet at December 31st, 1948, shows the total of other assets at cost as $17,856,704.32, and the same item carried in this balance sheet shows $4,010,002. I wonder if you could tell us what disposition has been made of those other assets to reduce this item to the amount shown in the 1949 balance sheet.

Mr. COOPER: There is a reduction in that account, Mr. Fulton, of $13,811,702. We had three trust issues. The funds which were received as a result of the sale of those securities were placed on deposit and withdrawn as certified invoices for delivered equipment where received. In 1949, $423,800 was released from trust series "R"; $2,805,380 from trust series "S" and $10,670,741 under trust series "T".

Mr. FULTON: I see. That would mean that the "other assets at cost" carried there was brought down to the amount that is shown here, and this was transferred to—

Mr. COOPER: It was used for new equipment.

Mr. POULIOT: Did I understand you to say that the C.N.R. had over 200 accounts in various banks in different parts of Canada?

Mr. COOPER: Yes, I would say we had more than that.

The CHAIRMAN: We now deal with capitalization of Canadian National Railways:

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Year 1949	Balance at 31st Dec., 1949	Per cent of Total
EQUITY CAPITAL:*			
Government of Canada—Proprietor's Equity:—			
Capital Stock of Canadian National Railway Company	No change	$ 18,000,000.00	
Capital Stock of The Canadian National Railways Securities Trust	No change	378,518,135.02	
Capital Expenditures by Government of Canada on Canadian Government Railways	$ 206,067.02	377,930,580.80	
		$ 774,448,715.82	36.1%
BORROWED CAPITAL:			
Funded Debt Held by the Public	$ 40,633,261.66	$ 624,865,919.68	
Loans from the Government of Canada	*16,833,663.34*	743,661,161.77	
		$1,368,527,081.45	63.9%
		$2,142,975,797.27	100.0%

*Excluding shares of subsidiary companies held by public—$4,560,290.

MAJOR CONTINGENT LIABILITIES

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1949, are:—

Issued for "common" property	$39,973,019.39
Issued for "exclusive" property	252,535.36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4½% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1949, is $14,662,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

Mr. ADAMSON: Does this represent at present capitalization as to what amount is being written off to the owners?

Mr. COOPER: To the owners?

Mr. ADAMSON: Yes.

Mr. COOPER: This is the present position.

Mr. ADAMSON: Yes, this is the present position; and I understand the method of financing is for the deficit to be covered or met by the Canadian government each year.

Mr. COOPER: The only writing-off which has taken place was the writing-off under the Capital Revision Act of 1937. At that time capital stocks of the Grand Trunk and the Canadian Northern amounting to $262,770,000 were written off.

They were capital stocks of those two companies which, under the arbitration proceedings, were judged to be worthless, and the Capital Revision Act of 1937 authorized them to be taken out of our capitalization. Apart from that, there has been no writing down of our capital.

Some people say that in the application of the Capital Revision Act very substantial amounts of capital were written off. But we say, in answer to that, that only the debts due to the government for interest, or advances for deficits were cancelled and the only true capital which was written off was the historic capital stock of the Grand Trunk and the Canadian Northern Railway.

Mr. ADAMSON: Did you write off capital to the amount of $260,000,000?

Mr. COOPER: Yes.

Mr. ADAMSON: How are the annual deficits which the government pays for shown?

Mr. COOPER: In our accounts?

Mr. ADAMSON: Yes.

Mr. COOPER: The results of the operation for the year draw down to a loss of $42 millions, and we receive a contribution from the government for that amount, so that the income account really is in balance, after the payments from the government have been received and applied.

Mr. ADAMSON: On your current account operations?

Mr. COOPER: Yes.

Mr. ADAMSON: Then what happens to that $42 million? Is it capitalized?

Mr. COOPER: No.

Mr. ADAMSON: Well, that is the figure I am trying to get at.

The CHAIRMAN: You mean that you want the total amount?

Mr. ADAMSON: Yes.

Mr. COOPER: Since when?

Mr. ADAMSON: Let us say 1930.

Mr. COOPER: I shall prepare a statement and file it this afternoon if that is satisfactory.

Mr. ADAMSON: Yes. But have you got any estimate of it now in existence?

The CHAIRMAN: Oh, Mr. Adamson, it is going to be filed, so let us leave it at that.

Now, page 22.

Mr. FULTON: May I ask the comptroller this question: Your capitalization, your formal capitalization totals $2,142,975,797.27. Your capital assets, taking just the investments on page 20, come to a total of $2,264,408,110.55. Is it correct to say, or may I put it this way that you are capitalized at less than the actual value of your assets?

The CHAIRMAN: Mr. Fulton, we have already been told three or four times that this relates to historic figures.

Mr. FULTON: Well, I am just asking Mr. Cooper.

Mr. COOPER: If I were making a comparison, I would take the capitalization at $2,142,975.797.27 and compare it with a capital investment of $2,186,133,733, and—

Mr. FULTON: Does your capitalization, as it appears on page 22, represent any items in capital and other reserve funds, deferred maintenance funds, and so on?

Mr. COOPER: I think the capital assets which have been acquired out of the total equity capital and borrowed capital would be the item of $2,186,133,737 for investments in property and $63,478,623 for investments in affiliated companies. The other items are not substantial in amount and I would not consider that they were capitalizable items in any event. Deferred Maintenance Fund, for example, is simply an amount which is off-set in the deferred maintenance reserve.

Mr. FULTON: Then it is not of any particular significance that your capitalization is less than the actual figure given in your capital assets?

Mr. COOPER: I think your capitalization is somewhat less than the investments and I do not see any significance in that.

Mr. GILLIS: With respect to this item "Loans from the Government of Canada", what amount of money per year did you pay in 1949 for interest on that loan?

Mr. COOPER: If you will be good enough to turn to page 28, you will see it set out there. The interest was $21,798,283.58, while the average interest rate was 2·91 per cent.

Mr. GILLIS: I mean on the loans from the government of Canada?

Mr. COOPER: That is it.

Mr. GILLIS: Is that interest paid to the government of Canada or is it paid to the banks?

Mr. COOPER: It is paid to the government of Canada.

Mr. GILLIS: It is paid to the government of Canada?

Mr. FRASER: It goes into the Consolidated Revenue Fund.

Mr. COOPER: If we had a deficit of $42 million odd the government would pay it to us, and when we have received it we pay back to the government the amount of interest we owe them.

Mr. GILLIS: Are those loans negotiated through our national banks or through the chartered banks?

Mr. COOPER: They are direct loans from the national exchequer to the railway company.

Mr. ADAMSON: The deficit of $42 million does not really represent an operating deficit?

Mr. COOPER: No.

Mr. ADAMSON: $21 million of it represents funds paid to the government as interest on other securities?

Mr. COOPER: Yes. $21 million out of the $42 million is paid back to the government as interest.

Mr. FULTON: What is the situation when you have an overall deficit which does not enable you to pay that $21 million of interest? I take it, in that case, the government does not receive it from you. Is that added to your liabilities to the government?

Mr. COOPER: No. The amount of the deficit always is inclusive of the amount of the interest due to the government; and when the amount of the deficit is paid to the railways, we are in a position to pay the government the interest due them.

Mr. FULTON: You mean, in a position to pay back the interest?

Mr. GILLIS: You borrow $42 million and you pay half of it back?

Mr. COOPER: We do not borrow it.

Mr. FULTON: Under the heading of "Major contingent liabilities", have you been called upon in recent years to meet any of those major contingent liabilities?

Mr. COOPER: No, sir.

Mr. FULTON: How long has it been since you have had to meet any of that type of liability?

Mr. COOPER: I do not think we have ever been called upon under these contingent liabilities in that sense. We do have to pay to these companies some rent for the use of joint terminals at Chicago. But that is an operating charge which we would be paying in any event And it is only in the event that these companies failed to earn their interest, or could not meet their bonds at maturity, that the obligation arises. And that has not happened.

Mr. FULTON: You have not had to meet interest payments on bonds of this character in your recollection?

Mr. COOPER: No.

Mr. ADAMSON: You have not had to make payments to your subsidiaries in the United States to any extent comparable to what the Canadian Pacific had to do with regard to Chicago and Milwaukee road?

Mr. COOPER: We did put the Central Vermont through receivership in 1929.

Mr. ADAMSON: You put the Central Vermont through receivership in 1929?

Mr. COOPER: Yes, but any reduction of Central Vermont's capitalization was an inter-system affair.

Mr. ADAMSON: And there was no direct liability of the government of Canada with respect to the Central Vermont?

Mr. COOPER: No. The government of Canada is not responsible for any of the liabilities of the Central Vermont Railway.

Mr. ADAMSON: Then, if it went into bankruptcy, what happens to the security holders, the people who hold those securities; would they lose out?

Mr. COOPER: The Canadian National were holding bonds of the Central Vermont and our investment was written down by about $11 million.

The CHAIRMAN: Page 23:

OPERATING REVENUES

	1949	1948
Freight	$388,730,692.57	$388,186,787.20
Payments under Maritime Freight Rates Act (20%)	5,693,770.43	5,357,571.80
Passenger	43,287,240.00	41,562,141.00
Baggage	172,490.67	159,572.60
Sleeping Car	3,701,622.63	3,161,913.80
Parlor and Chair Car	375,759.58	300,855.99
Mail	5,085,327.61	4,761,629.31
Railway Express Agency	320,435.56	497,817.12
Express	26,058,544.00	22,912,944.07
Other Passenger-train	17,082.29	16,491.15
Milk	516,325.83	542,277.69
Switching	4,441,650.01	4,610,766.22
Water Transfers	1,408,747.68	323,704.73
Dining and Buffet	3,008,052.89	2,920,394.01
Restaurants	303,175.19	304,142.58
Station, Train, and Boat Privileges	397,968.33	403,824.97
Parcel Room	79,496.85	88,340.61
Storage—Freight	214,701.93	210,556.78
Storage—Baggage	52,065.45	57,046.52
Demurrage	1,284,441.36	2,122,556.16
Telegraph Commissions (U.S.)	9,311.94	11,748.57
Telegraph—Commercial	9,245,655.00	7,873,598.00
Grain Elevator	558,454.48	268,408.88
Rents of Buildings and Other Property	947,628.84	889,423.43
Miscellaneous	4,094,861.06	2,986,310.49
Joint Facility—Credit	846,143.64	852,159.45
Joint Facility—*Debit*	*128,259.82*	*113,033.13*
	$500,723,386.00	$491,269,950.00

Mr. POULIOT: I find this page 23 to be most interesting. I think it justifies our being here. It shows "operating revenues", and I feel that I should compliment the officials of the railway upon the success obtained last year in spite of the curtailment of trains.

I note that the first item "Freight" represents an increase in 1949 over 1948 And I note that the "Payments under Maritime Freight Rates Act . . ." were more, which meant that there were more shipments from the east in 1949 than there were in 1948. I see that "Passengers" were more numerous in spite of bus competition, and that the revenue from "Passenger" was nearly $2 million more in 1949 than it was in 1948. And I note that the "Baggage" was greater last year "Sleeping Car; Parlor Car and Chair Car" were much more; and "Mail" was much more. People evidently were writing more letters or getting more periodicals. I see that "Railway Express Agency" was less; but "Express" was over $3 million more in 1949 than it was in 1948.

What is meant by "Other Passenger-train", Mr. Gordon? It is the item just after "Express"?

Mr. COOPER: An example of that would be the amount of revenue we get from the Canadian Railway News for the concession to sell cigarettes and candies and items of that sort.

Mr. POULIOT: I notice that payment for "Milk" shipments were less. That will be probably on account of the curtailment of some of the trains?

Mr. GORDON: No, not in 1949. There was no curtailment of trains in 1949. The curtailment started on January 9, 1950.

Mr. POULIOT: "Switching; Water Transfers"; what is meant by water transfers?

Mr. COOPER: That represents movements by water.

Mr. POULIOT: Oh, you mean by boats?

Mr. COOPER: Yes.

Mr. POULIOT: Then "Dining and Buffet; Restaurants"; I see that was more. I wonder if it was because prices were higher or because people were eating more?

Mr. COOPER: I think it was.

Mr. POULIOT: And so on; and I think the result is good. And I notice something else which appears to be very good. What is meant by "Miscellaneous" there, in the amount of $4,094,861.06?

Mr. COOPER: It means just what it says, "Miscellaneous".

Mr. POULIOT: It is everything.

Mr. COOPER: It is everything that is not mentioned up above.

Mr. GILLIS: Conscience money would be in there.

Mr. POULIOT: Altogether, it was a very successful year.

Mr. FRASER: Would the increase in the item of "Passenger" be due to the rise in passenger rates; would not that show an increase there?

Mr. GORDON: In passenger service?

Mr. FRASER: In the passenger service you charged them more, that is to say, passengers fares were more.

Mr. GORDON: There was some increase in passenger rates. Increased rates on the rail side gave us an additional $3,783,000, and on express $697,000.

Mr. FRASER: Then you did not carry any more passengers?

Mr. GORDON: There was an actual decrease of normal passenger revenue due to a drop of 8·25 per cent in passengers carried.

Mr. KNIGHT: Does that factor apply to the first eight or nine items, that there was not an actual increase in business but the larger figures result from an increase in prices on the business done?

Mr. COOPER: There was a decrease in business.

Mr. GORDON: We covered that yesterday on page 5, as to the manner in which our revenues have been affected, and the volume of business.

Mr. FULTON: I was going to ask you on that: can you give us the decline, in percentage, in volume of passengers and freight separately?

Mr. GORDON: The decrease in the normal freight revenue, due to a drop of 10·74 per cent in revenue tons carried, resulted in a reduction of 6·44 per cent in revenue ton miles.

Mr. FULTON: And passengers?

Mr. GORDON: The passengers carried decreased 8·25 per cent, resulting in a decrease of 9·70 per cent in passenger miles.

Mr. FULTON: Is there any way in which you can break down or separate your freight operating costs from your passenger operating costs?

Mr. COOPER: The answer is no.

Mr. GORDON: I have looked into that, and there has been some discussion on it, but it is quite impossible to get any realistic breakdowns on that because you do have overhead costs which overlap and things of that kind. We run the trains over the same tracks, use the same terminals, the same stations. It is really not possible to make a realistic breakdown.

Mr. FULTON: I appreciate that, but take the cost of operating freight trains themselves, which I think you could get and compare that with the actual cost of operating the passenger trains, would that give you any sort of an approximation which a layman can use?

Mr. GORDON: I speak as a layman, having looked at it, and I find you just do not get any worthwhile information out of it, it is so qualified.

Mr. MUTCH: That has come up repeatedly in this committee over the past ten years, and we have always had the same answer.

Mr. GORDON: I would like to be able to do it, but it is not possible to separate the railway operating results in that fashion.

Mr. MCLURE: Have you a breakdown of the revenue of freight for the different regions? The total freight revenue here is shown at $388 million.

Mr. GORDON: That was the same question we discussed yesterday. One of the members asked for a breakdown for the Atlantic region.

Mr. MCLURE: Well, you have the breakdown for the maritime provinces because you would not be able to calculate your 20 per cent freight rate payments if you did not have it.

Mr. GORDON: As I explained yesterday, it is not possible. We have an accounting breakdown, but again it is misleading and meaningless, it is only a bookkeeping figure. You cannot break it down to show what the operating expenses and revenues are in a separate region. It is not possible to sort out the inter-related traffic that is running back and forth all the time. You do not get a figure that would be useful for anything, it would tend to be misleading.

Mr. MCLURE: What I am trying to find out is this. The payment under the Maritime Freight Rates Act last year, according to your statement, amounted to $5,693,770. Very well. That percentage must have been made up from the actual operating freight revenue for the maritime provinces.

Hon. Mr. CHEVRIER: With reference to that, Mr. McLure, the Maritime Freight Rates Act does not apply to traffic into the maritimes, so that the 20 per cent does not apply to everything. It does not apply to traffic going into the maritimes. It applies to traffic out of and within so that your point would not apply here, I think.

Mr. FRASER: I understand that the Canadian National Railways owns some trucking companies. Is it correct to say that you operate trucking companies? Is that shown in the operating revenue or is that separate? I could not find it any place in the statement.

The CHAIRMAN: Will you let Mr. McLure finish before we go on with other subjects?

Mr. MCLURE: I just do not understand the situation that the minister has explained.

Hon. Mr. CHEVRIER: The 20 per cent subsidy paid by the dominion government to the Canadian National Railways and other lines applies only to traffic moving within the preferred area and out of the preferred area, but not into the preferred area, so that the point that you are trying to make in order to get the breakdown would not apply, since the $5,693,000, which you referred to, does not cover traffic into the maritime regions, nor into the selected regions. Therefore, it is only a partial breakdown.

The CHAIRMAN: There is one factor missing, you see, and on account of that missing factor, the Canadian National Railways is not in a position to give you the figures that you are asking for.

Mr. MCLURE: I hope you do not refer to this as a subsidy. You used the word "subsidy."

Hon. Mr. CHEVRIER: Preferred payment, if you wish. I do not want to get into an argument as to what it should be called.

Mr. MCLURE: That was one mistake that was made by the royal commission. They referred to this as a subsidy and they should be put right on it. It is not a subsidy at all.

The CHAIRMAN: What do you call it, Mr. McLure?

Mr. MCLURE: It is actually payment of a legal debt for injustices that were carried out on the railway in the maritime provinces, and if you go back to 1912, you can see it was this way: a horizontal increase of 55 per cent was put on all freight rates all over Canada, but what went on in the maritimes?—92 per cent—and the only adjustment we are getting of that injustice is this 20 per cent, and we would not have that had it not been for the Andrew Rae Duncan Commission. It is not a subsidy nor a handout by any means. It is only payment of a legal debt that the government owed to the maritime provinces.

Hon. Mr. CHEVRIER: I do not want to get into an argument with you on the matter, but the estimates have always described it as a "subsidy".

Mr. MUTCH: The main thing is they get the money.

Hon. Mr. CHEVRIER: If you would rather call it the difference between the normal tariff and the preferred tariff, I have no objection.

Mr. GORDON: We do not, of course, in our statement, call it a subsidy. We just refer to it as payment under Maritime Freight Rates Act.

You wanted to know our investment in trucks, Mr. Fraser?

Mr. FRASER: You do not show in your statement of operating revenues anything from trucks; you might show it there, but I have not seen it.

Mr. GORDON: Well, it is included in our income statement. If you turn to page 6, you will see an item there: results of separately operated companies.

Mr. FRASER: Can you give us a breakdown from the revenue point of view?

Mr. GORDON: Yes, I can, but I would like to deal with the question first. Included in that over-all item there are the results of separately operated properties. Yes, we have trucking companies. Would you like to know the routes over which they operate?

Mr. FRASER: I think it would be very interesting.

Mr. GORDON: We own a company called Canadian National Transportation Limited, and in that company we have an investment of $1,201,084. That is the company through which we operate all our trucking services. Now, there are buses operated by the Niagara, St. Catharines and Toronto Railway and Oshawa Railway Company. There is a bus and truck service between Port Arthur and Geraldton; there is the Kamloops to Kamloops Junction route; there is the Belleville, Bloomfield, Wellington and Picton line; there is a route between Toronto and Oshawa, and there is an item for messenger and distribution service shown here also.

Now the results of operations of that company show a profit over all of $10,271 which was transferred to the Canadian National Railways accounts for the year 1949.

Mr. FRASER: That is a net revenue, $10,271?

Mr. GORDON: Yes, for that specific company. We do not, of course, try to arrive at the value of the services as feeders to the railways, but standing on their own feet they made a profit of $10,271.

Mr. ADAMSON: Do these trucks transport passengers or freight?

Mr. GORDON: Both. The route between Port Arthur and Geraldton is a bus passenger service.

Mr. ADAMSON: I see occasionally St. Catharines buses running to Toronto. Are they on a charter basis in such cases?

Mr. GORDON: There is a truck service from Toronto to Oshawa; and in addition there are buses operated by the Niagara, St. Catharines and Toronto Railway, and Oshawa Railway Company, which, in turn, is owned through the Canadian National Transportation Limited, and the earnings from this company in turn are washed into the final operations of the system. The Canadian National Transportation, Limited, in other words, is a holding company.

Mr. CAVERS: There is one question I might ask with regard to the Canadian National Transportation Limited. The operation of street cars or suburban cars in the Niagara Peninsula has been discontinued. Does the company feel they will make a greater profit in operating solely motor transport, rather than under the former joint system?

Mr. GORDON: Mr. Dingle is in a better position to answer that, being an operating matter.

Mr. DINGLE: The discontinuance of the cars brought about the substitution of buses, and it is felt that we will get better results from the change.

Mr. FULTON: Could we have a breakdown under the general headings of the net profit or net loss of the separately operated companies? You have given us the bus subsidiary, the profit on the Canadian National Transportation Limited, as $10,271.

Mr. GORDON: Yes. These are the companies. I will call the names of the companies included and give their net results for the year as I read them.

Mr. FULTON: If you could make it even more general by giving us the figure for each one by type. You gave us yesterday the figures for the separate hotels. Now, could you let us know the net results for hotels, the net results of your Pacific steamships and so on?

Mr. GORDON: I do not think I can do it that way. Anyway I will give you what I have here. The Canadian National Railways (France) showed a profit—that is the company that operates the Scribe Hotel in Paris. That company showed a profit of $8,483. I will read the complete list:

	1949
Canadian National Railways (France)	$ 8,483.51
Canadian National Steamships (Pacific)	232,011.52*
Canadian National Transportation Limited	10,271.40
Montreal & Southern Counties Railway Company	389,060.05*
Montreal Fruit & Produce Terminal Ltd.	30,224.09
Montreal Stock Yards Company	17,102.49
Montreal Warehousing Company	81,359.77
Northern Alberta Railways	211,344.03*
Oshawa Railway Company	201,321.65
Prince Rupert Dry Dock & Shipyard	22,782.14*
Thousand Islands Railway	10,768.97*
Canadian National Realties Limited	37,403.83
Canadian Northern Land Department	295,755.13
Niagara, St. Catharines & Toronto Ry.	372,021.06*
Grand Trunk Pacific Terminal Elevator Company	25,717.51*
Grand Trunk Milwaukee Car Ferry Company	1,904.18*
Centmont Corporation	1,917.33
Central Vermont Transit Corporation	46.68*

*Indicates loss.

bringing out a grand total of a loss, as shown on page 6 of our consolidated income account, of $581,816.94, over all.

Mr. FRASER: Would you mind giving us that figure for the Niagara-St. Catharines route again?

Mr. GORDON: There was a loss there of $372,021.

Mr. ADAMSON: That will not be recurring?

Mr. GORDON: We are making the adjustments we talked about.

Mr. ADAMSON: What is the name of the hotel in Paris?

Mr. GORDON: The Scribe Hotel. Incidentally we do not operate the hotel ourselves. We have it under a rental arrangement and that is how we have been able to get the money out of France under their foreign exchange control regulations. It is taken out as rental.

Mr. FULTON: What was the name of the company after you mentioned the Canadian National Transportation Company?

Mr. GORDON: The Montreal and Southern Counties Railway Company. The loss there was $389,060.

Mr. FULTON: And the other one?

Mr. HATFIELD: Where does that line run?

Mr. GORDON: It runs out of Montreal over Victoria bridge and down in that area.

Hon. Mr. CHEVRIER: Down to the Magog area.

Mr. GORDON: Incidentally, someone asked for the figure for the Niagara, St. Catharines, and Toronto line. The loss was $372,000 and includes a write-off of $202,000 covering the retirement of Lakeside Park which we gave up.

Mr. FRASER: Who takes that over, the city?

Mr. FULTON: You have not given us the figure for the hotels wwhich I think you said shows an over-all profit?

Mr. GORDON: The hotels are shown separately; they are not included.

The CHAIRMAN: The figure was given as being $400,000 odd yesterday. Shall we go on to operating expenses?

Mr. FRASER: Just a minute, I have one question here. You say that Lakeside Park has been sold?

Mr. GORDON: Lakeside Park has been disposed of—sold.

Mr. FRASER: You have sold it and written if off?

Mr. GORDON: We are through with the operation.

Mr. FRASER: How much did you get for it?

Mr. GORDON: We recovered $17,000 but the loss we wrote off in closing up the account was $202,000. The recovery has been offset so that the net figure is $202,000.

Mr. FRASER: To whom did you sell it?

Mr. GORDON: The sale was made to a Mr. S. H. Brooksom.

Mr. ADAMSON: Are you still going to run those two steamships across there?

Mr. FOLLWELL: I have a question here with respect to demurrage. I notice that there has been a drop in revenue of almost $1,000,000. I presume that there is an answer for it and perhaps it is that labour is more plentiful and your cars are loaded more quickly?

Mr. DINGLE: That is correct, plus removal of penalties.

Mr. GILLIS: Mr. Gordon, listening to you run over that list, I gathered that practically all of the deficit you are incurring on your road is coming from Ontario?

Mr. GORDON: No, no, that is quite wrong. As a matter of fact our heavy earning region and our heavy traffic is in the central traffic region.

Hon. Mr. CHEVRIER: Those are subsidiary companies.

Mr. GILLIS: Nevertheless they are a charge against the C.N.R.

Mr. GORDON: The net difference to the company was only $500,000 but the deficit we were talking about yesterday was $500,000,000. As a matter of fact the loss on the Montreal Southern Counties Railway was $389,000 and that is not in Ontario.

Mr. GILLIS: It is in the centre of Canada though.

Mr. MOTT: Mr. Chairman, I would like to ask about the Prince Rupert dry-dock which shows a loss of $22,782. I assume you are handling the dry-dock over to the Department of Public Works but that it is to be operated by the C.N.R.?

Mr. GORDON: Yes.

Mr. MOTT: Perhaps the question should not be put before this committee, but is it good business unless there is an overseer from the Department of Public Works in that dry-dock?

Mr. GORDON: Oh, the arrangements are not finalized but nevertheless if we operate it for the Department of Public Works we would be the management in charge.

Mr. MOTT: Nevertheless you would not be worrying much about losses.

Mr. GORDON: I think that if I let that pass it would be a reflection on the management. If the Department of Public Works is satisfied to let the C.N.R. manage the dock then you can rest assured that they would be satisfied with the

quality of the management. We are not asking for this arrangement but we are being asked to do it by the Department of Public Works. We are accustomed to carrying burdens for others.

Mr. MOTT: There has been a loss there for some time.

Mr. MUTCH: As between two government departments it would be better to leave it to the one with more experience.

Mr. CAVERS: May I refer to a question on miscellaneous structures. I would like to know what the miscellaneous structures were and also what accounts for the increase in expense from $2,257 in 1948 to $10,857 in 1949?

Mr. FULTON: May I just interrupt? We have not finished with operating revenue.

Mr. GORDON: I am quite agreeable to get the particulars but I do suggest that an item of $8,000 out of a total of $88,000,000 is getting down to pretty small detail. We will trace the figure for you if you wish and if you think it is important. I have not got the information available at the moment but I can get it if you wish.

Mr. HATFIELD: Could I have the answer again with respect to the reduction in revenue on demurrage?

The CHAIRMAN: The answer was increased labour facilities.

Mr. HATFIELD: Was it not increased rates?

Mr. DINGLE: It simply indicates that our cars were released more promptly, and penalties were removed.

Mr. HATFIELD: It might represent the result of increased storage charges?

Mr. GORDON: There may be other reasons. If what you say is true it has had a very salutary effect—because demurrage at any time is an economic loss.

Mr. HATFIELD: I should think that your answer was wrong, Mr. Dingle.

Mr. FULTON: With respect to revenue or loss from subsidiary operations I am quite sure that the management will have had in mind the desirability of giving up any that show recurring losses. There are four large ones, one being Pacific Steamships—and I would not suggest that be included—and there is the northern Alberta railway.

Mr. GORDON: That is a joint operation.

Mr. FULTON: Yes, and the Montreal and Southern Counties Railway, and there is another one from Toronto.

Mr. MOTT: Yes, give that up.

Mr. FULTON: Does the history in past years show deficits in all of those four companies?

Mr. GORDON: I think the answer is yes, but I would not like to say the degree. Generally, I think the answer is yes. I may say that I have in mind a pretty careful review of those subsidiary operations to make certain that we are keeping up to date in our outlook, and to see if any of them can be given up. It is a subject which is constantly under review but I intend to take a special look at it as a part of a new managerial review.

Mr. FULTON: I suppose they are presently looked at as part of the system?

Mr. GORDON: Yes, but we have given a number of those up over the years when they have outlasted their usefulness. You will notice that we have reduced the over-all deficit from $973,000 in 1948 to $583,000 in 1949 so that we are making some progress.

Mr. FULTON: One final question on the Grand Trunk Western Elevator Company—I think that was the fourth from the last.

Mr. GORDON: The Grank Trunk Pacific Terminal Elevator Company.

Mr. FULTON: Where is it?

Mr. GORDON: At Fort William.

Mr. FULTON: Is it necessary to operate that as part of the railway or can you turn it over to somebody else who might operate it for you?

Mr. FOLLWELL: It does not matter, the loss would be there just the same no matter who ran it.

Mr. FULTON: I am wondering if it would be.

Mr. MUTCH: It is a little like asking which leg of the horse carries the most weight. If they own the elevator they fill their own cars but the position might be different.

Mr. GORDON: In point of fact we are not operating that particular company. The figure represents the rental that we receive from the property but it is not sufficient to cover the interest, funded debt, and miscellaneous charges.

Mr. FULTON: Have you made any effort to sell it or can you get out from under it?

Mr. GORDON: I do not know but, as I say, that will be one of the things included in my review.

Mr. ADAMSON: You said that you are used to carrying burdens for others. Apropos of that I was going to ask about the carrying of mail. Is it a profitable part of the business and if so how is it arranged? Is the revenue based on a ton mile or are there separate contracts for each part of the country?

Mr. GORDON: Well, the question of the revenue of the railway in respect of carrying mail has been under consideration for some time. There has been a great deal of discussion between officers of the two departments. We claim it is unprofitable and we are trying to establish to the Post Office Department that we are entitled to an increase.

Mr. ADAMSON: Yes.

Mr. GORDON: But the matter is under active discussion and will probably be adjudicated upon.

Mr. ADAMSON: You would sooner not discuss it here because it is sub judice.

Mr. GORDON: Yes. I do not think that it is appropriate to discuss it now because it will come up for discussion between the two departments.

Mr. ADAMSON: How are you paid, on a ton basis?

Mr. DINGLE: No, on a unit basis.

Mr. GORDON: How do you mean?

Mr. DINGLE: For the space in the car.

Mr. GORDON: For the total space occupied in the car by the mail.

Mr. ADAMSON: Therefore, if there are ten bags you get so much for that car and if there are twenty bags you get so much more. It would fluctuate each trip?

Mr. GORDON: Yes.

Mr. HATFIELD: What effect has air mail on the matter?

Mr. GORDON: That is all part of the discussion regarding carriage of mail by T.C.A. and ourselves. It has been under active discussion by the three interested organizations and in due course somebody is going to have to make a decision. In the meantime the officials are trying to establish the facts. Whoever the government decides is the appropriate referee will have to make the decision.

The CHAIRMAN: As your chairman, I think that the time has arrived when I should draw a matter to your attention. In other years this committee has cleared the report we are now studying, the report of the Canadian National Railways Securities Trust, the report of the Canadian National (West Indies)

Steamships Limited, and the budget in six sittings. We are now nearing the end of the committee's fifth sitting and we are still on the first report. We have a new president of the Canadian National Railways who has a tremendous task to gather up all the loose ends and to make a complete study of the entire system. I wonder, while we are gathering very interesting information through some of these very detailed questions, whether we are being fair to our new President who wants to get out of Ottawa by Thursday night if at all possible. I do not want to be placed in the position as your chairman of appearing to be attempting to hurry you when you come to some important matter on the budget items for the current year. However, I think it is my duty as chairman to appeal to you all to leave over these detailed questions until another year. Surely it is not fair to Mr. Gordon. The task which he has undertaken this year is appallingly large; and I think we as a parliamentary committee ought to co-operate with him and clear him as quickly as we can and send him off with our best wishes to go to work.

Mr. GILLIS: I agree with you on that.

The CHAIRMAN: Let me assure you, Mr. Gillis, that while I may have been looking at you I was not talking to you.

Mr. GILLIS: No, but as far as I am concerned I do not intend to build up any post mortems on this road. This whole matter is closed as far as I am concerned. I am interested in the budget which is a heavy one.

The CHAIRMAN: Yes.

Mr. FRASER: And when we come to the budget we will have the same story all over again.

The CHAIRMAN: But right now we are keeping the most important man in Canada, certainly one of them, here, and at the rate we are going it looks as though we will be keeping him here before this committee for two or three months.

Mr. HATFIELD: But he has to get some information.

The CHAIRMAN: I said that in my opinion we should be more practical, more realistic about this.

Mr. FULTON: I think we are being practical and realistic. Just bear in mind that we have a $2 billion corporation and a half billion operation besides.

The CHAIRMAN: Should we keep the most important man in that organization before us asking for detailed information? Please don't think I am being critical, but 75 per cent of the questions asked this morning I do not think should have been asked in the circumstances.

Mr. FULTON: Of course, that is a matter of opinion.

The CHAIRMAN: Right.

Mr. HATFIELD: I would like to draw the attention of the chairman to the fact that we had no committee last session.

The CHAIRMAN: Oh yes, I checked the record of the committee and last year we held six sittings.

Mr. HATFIELD: I mean at last fall's session.

The CHAIRMAN: I am referring to last year; and on the 28th of March the committee held two sittings, two sittings on the 29th of March and two sittings on the 30th of March, six sittings in all; and the man who was then in the saddle was very familiar with all phases of the operation, and it did not matter then if we kept Mr. Vaughan for a matter of weeks or longer; but here we have a new president assuming a tremendous task. Why on earth should we impose on him? I doubt very much that we are being fair to him.

Mr. HATFIELD: I was referring to the fact that last fall, at the fall session, the committee did not sit.

The CHAIRMAN: I am not talking about the fall.

Mr. HATFIELD: But we had no committee.

Hon. Mr. CHEVRIER: I would like to say that as far as the estimates are concerned they are refered to the sessional committee on railways and shipping but once a year. If the committee wanted to meet more often then the matter is one which is in its hands, but we have never in my experience come here more than once a year. What the chairman has in mind is that once each year the reports, the annual report of the Canadian National Railways and related companies, are submitted to this committee.

Mr. POULIOT: And it is a most important job each year.

Mr. MUTCH: There isn't anything to argue about there; there is only one budget for the Canadian National Railways in each calendar year.

Hon. Mr. CHEVRIER: That is right, but we had two sessions last year.

Mr. MCLURE: But you must not forget one thing; we are all anxious for the president to get as much information as he can out of this committee. You see, therefore, we are trying, each one of us, to give him a little more information than we gave last year.

Mr. MUTCH: As long as it is purely a matter of kindness.

Mr. POULIOT: If I may be permitted, I would refer to what you have said and endorse it by stating that in my opinion Mr. Gordon is a new man; he has spoken like a man of experience; and I would not put the accent on the "new". I think he has done very well, but for my part I have no intention of continuing with the old business.

The CHAIRMAN: No, no.

Mr. POULIOT: As I see it, it is not too important for us to go back over what happened away back in 1923 or 1924; I think we must proceed now with an eye on the future.

The CHAIRMAN: Operating expenses:

Mr. FULTON: I cannot allow this to pass without following it up by saying that in so far as the activities of this committee are concerned, these estimates were referred to the committee by the House for careful scrutiny and the duty devolves upon the members of this committee to make that scrutiny. I certainly agree with what Mr. Pouliot said, that Mr. Gordon has shown an amazing grasp of the situation. I do not think we are putting on him any burden which he cannot carry. I am informed that in years gone by Sir Henry Thornton sat here for months.

Mr. POULIOT: It was Bennett who did it.

Mr. FULTON: I don't care who did it. I think it is an indication of the importance of considering these matters most thoroughly. I understand the present practice developed more or less arising out of conditions during the war, and sometimes items were not given the scrutiny which they should have had. But I do think we should, in fairness to the management as well as to the committee and the duty we have to the House, not hurry this matter unduly in reviewing past operations in order that we can understand them properly.

Hon. Mr. CHEVRIER: I think some objection arose over the fact that questions are repetitious. I think the committee will have to agree that after having considered the statement of the chairman and president and having dealt with that for the better part of a day it went back over his report and examined it section by section and then proceeded to a consideration and discussion of the consolidated income account, and if we keep on doing that we will have the same sort of repetition which we have experienced so far. That is why the chairman is anxious to clear up this report and get on to the budget so that much of this continual repetition may be avoided. Those of you who were on

the committee last year will recall the way we proceeded, and it was felt that we should do it the same way this year. Last year we dealt with the statement by Mr. Vaughan and then asked questions on the balance sheet, both relating to assets and liabilities. We did not go into a consideration of the chairman's report at all, we proceeded directly to a consideration of the statement on which it was based.

Mr. FULTON: But at that time we were facing an election and such is not the case today.

Mr. POULIOT: This is just the same thing as when Mr. Drew read the same letter twice in the House.

Mr. JAMES: To bring this matter to a head I am going to move that we proceed to a consideration of the budget.

Mr. FRASER: Just a moment, Mr. Chairman, we have not as far as I know before us a copy of the budget. Now, we should have it if you want to hurry through this.

The CHAIRMAN: It will be before you in a moment if you want it.

Mr. MOTT: Let's close this cold war and get down to business.

Mr. ADAMSON: I have just one remark, Mr. Chairman. From the fact that we have a new president and that he is trying to get this railway out of its difficulties, I think that is one of the reasons why this committee should go into the details as extensively as possible.

The CHAIRMAN: Next year, Mr. Adamson.

Mr. JAMES: Everyone here says they are trying to give the management information. Are we to continue doing that in the way that it has been done so far? Most of the talking has been done by about six members around the table, and if the other twenty-five want to get into it, well, it is going to take a long time. There have been only about six talking so far and they all seem to be railway experts.

The CHAIRMAN: I hope you do not consider my remarks as being critical of anyone. What I am suggesting is that we are faced with very special circumstances this year with a new president in the saddle, and he should have an opportunity to get on with his work.

Mr. POULIOT: What I said about you, Mr. Gordon, a moment ago I should like to repeat with reference to Mr. Dingle; he has shown that he is master of the situation and given very appropriate replies to all questions which have been asked him by the committee.

The CHAIRMAN: Operating expenses:

OPERATING EXPENSES

MAINTENANCE OF WAY AND STRUCTURES

	1949	1948
Superintendence	$ 5,916,019.89	$ 5,621,897.57
Roadway Maintenance	11,798,467.74	12,066,612.22
Tunnels and Subways	278,921.38	207,635.97
Bridges, Trestles, and Culverts	4,632,640.67	4,465,485.45
Ties	9,987,720.08	8,631,035.22
Rails	6,947,780.41	4,493,032.15
Other Track Material	5,425,043.71	4,060,938.03
Ballast	1,463,273.83	1,787,676.90
Track Laying and Surfacing	23,145,491.98	23,363,478.97
Fences, Snowsheds, and Signs	1,192,849.45	1,048,136.14
Station and Office Buildings	3,954,335.45	3,859,388.75
Roadway Buildings	480,233.53	470,740.51
Water Stations	722,151.83	744,198.63
Fuel Stations	403,612.98	461,136.57
Shops and Enginehouses	3,002,250.45	2,829,845.57
Grain Elevators	85,740.41	52,941.40
Storage Warehouses	2,578.13	1,792.17
Wharves and Docks	296,700.92	201,851.09

OPERATING EXPENSES—*Continued*

	1948	1949
Telegraph and Telephone Lines	4,157,384.38	3,776,348.58
Signals and Interlockers	1,667,655.11	1,648,140.58
Power Plants	34,453.96	45,725.36
Power Transmission Systems	311,041.17	285,227.16
Miscellaneous Structures	10,857.92	2,257.36
Road Property—Depreciation—U.S. Lines	921,508.27	909,774.33
Road Property—Retirements	2,160,388.56	1,945,537.23
Deferred Maintenance—*Credit*	*8,000,000.00*	*4,500,000.00*
Roadway Machines	1,187,803.49	984,469.70
Dismantling Retired Road Property	224,806.62	214,000.35
Small Tools and Supplies	1,431,655.82	1,359,315.58
Removing Snow, Ice and Sand	3,756,474.98	4,318,701.71
Public Improvements—Maintenance	599,253.20	679,397.93
Injuries to Persons	800,960.15	818,435.52
Insurance	29,533.49	23,120.96
Stationery and Printing	97,200.51	94,335.23
Other Expenses	26,432.30	22,610.52
Maintaining Joint Tracks, Yards, etc.—Debit	1,245,385.03	1,156,645.34
Maintaining Joint Tracks, Yards, etc.—*Credit*	*2,063,717.76*	*2,220,868.26*
Right of Way Expenses	67,660.77	81,267.96
	$ 88,402,550.81	$ 86,012,266.45

MAINTENANCE OF EQUIPMENT

	1949	1948
Superintendence	$ 2,362,299.18	$ 2,239,574.04
Shop Machinery	3,597,617.92	3,387,955.09
Power Plant Machinery	214,484.23	193,460.11
Machinery—Retirements	341,909.10	173,958.58
Machinery—Depreciation—U.S. Lines	72,542.08	67,991.02
Dismantling Retired Machinery	7,901.64	5,980.53
Steam Locomotives—Repairs	31,868,175.47	31,323,572.68
Other Locomotives—Repairs	1,110,402.03	837,507.58
Freight-train Cars—Repairs	28,438,072.73	28,101,636.98
Passenger-train Cars—Repairs	13,407,738.50	12,144,155.76
Floating Equipment—Repairs	945,449.54	574,555.68
Work Equipment—Repairs	3,010,661.22	3,003,013.45
Express Equipment—Repairs	285,053.56	284,743.72
Miscellaneous Equipment—Repairs	247,020.57	276,522.26
Miscellaneous Equipment—Retirements	16,486.73	10,757.06
Dismantling Retired Equipment	208,898.98	182,848.76
Equipment—Depreciation	19,585,633.07	17,834,782.56
Express Equipment—Depreciation	190,961.28	213,088.08
Injuries to Persons	702,324.27	669,893.87
Insurance	53,065.58	57,695.60
Stationery and Printing	85,524.08	83,701.77
Other Expenses	79,985.82	45,790.33
Joint Maintenance of Equipment—Debit	338,398.54	373,225.13
Joint Maintenance of Equipment—*Credit*	*254,468.89*	*246,890.40*
Deferred Maintenance—Equipment—*Credit*	—	*3,500,000.00*
	$106,916,137.23	$ 98,339,520.24

TRAFFIC

Superintendence	$ 3,008,156.06	$ 2,889,248.41
Outside Agencies	3,793,971.58	3,656,439.60
Advertising	1,061,605.58	1,036,505.48
Traffic Associations	177,187.03	165,266.26
Stationery and Printing	534,052.21	473,337.00
Industrial and Development	284,816.94	272,014.94
Colonization and Agriculture	245,868.66	231,770.18
	$ 9,105,658.06	$ 8,724,581.87

OPERATING EXPENSES—*Continued*

TRANSPORTATION

	1949	1948
Superintendence	$ 5,262,582.43	$ 5,077,054.05
Dispatching Trains	2,923,421.47	2,834,937.77
Station Employees	33,305,177.93	33,573,534.73
Weighing, Inspection, and Demurrage Bureaus	142,004.75	139,264.79
Coal and Ore Wharves	48,558.95	41,646.74
Station Supplies and Expenses	2,655,647.96	2,534,221.28
Yardmasters and Yard Clerks	6,582,237.31	6,462,681.85
Yard Conductors and Brakemen	11,856,362.65	12,302,395.06
Yard Switch and Signal Tenders	1,203,312.70	1,122,502.22
Yard Enginemen	6,294,694.75	6,993,817.34
Yard Motormen	2,087,127.21	1,644,540.79
Yard Switching Fuel	7,830,278.27	9,178,594.88
Yard Switching Power Produced	19,379.21	17,388.25
Yard Switching Power Purchased	82,873.43	86,839.62
Water for Yard Locomotives	214,686.46	230,899.15
Lubricants for Yard Locomotives	135,435.56	135,876.53
Other Supplies for Yard Locomotives	96,111.73	104,025.62
Enginehouse Expenses—Yard	2,893,867.71	2,903,870.96
Yard Supplies and Expenses	265,200.83	240,932.41
Operating Joint Yards and Terminals—Debit	2,193,908.88	2,108,807.83
Operating Joint Yards and Terminals—*Credit*	*2,314,995.48*	*2,372,838.85*
Train Enginemen	19,726,772.10	20,360,690.42
Train Motormen	867,417.11	532,866.67
Train Fuel	47,249,322.18	48,072,104.21
Train Power Produced	5,285.71	5,345.26
Train Power Purchased	73,455.58	63,965.28
Water for Train Locomotives	1,774,505.52	1,718,311.90
Lubricants for Train Locomotives	870,832.26	819,824.56
Other Suplies for Train Locomotives	469,887.55	456,691.77
Enginehouse Expenses—Train	8,532,258.28	8,323,909.71
Trainmen	23,890,489.93	24,077,394.97
Train Supplies and Expenses	15,405,951.72	15,421,924.49
Operating Sleeping Cars	2,734,557.64	2,539,957.94
Signal and Interlocker Operation	770,250.56	763,156.42
Crossing Protection	1,183,041.16	1,150,665.10
Drawbridge Operation	212,852.38	195,354.20
Telegraph and Telephone Operation	568,747.70	564,234.32
Teiegraph—Commercial	7,690,197.81	7,164,451.76
Operating Floating Equipment	3,556,679.27	1,686,572.41
Express	16,302,050.22	15,192,057.34
Stationery and Printing	1,064,056.61	1,017,546.68
Other Expenses	1,886,828.13	2,027,471.33
Operating Joint Tracks and Facilities—Debit	1,389,854.39	1,488,885.55
Operating Joint Tracks and Facilities—*Credit*	*612,387.07*	*599,690.13*
Insurance	18,512.67	15,951.97
Clearing Wrecks	607,159.21	724,924.67
Damage to Property	308,559.35	135,931.02
Damage to Live Stock on Right-of-Way	77,146.34	87,897.99
Loss and Damage—Freight	3,292,634.24	3,428,830.89
Loss and Damage—Baggage	5,434.61	3,891.84
Injuries to Persons	2,015,289.13	2,549,627.79
	$245,715,517.00	$245,351,741.35

MISCELLANEOUS

Dining and Buffet Service	$ 4,218,482.93	$ 4,307,000.94
Restaurants	294,435.55	330,830.86
Grain Elevators	191,072.37	159,442.72
Other Miscellaneous Operations	711,124.48	52,375.74
Operating Joint Miscellaneous Facilities—Debit	346,668.08	361,592.20
	$ 5,761,783.41	$ 5,211,242.46

OPERATING EXPENSES—*Concluded*

GENERAL

	1949	1949
Salaries and Expenses of General Officers	$ 632,211.69	$ 619,175.40
Salaries and Expenses of Clerks and Attendants	8,876,678.49	8,415,137.25
General Office Supplies and Expenses	500,658.49	417,355.21
Law Expenses	551,078.56	534,293.79
Relief Department Expenses	42,500.00	42,500.00
Pensions	11,296,839.37	10,386,893.26
Stationery and Printing	369,507.10	391,857.33
Valuation Expenses	17,298.41	16,679.51
Other Expenses	226,766.80	202,069.48
General Joint Facilities—Debit	100,770.38	92,977.21
General Joint Facilities—*Credit*	*14,295.64*	*18,320.81*
	$ 22,600,013.49	$ 21,100,617.63

Carried.

The CHAIRMAN: Property investment account.

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1949

ROAD:			
New Lines Constructed		$ 382,251.81	
Rails and Fastenings		1,533,367.97	
Tie Plates and Rail Anchors		1,371,327.72	
Ballast		558,289.51	
Large Freight Terminals		1,321,974.48	
Large Passenger Terminals		615,732.22	
Yard Tracks and Sidings		1,163,100.93	
Roadway Machines		705,316.18	
Bridges, Trestles and Culverts		862,552.84	
Tunnels		191,741.58	
Crossing Protection		346,475.57	
Stations and Station Facilities		911,775.17	
Water Supplies		189,844.63	
Shops, Enginehouses and Machinery		1,960,114.69	
Docks and Wharves		100,151.19	
Automatic Signals and Interlocking Plants		1,642,017.57	
Telegraphs—Railway		388,425.89	
Telegraphs—Commercial		1,922,858.97	
Non-carrier Property		1,645,717.68	
General		410,769.18	$ 18,223,809.78
EQUIPMENT:			
Equipment Purchased or Built		$ 28,332,025.20	
Equipment Retirements		*3,323,859.36*	
General Betterments to Equipment		3,762,415.49	
Equipment Conversions		367,137.82	
Express and Miscellaneous Equipment		402,833.36	29,540,552.41
HOTELS			222,622.98
SEPARATELY OPERATED PROPERTIES			*976,543.72*
NET ADDITIONS AND BETTERMENTS DURING 1949			$ 47,010,441.45
Ledger Balance 1st January, 1949		$ 2,138,917,229.40	
Net Additions and Betterments during the year	$ 47,010,441.45		
Canadian Government Railways:			
Construction of Aqueduct at Fairview, N.S.	25,000.00		
Transfer of Property	181,067.02	47,216,508.47	
Ledger Balance at 31st December, 1949		$ 2,186,133,737.87	

Carried.

Mr. FRASER: No, just a moment, under operating expenses: Why is superintendence placed under operating expenses and it appears again at the head of the next page?

Mr. GORDON: That applies to different sections, one is superintendence of maintenance of way and structures and the other is maintenance of equipment.

Mr. FRASER: I see.

The CHAIRMAN: Property investment account, page 28:

Carried.

Mr. FRASER: On the item of hotels, what does that cover, the $222,000?

Mr. GORDON: That is the amount of capital spent on all hotel property during the year. It is a very small amount when it is spread over all our hotels.

The CHAIRMAN: Loans from the government of Canada.

LOANS FROM THE GOVERNMENT OF CANADA

	Principal Outstanding at Dec. 31, 1949	Interest Accrued 1949	Average Interest Rate
Loans for repatriation of U.K. securities	$391,444,731.50	$ 13,700,431.73	3·50%
Loans for debt redemption	276,105,886.98	6,416,548.08	2·32%
Loans for new rolling stock	34,408,973.71	923,776.73	2·56%
Loans for investment in T.C.A.	19,043,022.71	571,290.68	3·00%
Loans for capital expenditures and working capital	5,886,566.33	186,236.36	1·92%
Canadian Government Railways—working capital at consolidation 1923	16,771,980.54	—	
	$743,661,161.77	$ 21,798,283.58	2·91%

Carried.

The CHAIRMAN: Funded debt—principal and interest.

Mr. FRASER: Are there any tax free bonds included in the amounts indicated there? I understand that some bonds are tax free.

Mr. GORDON: There are Canadian National bonds tax free.

Name of Security	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1949	Interest Accrued 1949
Guaranteed by Government of Canada:					
5% Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	$ 1,016,091.86	$ 50,804.59
5% G. W. Perp. Debtr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	499,709.33	24,985.47
4% Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	5,446,783.07	217,141.32
4% Nor. Rly. Perpetual Debtr. Stock	G.T.R.	July 31, 1884	Perpetual	22,591.07	903.64
3% 1st. Mortgage Bonds	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.90
4% Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3% 1st Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768.33	34,883.04
3½% 1st. Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,636,506.48	197,277.73
3½% 1st. Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	550,726.60	19,275.43
3½% 1st. Mortgage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,597,517.87	125,913.13
5% 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	866,900.00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000.00	2,303,560.00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
2¾% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 2, 1947	Jan. 2, 1967	50,000,000.00	1,375,000.00
3% 17 Year Guaranteed Bonds	Can. Nat.	Jan. 3, 1949	Jan. 3, 1966	35,000,000.00	1,026,986.30
2⅞% 20 Year Guaranteed Bonds	Can. Nat.	Sept. 15, 1949	Sept. 15, 1969	70,000,000.00	526,328.49
Total				$ 537,756,898.61	$ 19,512,546.00
Guaranteed by Province of British Columbia:					
4% 1st. Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	$ 797,082.15	$ 31,591.31
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914.	Apr. 2, 1950	1,152,762.46	51,436.90
Total				$ 1,949,844.61	$ 83,028.21
Equipment Trust Issues:					
2¾% Series "P"	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	$ 2,100,000.00	$ 67,489.58
2½% " "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	852,000.00	30,766.67
2% " "R"	Can. Nat.	Dec. 1, 1947	Ser. 1, 12,'57	4,480,000.00	99,866.67
2⅛% " "S"	Can. Nat.	Mar. 15, 1948	Ser. 15, 3, '58	25,200,000.00	547,895.83
2¼% " "T"	Can. Nat.	Nov. 1, 1948	Ser. 1, 11,'58	19,350,000.00	463,593.75
Total				$ 51,982,000.00	$ 1,209,612.50

Name of Security	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1949	Interest Accrued 1949
Other Issues:					
4% Canada Atlantic 1st. Mtge. Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	$ 9,947,934.00	$ 397,917.36
4% 1st. Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd. Mtge. Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,574,530.00	142,981.20
4% 2nd. Mtge. Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,144,906.00	125,796.24
4% 1st. Mtge. Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,008.00	86,080.32
4% Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	3,992,929.66	159,717.19
4% Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	889,597.47	35,583.90
4% Perpetual Cons. Debenture Stock	C.N.Q.	Oct. 1906	Perpetual	465,545.33	18,621.81
4% 1st. Mtge. Perp. Debenture Stock	Q&LSt.J.	June 1, 1912	Perpetual	285,342.40	11,374.77
4% 1st. Mortgage Bonds	G.T.W.	Nov. 30, 1900	July 1, 1950	6,527,336.00	261,237.86
4½% 1st. Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% 1st. Mortgage Gold Bonds	M.& P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5% Indebtedness to Province of N.B.	Can. Nat.	Sept. 3, 1929	Nov. 15, 1958	380,022.60	19,001.12
2½% Registered Instalment Notes	Nfld. Rly.	1941 to 1944	Ser. 1, 3, '57	1,067,025.00	20,750.43
Interest on Securities retired in 1949				—	2,186,402.08
Total				$ 33,177,176.46	$ 3,497,464.28
Total Debt as per Balance Sheet				$ 624,865,919.68	$ 24,302,650.99

There is included in the above $12,485,725.45 par value of System Securities held in Special Funds and Accounts.

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Government of Canada as collateral.

The CHAIRMAN: Financing:

FINANCING

Year 1949

FUNDED DEBT—New Issues			
3%	Canadian National Railway Company 17 Year Guaranteed Bonds, due January 3, 1966	$ 35,000,000.00	
2⅞%	Canadian National Railway Company 20 Year Guaranteed Bonds, due September 15. 1969	70,000,000.00	
2½%	Newfoundland Railway Registered Instalment Notes due serially to March 1, 1957 (assumed April 1, 1949)	1,138,128.00	$106,138,128.00
FUNDED DEBT—Retirements			
5%	Canadian National Railway Company 40 Year Guaranteed Gold Bonds. due October 1, 1969, called October 1, 1949 at 105—par value	$ 57,728,500.00	
4%	Central Counties Railway Company First Mortgage Bonds, due September 14, 1949	475,000.00	
2½%	Newfoundland Railway Registered Instalment Notes	71,103.00	
	Equipment Trusts—annual principal payments	7,228,000.00	
	Securities repatriated	2,263.34	65,504,866.34
	Increase in Funded Debt		$ 40,633,261.66
LOANS FROM GOVERNMENT OF CANADA—New			
	For repatriation of U.K. Securities		$ 5,428.92
LOANS FROM GOVERNMENT OF CANADA—Repaid			
	Loans for debt redemption	$ 2,819,901.41	
	Loans for new rolling stock	3,819,190.85	
	Loans for working capital	10,200,000.00	16,839,092.26
	Decrease in Loans from Government of Canada		$ 16,833,663.34
	Increase in Capital Debt 1949		$ 23,799,598.32

The issue of $35,000,000 Canadian National Railway Company 3% 17 Year Guaranteed Bonds, dated January 3, 1949, was sold at a price of 99.00, representing an annual interest cost to the Company of 3·075%, and is callable on any interest payment date on or after January 3, 1961, at par, on 30 days' prior notice.

The issue of $70,000,000 Canadian National Railway Company 2⅞% 20 Year Guaranteed Bonds, dated September 15, 1949, was sold at a price of 98·625, representing an annual interest cost to the Company of 2·96%, and is callable on any interest payment date on or after September 15, 1964, at par, on 30 days' prior notice.

Carried.

The CHAIRMAN: Investments in Affiliated companies.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Total Par Value Outstanding	Owned by Can. Nat. System at Dec. 31, 1949 Par Value	Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000.00	$ 240,000.00	$ 240,000.00
Canadian Government Merchant Marine, Limited	800.00	800.00	800.00
Chicago & Western Indiana Railroad Company	5,000,000.00	1,000,000.00	1,000,000.00
The Detroit & Toledo Shore Line Railroad Company	3,000,000.00	1,500,000.00	1,500,000.00
Detroit Terminal Railroad Company	2,000,000.00	1,000,000.00	1,000,000.00
Northern Alberta Railways Company	12,500,000.00	6,250,000.00	6,250,000.00
The Ontario Car Ferry Company (Limited)	500,000.00	250,000.00	179,007.53
The Public Markets, Limited	1,150,000.00	575,000.00	575,000 00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600.00
The Toronto Terminals Railway Company	500,000.00	250,000.00	250,000.00
The Toledo Terminal Railroad Company	4,000,000.00	387,200.00	387,200.00
Trans-Canada Air Lines	25,000,000.00	25,000,000.00	25,000,000.00
Vancouver Hotel Company Limited	150,000.00	75,000.00	75,000.00
Total			$36,457,607.53

INVESTMENTS IN AFFILIATED COMPANIES—*Conc.*

BONDS:			
Northern Alberta Railways Co. 1st Mortgage Bonds	$21,255,000.00	$10,627,500.00	$10,627,500.00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,910,000.00	12,955,000.00	12,955,000.00
Total			$23,582,500.00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 3,011,042.87
Northern Alberta Railways Company			250,000.00
Railway Express Agency, Incorporated			173,493.22
Vancouver Hotel Company Limited			3,979.53
Total			$ 3,438,515.62
Total Investments in Affiliated Companies as per Balance Sheet			$63,478,623.15

Mr. FRASER: Under that heading I see there are 28 companies; does that cover any bus companies or trucking companies?

Mr. GORDON: No, we give them in another place.

Carried.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM:

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000.00
2	The Canadian National Railways Securities Trust	378,518,135.02
		$ 396,518,135.02

CAPITAL STOCK OWNED BY SYSTEM OR PUBLIC

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Co.	1	$ 6,302,340.00	$ 26,640.00
4	The Bay of Quinte Railway Company	20	1,395,000.00	
5	The Bessemer and Barry's Bay Railway Company	20	125,000.00	
6	The Canadian Express Company	1	1,768,800.00	
7	Canadian National Electric Railways	20	1,750,000.00	
8	Canadian National Express Company	21	1,000,000.00	
9	*Canadian National Railways (France)—francs 30,000,000	1	1,893,573.92	
10	*Canadian National Realties, Limited	20	40,000.00	
11	Canadian National Rolling Stock Limited	1	50,000.00	
12	*Canadian National Steamship Company Limited	41	15,000.00	
13	Canadian National Telegraph Company	20	500,000.00	
14	*Canadian National Transportation, Ltd.	1	500.00	
15	The Canadian Northern Alberta Railway Company	20	3,000,000.00	
16	Canadian Northern Manitoba Railway Company	20	250,000.00	
17	The Canadian Northern Ontario Railway Company	20	10,000,000.00	
18	Canadian Northern Pacific Railway Company	20	25,000,000.00	
19	The Canadian Northern Quebec Railway Company	20	9,550,000.00	3,849,200.00
20	The Canadian Northern Railway Company	1	18,000,000.00	
21	The Canadian Northern Railway Express Company, Limited	20	1,000,000.00	
22	Canadian Northern Steamships, Limited	20	2,000,000.00	
23	Canadian Northern System Terminals (Limited)	20	2,000,000.00	
24	Canadian Northern Western Railway Company	20	2,000,000.00	
25	*Cannar Oils Limited	1	100.00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—*Cont.*

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA—*Cont.*

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
26	*The Centmont Corporation	29	176,400.00	
27	Central Counties Railway	1	500,000.00	12,000.00
28	The Central Ontario Railway	20	3,331,000.00	
29	Central Vermont Terminal, Inc.	1	10,000,000.00	
30	Central Vermont Terminal, Inc.	29	5,000.00	
31	*Central Vermont Transit Corporation	26	5,000.00	
32	Central Vermont Transportation Company	26, 29	200,000.00	
33	The Champlain and St. Lawrence Railroad Company	1	50,000.00	
34	*Consolidated Land Corporation	44	64,000.00	
35	Duluth, Rainy Lake & Winnipeg Railway Company	37	2,000,000.00	
36	Duluth, Winnipeg and Pacific Railroad Company	37	100,000.00	
37	Duluth, Winnipeg and Pacific Railway Company	20	3,100,000.00	
38	*Grand Trunk-Milwaukee Car Ferry Company	44	200,000.00	
39	The Grand Trunk Pacific Branch Lines Company	41	200,000.00	
40	The Grand Trunk Pacific Development Company, Limited	41	3,000,000.00	
41	The Grand Trunk Pacific Railway Company	1	24,940,200.00	
42	The Grand Trunk Pacific Saskatchewan Railway Company	41	20,000.00	
43	*Grand Trunk Pacific Terminal Elevator Comany, (Limited)	41	501,000.00	
44	Grand Trunk Western Railroad Company, (Common)	1	20,000,000.00	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000.00	
45	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	13	373,625.00	6,825.00
46	The Halifax and South Western Railway Company	20	1,000,000.00	
47	*Industrial Land Company	44	1,000.00	
48	International Bridge Company	1	1,500,000.00	
49	The James Bay and Eastern Railway Company	20	125,000.00	
50	The Lake Superior Terminals Company Limited	20	500,000.00	
51	The Maganetawan River Railway Company	1	30,000.00	
52	Manitoba Northern Railway Comany	1	500,000.00	
53	The Marmora Railway and Mining Company	20	128,600.00	
54	The Minnesota and Manitoba Railroad Company	20	400,000.00	
55	The Minnesota and Ontario Bridge Company	20	100,000.00	
56	Montreal and Province Line Railway Company	26	1,000,000.00	
57	*Montreal and Southern Counties Railway Company	1	500,000.00	165,600.00
58	The Montreal and Vermont Junction Railway Company	29	197,300.00	
59	*Montreal Fruit & Produce Terminal Company, Limited	1	500.00	
60	*The Montreal Stock Yards Company	1	350,000.00	
61	*The Montreal Warehousing Company	1	236,000.00	10,440.00
62	Mount Royal Tunnel and Terminal Company, Limited	20	5,000,000.00	
63	Muskegon Railway and Navigation Company	44	161,293.00	
64	*National Terminals of Canada, Limited.	1	2,500.00	
65	National Transcontinental Railway Branch Lines Company	1	500.00	
66	*The Niagara, St. Catharines and Toronto Railway Company	20	925,000.00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—*Conc.*

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Conc.*

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
67	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	66	100,000.00	
68	*The Oshawa Railway Company	1	40,000.00	
69	The Ottawa Terminals Railway Company	1	250,000.00	
70	The Pembroke Southern Railway Company	1	107,800.00	
71	Prince George, Limited	1	10,000.00	
72	Prince Rupert, Limited	1	10,000.00	
73	The Quebec and Lake St. John Railway Company	20	4,508,300.00	489,160.00
74	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	20	201,000.00	
75	*Rail & River Coal Company	1	2,000,000.00	
76	St. Boniface Western Land Company	20	250,000.00	
77	The St. Charles and Huron River Railway Company	20	1,000.00	
78	St. Clair Tunnel Company	1	700,000.00	
79	*The Thousand Islands Railway Company	1	60,000.00	
80	The United States and Canada Rail Road Company	1	219,400.00	425.00
81	Vermont and Province Line Railroad Company	1	200,000.00	
82	The Winnipeg Land Company Limited	20	100,000.00	
			$ 202,821,731.92	$ 4,560,290.00

The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separaetly Operated Properties."

Carried.

Mr. FULTON: One question for information. What is the difference in the set-up between the Canadian National West Indies Steamships and the British Columbia Coastal Service; is one operated by the government and the other operated as a private company?

Mr. GORDON: In the case of the Pacific coast we own the company, and in the case of the Canadian National (West Indies) Steamships the government owns the ships and we operate them for the government.

Mr. FULTON: I am interested in this. I do not want to embarrass anyone, but is that a fair question to ask the management?

Mr. MUTCH: Ask the minister.

Hon. Mr. CHEVRIER: I doubt whether I can give you the history of it. This arose—I believe I am right in this—out of the old government merchant marine—ships which were operated by private operators to the West Indies, and the companies were not operating profitably and they decided to withdraw and the government then decided that it would establish a subsidiary, the Canadian National Steamships, and a number of these old government merchant marine ships were given to it to operate. I do not think it is a question of comparing which of the two is the better method of operation; but it was an imminent decision that had to be taken by the government away back in those days and they took this method. They owned these ships so they turned them over for operation to the Canadian National in a subsidiary corporation.

Mr. ADAMSON: Are these capital stocks all Canadian funds?

Hon. Mr. CHEVRIER: Do you mean the capital stock in the West Indies service?

Mr. ADAMSON: No, the capital stock of the whole system held by the public.

Mr. GORDON: Some are in the form of American funds, yes; but when they get into the system accounts everything there is indicated in Canadian dollars.

Mr. ADAMSON: Everything is broken down in that way in there, is it?

Mr. GORDON: Yes.

The CHAIRMAN: "Railway Equipment"?

RAILWAY EQUIPMENT

—	December 31, 1948	*Additions during year	Retirements during year	Conversions during year		December 31, 1949
				Added	Retired	
LOCOMOTIVES:						
Passenger—Freight	1,908	45	.....	2	.....	1,955
Switching	555	1	.....	.....	2	554
Electric	24	.....	.....	.....	.....	24
Diesel Electric	108	40	.....	.....	.....	148
Total	2,595	86	.....	2	2	2,681
FREIGHT EQUIPMENT:						
Box Cars	75,378	1,964	549	.....	351	76,442
Flat Cars	5,102	427	37	.....	28	5,464
Stock Cars	2,976	.....	25	81	.....	3,032
Coal Cars	16,080	1,091	575	.....	.....	16,598
Tank Cars	140	108	1	.....	5	242
Refrigerator Cars	3,686	398	11	.....	16	4,057
Caboose Cars	1,651	31	18	40	.....	1,704
Other Cars in Freight Service	11	.....	.....	2	.....	13
Total	105,024	4,019	1,214	123	400	107,552
PASSENGER EQUIPMENT:						
Coach Cars	1,093	48	14	.....	1	1,126
Combination Cars	270	23	9	1	.....	285
Dining Cars	86	8	.....	.....	1	93
Colonist Cars	168	.....	1	.....	1	166
Parlor Cars	61	.....	.....	.....	.....	61
Cafe Cars	27	.....	.....	.....	.....	27
Sleeping Cars	350	19	.....	.....	3	366
Tourist Cars	47	.....	.....	.....	.....	47
Baggage and Express Cars	1,081	50	15	.....	.....	1,116
Postal Cars	49	.....	.....	.....	.....	49
Unit Cars	32	.....	4	.....	.....	28
Other Cars in Passenger Service	55	.....	3	1	.....	53
Total	3,319	148	46	2	6	3,417
WORK EQUIPMENT:						
Cars in Work Service	7,581	198	291	282	1	7,769
FLOATING EQUIPMENT:						
Car Ferries	8	.....	.....	.....	.....	8
Barges	6	.....	.....	.....	.....	6
Steamers	.....	11	.....	.....	.....	11
Tugs	5	.....	.....	.....	.....	5
Work	3	.....	.....	.....	.....	3

*Includes Newfoundland District equipment acquired April 1, 1949—1,252 units

The CHAIRMAN: "Statistics of Rail-line Operations"?

Mr. FULTON: There are a lot of pages, Mr. Chairman.

Mr. GORDON: I might say that from here on these statistics are really matters for public information and do not call for approval or agreement from the committee.

STATISTICS OF RAIL-LINE OPERATIONS

	1949	1948
*TRAIN-MILES:		
Freight Service	43,160,657	44,982,912
Passenger Service	23,740,378	23,901,589
Total	66,901,035	68,884,501
Work Service	1,491,904	1,838,816
Total	63,392,939	70,723,317
*LOCOMOTIVE-MILES:		
Freight Service	45,831,562	47,897,549
Passenger Service	23,805,688	23,934,187
Train Switching —Freight	3,790,738	4,070,004
—Passenger	152,041	145,515
Yard Switching —Freight	15,579,565	16,727,070
—Passenger	1,707,756	1,697,406
Total	90,867,350	94,471,731
Work Service	2,003,049	2,449,032
Total	90,870,399	96,919,763
*CAR MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,158,838,514	1,211,547,787
Empty Freight Cars	500,340,311	496,444,069
Passenger Coach and Combination Cars	6,127,545	6,080,471
Sleeping, Parlor and Observation Cars	364,712	293,699
Dining Cars	19,667	14,499
Other Cars	7,404,387	6,979,100
Caboose	42,570,764	44,471,685
Total	1,715,665,900	1,765,831,310
*CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	788,212	624,574
Empty Freight Cars	79,081	40,557
Passenger Coach and Combination Cars	60,709,393	63,942,532
Sleeping, Parlor and Observation Cars	52,896,982	52,072,888
Dining Cars	8,084,720	8,443,302
Other Cars	77,933,744	73,544,699
Motor Unit Cars	666,307	725,399
Caboose	763,775	694,406
Total	201,922,214	200,088,357
Car-Miles—Total	1,917,588,114	1,965,919,667
Work Service	3,232,465	3,880,413
Total	1,920,820,579	1,969,800,080
AVERAGE MILEAGE OF ROAD OPERATED	23,902.01	23,400.62
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	76,845,970	85,240,738
Tons carried one mile—Revenue freight	30,921,807,529	32,942,999,471
Freight revenue	$394,424,463	$393,544,359
Revenue per ton	$5.13266	$4.61686
Revenue per ton-mile	$0.01276	$0.01195
Miles per revenue ton	402.39	386.47
Ton-miles—Revenue freight per mile of road	1,288,376	1,407,783
Ton-miles—All freight per mile of road	1,405,767	1,532,282
*Gross ton-miles of cars, contents and cabooses	73,203,829,127	76,355,177,207
Net ton-miles of freight (Revenue and non-revenue)	33,600,657,164	35,856,347,990
*Train-hours in freight road service	2,681,868	2,923,646
PASSENGER TRAFFIC:		
Passengers carried	18,678,371	20,083,064
Passengers carried one mile	1,620,839,960	1,754,856,873
Passenger revenue	$43,287,240	$41,562,141
Revenue per passenger	$2.31751	$2.06951
Miles per revenue passenger	86.78	87.38
Revenue per passenger mile	$0.02671	$0.02368
Passenger-miles per mile of road	67,812	74,992
NET RAILWAY OPERATING INCOME:		
Gross revenue per mile of road	$20,949.01	$20,993.89
Gross railway operating charges per mile of road	$20,716.94	$20,559.04
Net railway operating income per mile of road	$232.07	$434.85

*Exclude Newfoundland District.

REVENUE TONNAGE BY COMMODITIES

	Year *1949 Tons	Year 1948 Tons	Increase or *Decrease* Tons	Per cent
AGRICULTURAL PRODUCTS:				
Wheat	5,753,131	4,900,373	852,758	17·40
Corn	557,987	398,784	159,203	39·92
Oats	1,342,509	1,197,443	145,066	12·11
Barley	1,171,881	1,245,513	*73,632*	*5·91*
Rye	180,778	152,952	27,826	18·19
Flaxseed	102,362	218,916	*116,554*	*53·24*
Other Grain (including dried peas, beans, soya beans)	178,209	146,217	31,992	21·88
Flour	918,830	1,005,790	*86,960*	*8·65*
Other Mill Products	1,667,837	1,977,329	*309,492*	*15·65*
Hay and Straw	130,326	201,218	*70,892*	*35·23*
Cotton	81,093	68,590	12,503	18·23
Apples (fresh)	86,545	97,315	*10,770*	*11·07*
Other Fruit (fresh)	304,038	331,239	*27,201*	*8·21*
Potatoes	400,370	405,147	*4,777*	*1·18*
Other Fresh Vegetables	248,462	205,616	42,846	20·84
Other Agricultural Products	766,211	704,736	61,475	8·72
Total	13,890,569	13,257,178	633,391	4·78
ANIMAL PRODUCTS:				
Horses	22,790	37,952	*15,162*	*39·95*
Cattle and Calves	320,044	365,874	*45,830*	*12·53*
Sheep	11,642	13,286	*1,644*	*12·37*
Hogs	133,801	144,285	*10,484*	*7·27*
Poultry (live)	86	247	*161*	*65·18*
Dressed Meats or Dressed Poultry (fresh or frozen)	223,876	245,497	*21,621*	*8·81*
Dressed Meats (cured or salted)	41,094	88,015	*46,921*	*53·31*
Other Packing House Products (edible)	86,703	42,908	43,795	102·07
Eggs	35,821	57,133	*21,312*	*37·30*
Butter	34,950	42,416	*7,466*	*17·60*
Cheese	35,036	37,880	*2,844*	*7·51*
Wool	26,701	40,977	*14,276*	*34·84*
Hides and Leather	86,577	83,963	2,614	3·11
Other Animal Products (non-edible)	82,054	106,073	*24,019*	*22·64*
Total	1,141,175	1,306,506	*165,331*	*12·65*
MINE PRODUCTS:				
Anthracite Coal	2,308,810	3,218,395	*909,585*	*28·26*
Bituminous Coal	8,918,681	11,656,145	*2,737,464*	*23·49*
Sub-Bituminous Coal	1,238,632	1,293,059	*54,427*	*4·21*
Lignite Coal	593,040	518,153	74,887	14·45
Coke	797,968	976,450	*178,482*	*18·28*
Iron Ores and Concentrates	1,275,273	785,034	490,239	62·45
Copper Ore and Concentrates	248,205	188,813	59,392	31·46
Other Ores and Concentrates	2,359,510	2,248,705	110,805	4·93
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	556,352	684,538	*128,186*	*18·73*
Sand and Gravel	2,163,794	2,151,189	12,605	·59
Stone (crushed, ground, broken)	2,361,081	2,638,687	*277,606*	*10·52*
Slate, Dimension or Block Stone	139,120	146,925	*7,805*	*5·31*
Crude Petroleum	775,857	429,179	346,678	80·78
Asphalt (natural, by-product petroleum)	353,924	353,448	476	·13
Salt	438,754	489,000	*50,246*	*10·28*
Other Mine Products (not fully processed)	1,892,538	2,203,341	*310,803*	*14·11*
Total	26,421,539	29,981,061	*3,559,522*	*11·87*
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	641,144	875,559	*234,415*	*26·77*
Cordwood and Other Firewood	274,551	359,223	*84,672*	*23·57*
Ties	49,434	52,209	*2,775*	*5·32*
Pulpwood	4, 649,091	6,667,578	*2,008,487*	*30·12*
Lumber, Timber, Box, Crate and Cooperage Material	4,061,996	4,770,041	*708,045*	*14·84*
Plywood (included in Lumber, etc., in 1948)	69,364	—	69,364	—
Other Forest Products	316,918	319,769	*2,851*	*·89*
Total	10,072,498	13,044,379	*2,971,881*	*22·78*
Carried Forward	51,525,781	57,589,124	6,063,343	

REVENUE TONNAGE BY COMMODITIES (Continued)

	Year *1949 Tons	Year 1948 Tons	Increase or *Decrease* Tons	Per cent
Brought Forward	51,525,781	57,589,124	*6,063,343*	
MANUFACTURES AND MISCELLANEOUS:				
Gasolene	1,998,091	1,906,372	91,719	4·81
Petroleum Oils and Petroleum Products (except asphalt and gasolene)	1,554,394	1,767,020	*212,626*	*12·03*
Sugar	360,599	368,478	*7,879*	*2·14*
Iron, Pig and Bloom	454,026	416,421	37,605	9·03
Rails and Fastenings	66,193	55,063	11,130	20·21
Iron and Steel (bar, sheet, structural, pipe)	1,722,369	2,061,373	*339,004*	*16·45*
Castings, Machinery and Boilers	300,152	358,766	*58,614*	*16·34*
Cement	1,055,321	882,285	173,036	19·61
Brick and Artificial Stone	338,701	381,683	*42,982*	*11·26*
Lime and Plaster	519,650	514,624	5,026	·98
Sewer Pipe and Drain Tile	53,905	63,823	*9,918*	*15·54*
Agricultural Implements and Vehicles other than Autos	393,310	390,382	2,928	·75
Automobiles, Auto Trucks and Auto Parts	1,925,530	1,830,767	94,763	5·18
Household Goods and Settlers Effects	17,392	22,160	*4,768*	*21·52*
Furniture	54,504	56,693	*2,189*	*3·86*
Beverages	368,129	444,703	*76,574*	*17·22*
Fertilizers, all kinds	1,122,363	1,161,272	*38,909*	*3·35*
Newsprint Paper	1,931,918	1,959,861	*27,943*	*1·43*
Other Paper	356,079	440,246	*84,167*	*19·12*
Paper Board, Pulpboard and Wallboard (paper)	513,564	638,293	*124,729*	*19·54*
Woodpulp	974,793	1,339,588	*364,795*	*27·23*
Fish (resh, frozen, cured, etc.)	109,723	121,174	*11,451*	*9·45*
Canned Goods (all canned food products)	592,620	677,318	*84,698*	*12·50*
Other Manufactures and Miscellaneous	6,453,670	7,441,382	*987,712*	*13·27*
Merchandise (all L.C.L. Freight)	2,083,193	2,351,867	*268,674*	*11·42*
Total	25,320,189	27,651,614	*2,331,425*	*8·43*
Grand Total	76,845,970	85,240,738	*8,394,768*	*9·85*

*Includes Newfoundland District.

OPERATED MILEAGE, 31st. DECEMBER, 1949

OPERATED ROAD MILEAGE:

Territory	Owned	Leased	Trackage	Total
Atlantic Region	*3,691·30	6·41	82·95	3,780·66
Central Region	7,133·71	347·91	27·86	7,509·48
Western Region	11,339·44	34·84	92·54	11,466·82
Grand Trunk Western Lines	901·68	9·50	59·75	970·93
Central Vermont Lines	237·92	125·18	58·73	421·83
Total First Main Track	23,304·05	523·84	321·83	24,149·72
Lines in Canada	21,949·02	216·79	198·96	22,364·77
Lines in United States	1,355·03	307·05	122·87	1,784·95

*Includes Newfoundland District 705·13 miles.

OPERATED MILEAGE ALL TRACKS:

First Main Track	23,304·05	523·84	321·83	24,149·72
Second Main Track	1,219·52	9·34	85·42	1,314·28
Third Main Track	27·95	—	3·49	31·44
Fourth and Other Main Tracks	10·78	—	5·09	15·87
Spurs, Sidings and Yard Tracks	6,047·83	169·88	1,216·57	7,434·28
Total All Tracks	*30,610·13	703·06	1,632·40	32,945·59

*Includes Newfoundland District First Main Track 705·13 miles; Spurs, Sidings, etc., 65·22 miles.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:—		Operating expenses were disbursed:—	
	1949–%	1948–%	1949–%	1948–%
Labour	56.82	57.15	59.46	60.41
Fuel	11.00	11.65	11.51	12.32
Other Expenses	27.74	25.80	29.03	27.27
Total Operating Expenses..	95.56	94.60	100.00	100.00
Available for Taxes and Other Accounts	4.44	5.40		
Total	100.00	100.00	100.00	100.00
Maintenance of Way Accounts ..	17.66	17.51	18.48	18.51
Maintenance of Equipment Accounts	21.35	20.01	22.35	21.16
Traffic Accounts	1.82	1.78	1.90	1.88
Transportation Accounts	49.07	49.94	51.35	52.79
Miscellaneous Accounts	1.15	1.06	1.20	1.12
General Accounts	4.51	4.30	4.72	4.54
Total Operating Expenses..	95.56	94.60	100.00	100.00

EMPLOYEES AND THEIR COMPENSATION

	*Average Number of Employees	*Total Payroll	Average Per Employee
1939	78,129	$122,354,101	$1,566
1948	111,072	305,397,747	2,750
1949	111,806	311,041,852	2,782

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

The CHAIRMAN: Shall the report carry?

Carried.

Now, the "Budget Items".

Mr. KNIGHT: Before you go on to the budget items, there is a gentleman here who is assideous in asking questions concerning the Newfoundland Railway. He was asked yesterday to put them in writing. When will the answers to those questions be supplied?

The CHAIRMAN: Perhaps that time has arrived now. I had hoped that we would get into the first budget item. Perhaps we should call the first budget item now.

Mr. FRASER: Oh, Mr. Chairman, I understand that Mr. Fulton was going to put a motion too.

The CHAIRMAN: Very well. It was quite apparent yesterday that our member from Newfoundland had a lot of matters which were important to Newfoundland and which he wanted to bring to the attention of the Canadian National management, matters which were not of especial interest to the rest of Canada, but which were going to take a lot of time of this committee. Therefore I asked him to put his representations in writing. He has been kind enough to do that. So, is it now the wish of the committee that these should be printed in our proceedings?

Mr. MUTCH: Together with the answers, when they are obtained.

The CHAIRMAN: There are no questions contained in this statement.

Mr. FULTON: No questions?

The CHAIRMAN: No questions.

Mr. CARTER: Oh, Mr. Chairman, I am sorry. I have the questions here.

The CHAIRMAN: Then may I have the questions?

Mr. CARTER: I have not passed any statement to the chairman, so I am wondering just which one he has. I am sorry. I would like to amend that one.

The CHAIRMAN: Could we not reach an agreement without taking up the time of the committee and then we might deal with it at the close of our meeting this afternoon.

I have here a letter from Mr. Fulton. He has been kind enough to put in writing his requests, and his letter reads:

> The following is the information I should like to obtain in Committee regarding the mineral rights of the C.N.R. referred to in the Annual Report under consideration.
>
> (1) The name of the company, companies or persons with whom the rental and royalty arrangements have been made, and the acreage under contract with each.
> (2) The annual or other periodic rental provided for under each contract.
> (3) The rate of royalty or other consideration provided for under each contract.
> (4) The length of time allowed to each company or person under each contract, before active exploration work is to be commenced.
> (5) The length of time within which actual development must be undertaken after the property has been proved.
> (6) Whether any rights have been sold outright, and the companies or persons to whom they were so sold, and the purchase price paid.

I suggest that that letter should, of course, be printed in our Minutes. When I received in writing Mr. Fulton's request, I promised that I would table it so that all the members of the committee would know its contents and would have time to think the matter over. That is the way it stands.

Mr. FRASER: Are we not going to have the answers to those questions?

Mr. FULTON: I understood from the chairman that my request would be drawn to the attention of the minister and the president of the railway, and that they would consider whether they were willing to reply, and would advise us accordingly.

Hon. Mr. CHEVRIER: I think we should hear from the president of the railway.

The CHAIRMAN: If Mr. Gordon is ready, we will hear from him now.

Mr. GORDON: Mr. Chairman, I have given this considerable thought and I am of the opinion that it is wrong in principle that the Canadian National Railways should be asked to make public the particulars of business contracts entered into with other parties. If this is done, I am sure it will affect adversely the Canadian National Railway's ability to obtain market bids or quotations on business transactions. In the case under discussion, tenders were called and interested parties were given equal opportunity to bid. The successful tenderer should not, in my opinion, have this business deal made public through this committee.

I would further like to point out that our chief competitor in this general railway field would not be obliged to disclose such information.

Mr. FRASER: Would not the Canadian National's competitor be quite willing, if they had a deal of this same kind, to give the name of the company they were dealing with?

Mr. GORDON: I cannot speak for them.

Mr. FRASER: How about the Canadian National? Would it object to giving the name of the company?

Mr. GORDON: I do not think there is any objection to telling the committee the name of the company. I am sure that would be a matter of general knowledge and it would be known. So, if that information would be of help, I will be quite willing to give it.

Mr. FRASER: That is one thing we might have.

Mr. JAMES: What possible advantage would it be?

Mr. GORDON: I would question it.

Mr. MUTCH: The very moment that company begins to spend $1, it becomes a firm contract and there would be no objection to the name being given. That is an altogether different matter from disclosing the details of the management.

Mr. FULTON: I will be very glad to have the name, but I must confess that I cannot concur as to the objection on the other points for this reason: This is public property; I mean that mineral rights are in the nature of public property owned by a publicly owned corporation, rights which have been, so we understand, alienated to private companies, whose names, I understand, there is no objection to revealing. It does seem to me that that is public business.

In the first place, it is business which, when one considers that the public of Canada are the shareholders of this railway, they are entitled to know. And in addition, I think they are entitled to know what is the anticipated revenue that your company is going to receive from these sales, and they cannot know it until they know what the rates will be.

Mr. GORDON: That will appear in our reports from year to year.

Mr. FULTON: The reports will show what you actually received.

Mr. GORDON: Next year the report will show the actual amount we received on this particular lease.

Mr. FULTON: But it will not show under what arrangement it was made.

Mr. GORDON: I do not think we should be asked to give particulars of the actual deal. I am genuinely sorry, because it is my whole disposition to inform this committee about everything within reason. But I conceive it to be my duty to face the committee and to tell them what, in my opinion, would be to the advantage or to the disadvantage of the Canadian National Railways, and I believe if we disclosed these details it would work to the disadvantage of the railways and would, in the future, prejudice us in getting the market bids and quotes, as I said before, that we might expect. Therefore it might cost us money; it might cost us more money and, in turn, cost the taxpayers of this country more money. Consequently, I feel it my duty to call the attention of the committee to my opinion; and I would like to say, very definitely, that I would be very sorry if anyone had any thought that there was anything about this particular deal that we, in any way, were ashamed of or needed to defend. It was a perfectly good transaction and was done by open tender. I am quite satisfied that we are getting a good price, and that everything about the transaction was perfectly correct. Now, having said that, I am in your hands.

Mr. FULTON: I cannot elaborate on your feelings. I appreciate it that they are your considered opinion. But after giving this matter full consideration, I can say with equal frankness to yourself, and with respect, that I do disagree with your opinion and for this reason: that this is not, according to the statement which was made yesterday, a continuing transaction. The information we got yesterday was that these oil rights have now all been disposed of. If it were a continuing transaction, and if it were a matter of trying to obtain competitive bids so as to receive the highest bids, then I would agree with you that it would not be advantageous to disclose the particulars, and that it would have a bad effect. But we understand that that is not the situation, and that all these things have now been disposed of.

Mr. GORDON: My point is that it is a continuing type of transaction. It may be that this particular transaction cleans up this item, but we are receiving bids and tenders all the time in connection with railway property. It is that type of transaction that I refer to.

Mr. FULTON: But there, Mr. Chairman, if that principle were to be followed, the implication of what Mr. Gordon says is that we would never be entitled, as of right, to learn what the company disposed of those assets for. I cannot accept that as a statement. It seems to me that the necessary implications are, and I conceive it as very proper, that the details of a continuing transaction should not be disclosed until they are completed. But once they are completed, my position is that we, as members of parliament and the people of Canada are entitled to the fullest disclosure of that information, not the details of negotiation, but the details of the results of the negotiations.

And I say that for another reason. Let me give you an example. At the present time we are considering a deficit of the company, and we are about to consider the budget which will forecast the future expenditures. Questions have been raised as to the modernization of equipment and the cost of that modernization.

Speaking for myself—and I believe I could name many other members of the committee who would be in the same position—I would be interested to know whether the company is going to receive substantial revenue or potentially substantial revenue and to know the length of time which might transpire before this revenue was likely to occur, as is covered in questions No. (4) and (5). To my mind, that has a distinct bearing on the business of the company and I cannot see how it would be of any competitive advantage to the Canadian Pacific Railway.

I understand that the Alberta government discloses the details of contracts it has made when it puts up mineral rights for bid, and that does not seem to prejudice the Alberta government in subsequent negotiations. Therefore, I cannot see why there is any reason why the Canadian National should not disclose this information.

Hon. Mr. CHEVRIER: I agree fully with your general statement, Mr. Fulton, that this committee is entitled to the fullest possible disclosure having regard to all the circumstances, and I think it has been the practice of the officers of the Canadian National Railway to give all the information which they possibly could. In fact, one member in the House the other day got up and said that he got more information from the Canadian National Railways than he expected. to get. There is no intention to withhold any information but I think the practice of the committee when we come to a matter of this kind and particularly to matters affecting salaries and the like, has been to accept the opinion of the officer giving the evidence.

I am not familiar with the details of this matter. I do not know whether they should be disclosed or not. But when the President of the Canadian National Railways thinks that, in his opinion, it would be dangerous to do so in principle and that it might give to the competitor of the Canadian National Railways information which they should not have, then I am prepared to support him.

Mr. FULTON: Might I suggest, if Mr. Gordon concurs with me, that I discuss this matter with him, preserving my right to ask publicly for information at a later date?

Mr. GORDON: I would be quite willing to do that. I am very anxious to make clear again that we are not concealing anything. We have nothing to conceal here. If there is a procedure in this committee, and I confess I am new here, whereby we could depend upon it that an item of this kind could be given off the record and it does not become publicized, I would have no objection.

But there is my difficulty. If it is in order, Mr. Chairman, I would welcome an opportunity to discuss this with Mr. Fulton, but I do not know whether that is satisfactory to the other members of the committee.

Mr. MUTCH: First, with respect to Mr. Gordon's last suggestion: the committee has no power to restrict him in his capacity as president of the Canadian National Railways to give his confidence to anyone. No person in this committee, I am quite sure, as an individual, will be denied information upon his responsibility. I do not think that this is particularly a committee matter. With respect to the general question, if I may, and the advisability of giving the information, our authority on that is, of course, the president of the road. With respect to Mr. Fulton's general proposition, I think that we have to take the position of submitting to him because I am of the opinion that as soon as this contract shows in the balance sheet either as a profitable venture or otherwise, it is public information. But at the moment, there being no item carrying it, I for one, would not be prepared to press it. But, on the other hand, the principle is well established in this committee, and in my opinion rightly established, that with respect to administrative details, the committee has placed itself in the hands of the president of the road and his advisers. In other words, we entrusted him with the management and must either rely on him, or replace him.

The committee adjourned until 4.00 o'clock p.m.

AFTERNOON SESSION

—The committee resumed at 4 p.m.

The CHAIRMAN: We have a quorum, gentlemen.

Mr. MCLURE: At an earlier session Mr. Gordon issued a challenge to me and as one Scotsman to another I have no right to lie down under that challenge; therefore, I am presenting the unsolicited proof that I was correct. These telegrams, and I have quite a bunch of them, were received this morning, and I did not know I had received them until I arrived in my room. I only intend to read one or two. This particular telegram is dated March 29, 12:12 p.m. and it is from Kensington, Prince Edward Island, and reads as follows:

> Mr. Donald Gordon should take you to lunch stop We are and have been unable secure enough refrigerator cars in March stop Yesterday we asked C.N.R. Charlottetown for sixteen reefer cars to be placed at thirteen island stations and they stated not enough reefer cars available here and asked if we would use box cars instead stop Surely Mr. Gordon cannot maintain that enough reefer cars are available when island shippers unable obtain cars with which to fill orders stop We have been forced to decline orders for more than one hundred carloads potatoes during March and in addition have had orders for nine cars seed potatoes cancelled as unable ship on time due lack reefer cars stop We have had reefer cars ordered for some days for our warehouses at Freetown, Fredericton and Northam and this morning haven't a single car at any of these warehouses stop Either there is an acute shortage or C.N.R. don't know what they are doing.
>
> P.E.I. Produce Co., Ltd.

Mr. FRASER: I think there should be a correction made. I think a change should be made from luncheon to dinner.

Mr. GORDON: If there is going to be any risk of my paying it, I want to insist it is luncheon, but I just want to make one comment: my operating vice-president still insists that it was only during two days of the whole month of March that we did not have more than 200 cars per day on the island, and at this moment we have 244 cars on Prince Edward Island. So we had better get this sorted out and find out just where those cars are before I concede I have lost the bet.

Mr. MCLURE: This is dated at twelve o'clock noon today.

Mr. GORDON: We have daily reports on it, and our reports at this moment show 244 cars on Prince Edward Island.

Hon. Mr. CHEVRIER: I have daily reports coming across my desk and the one for March 29th, which is today is that there are on the island for loading 236 refrigerator cars, and in transit to Prince Edward Island for loading there are 308. Yesterday there were on the island 244, as Mr. Gordon said, and 334 in transit for loading. That is considerably more than the 50 per cent that were there last year at this time.

Mr. MCLURE: That may be but there is more than 100 per cent more potatoes to move.

The CHAIRMAN: I think we decided to leave that with you and Mr. Gordon, Mr. McLure.

Mr. MCLURE: I think you might as well admit that I am correct. I know it is difficult for a Scotsman to admit that.

Mr. GORDON: I recognize a doughty fighter when I see one, and I am prepared to buy the luncheon on the basis of your representations—correct or otherwise. I have never had a man work so hard for a luncheon in my life.

Revised—1

CANADIAN NATIONAL RAILWAYS

Summary of Financial Requirements—Year 1950

—	1949 Budget	1949 Actual	1950 Budget	Details on Page
	$	$	$	$
OPERATING BUDGET—				
Deficit	37,800,000	42,043,027	32,236,000	2
CAPITAL BUDGET—				
Additions and Betterments	24,500,000	18,296,160	30,872,059	3
New Equipment	8,700,000	9,331,473	10,698,430	4
Barraute Branch Line	612,890	382,256	230,000	5
Acquisition of Securities	1,692,000	1,432,758	717,000	6
	35,504,890	29,442,647	42,517,489	
Less—amounts available from reserves for Depreciation and Debt Discount Amortization	15,738,000	14,159,638	17,935,000	
Total—Capital Budget	19,766,890	15,283,009	24,582,489	

NOTE:—This revised sheet provides for additional revenues which it is anticipated will be derived in 1950 from the decision of the Board of Transport Commissioners, under its Order No. 74034 dated March 1st, 1950. This decision substituted an increase of 16% in freight rates, effective March 23, 1950, in place of the interim increase of 8% authorized under its Order No. 73123 effective October 11, 1949.

The 1950 Budget does not contain any provision for increased wage rates.

New Equipment to be financed in 1950 is estimated at $36,698,430, of which $26,000,000 will be covered by a proposed equipment trust issue, leaving the balance of $10,698,430 to be provided under the Canadian National Railways Financing and Guarantee Act, 1950.

Revised—2

CANADIAN NATIONAL RAILWAYS

OPERATING BUDGET

—	1949 Budget	1949 Actual	1950 Budget
	$	$	$
Operating Revenues	520,900,000	500,723,386	516,764,000
Operating Expenses	494,300,000	478,501,660	482,500,000
Net Operating Revenues	26,600,000	22,221,726	34,264,000
Net Income Charges, excluding Interest	18,290,000	18,163,818	20,753,000
Interest on Funded Debt—Public	22,833,000	24,302,651	24,088,000
Interest on Government Loans	23,277,000	21,798,284	21,659,000
Deficit	37,800,000	42,043,027	32,236,000

NOTE:—This revised sheet provides for additional revenues which it is anticipated will be derived in 1950 from the decision of the Board of Transport Commissioners, under its Order No. 74034 dated March 1st, 1950. This decision substituted an increase of 16% in freight rates, effective March 23, 1950, in place of the interim increase of 8% authorized under its Order No. 73123 effective October 11, 1949.

The 1950 Budget does not contain any provision for increased wage rates.

The 1950 Budget includes $3,096,000 for contribution to the deficit of the I.C.R. & P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments and New Equipment

—	1949 Budget	1949 Actual	1950 Budget
	$	$	$
ADDITIONS AND BETTERMENTS—			
Atlantic Region	2,367,020	1,529,551	3,019,634
Central Region	12,007,383	8,747,967	10,447,779
Western Region	6,035,003	4,316,932	7,385,944
Grand Trunk Western Railroad Company	3,005,678	2,179,136	2,958,810
Central Vermont Railway	337,843	170,713	350,790
Subsidiary Companies	44,001	Cr. 708,541	297,909
Express, Telegraphs and Other Departments	4,306,694	2,526,626	9,205,394
Additions and Betterments to Equipment, Canada	5,216,528	2,857,635	5,977,779
Equipment Retirements	Cr. 3,820,150	Cr. 3,323,859	Cr. 3,771,980
	29,500,000	18,296,160	35,872,059
Less—Portion of projects included in the above requirements not physically completed by the end of the year	5,000,000		5,000,000
Total—Additions and Betterments	24,500,000	18,296,160	30,872,059
NEW EQUIPMENT—			
1947 and 1948 Programmes—			
Additional Budget expenditure on equipment covered by Trust Series "S" and "T"	.....	1,015,987	.....
1949 Programme— (1949 Budget / 1949 Actual)			
Revenue Equipment $30,337,138 / $29,581,632			
Less Trust Series "U" 22,500,000 / 22,000,000			
7,837,138 / 7,581,632			
Miscellaneous Equipment 862,862 / 733,854			
$ 8,700,000 / $ 8,315,486	8,700,000	8,315,486	.....
1950 Programme— (1950 Budget)			
Revenue Equipment $ 34,751,400			
Less—proposed Trust Series "V" 26,000,000			
8,751,400			
Miscellaneous Equipment 1,947,030			
$ 10,698,430	.....	.....	10,698,430
Total—New Equipment	8,700,000	9,331,473	10,698,430

	1949 $	1950 $
EXPENDITURES FINANCED THROUGH EQUIPMENT TRUSTS—		
Trust Issues:		
Series "S" and "T"	12,720,637	.....
Series "U"	6,279,916	.....
Proposed 1950 Trust Series "V"	.....	26,000,000

CANADIAN NATIONAL RAILWAYS SYSTEM

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1950
Expenditures less Retirements applicable to Capital Account

—	Atlantic Region	Newfoundland District	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Other	Total
ADDITIONS AND BETTERMENTS—								
Rails and Fastenings	154,671	12,639	663,478	900,062	258,800	30,050	.....	2,019,700
Tie Plates and Rail Anchors	243,965	127,139	1,263,022	955,327	142,300	50,361	.....	2,782,114
Ballast	215,635	51,887	8,655	23,350	139,700	91,155	.....	530,382
Widening Cuts and Fills	.....	34,589	.....	79,290	.....	3,000	.....	116,879
Rip-Rap, Retaining Walls and Cribwork	.....	35,000	3,000	3,000	800	.....	.....	41,800
Ditching, Drainage and Sewers	11,340	.....	5,000	34,700	1,300	.....	.....	52,340
Yard Tracks and Sidings	202,258	123,100	674,954	371,638	42,900	.....	.....	1,414,850
Roadway Machines	3,500	5,500	534,880	221,450	151,600	23,465	.....	940,395
Bridges, Trestles and Culverts	161,135	39,950	492,724	834,225	93,150	34,659	.....	1,655,843
Tunnels	.....	.....	77,000	148,500	...	.....	.....	225,500
Highway and Crossing Protection	263,000	.....	477,718	19,755	83,362	11,412	.....	855,247
Buildings—Montreal Central Station Area	.....	.....	450,000	.....	.....	.....	.....	450,000
Stations and Station Facilities	414,535	78,450	3,449,605	1,417,746	1,161,634	4,007	.....	6,525,977
Water Supplies	20,840	.....	172,063	134,388	4,044	Cr 943	.....	330,392
Fuel Stations	2,250	.....	118,469	450,130	3,800	Cr 8,776	.....	565,893
Shops, Enginehouses and Machinery	485,469	34,900	1,395,111	731,110	279,412	28,375	.....	2,954,377
Docks and Wharves	.....	.....	.....	14,820	135,500	.....	.....	150,320
Grain Elevators	.....	.....	100,000	65,500	.....	.....	.....	165,500
Signals and Interlockers	8,841	.....	211,000	943,601	183,800	.....	.....	1,347,242
Telegraphs—Railway	.....	.....	.....	.....	.....	.....	1,485,653	1,485,653
Telegraphs—Commercial	.....	.....	.....	.....	.....	.....	5,656,052	5,656,052
Land	3,000	.....	118,671	8,850	.....	.....	.....	130,521
General Additions and Betterments and Contingencies	101,041	5,000	178,272	18,117	193,281	21,500	Cr 259,799	257,412
Express and Miscellaneous Equipment	.....	180,000	54,137	10,385	.....	.....	389,250	633,772
Subsidiary Companies	.....	.....	.....	.....	.....	.....	297,909	297,909
Hotels	.....	.....	.....	.....	.....	.....	1,934,238	1,934,238
Additions and Betterments to Equipment	.....	.....	.....	.....	83,417	62,525	5,977,779	6,123,731
Equipment Retirements	.....	.....	.....	.....	.....	.....	Cr 3,771,980	Cr 3,771,980
Total estimated additions and betterments	2,291,480	728,154	10,447,779	7,385,944	2,958,810	350,790	11,709,102	35,872,059
Less—Portion of projects included in the above requirements which will not be physically completed by December 31, 1950	.....	.....	.....	.....	.....	.....	.....	5,000,000
NET ESTIMATED ADDITIONS AND BETTERMENTS	.....	.....	.....	.....	.....	.....	.....	30,872,059

CANADIAN NATIONAL RAILWAYS SYSTEM

New Equipment

Canadian National Railways System—			
1950 Program:			
3	1000 H.P. diesel locomotives (M. & S.C. Rly.)		
4	3000 H.P. diesel road locomotives		
20	1000 H.P. diesel switch locomotives		
18	600 H.P. diesel road switchers		
22	600 H P. diesel road switchers		
100	covered hopper cars		
3	depressed flat cars		
25	automobile cars (Newfoundland)		
60	30-ton box cars (Newfoundland)		
35	Deluxe air-conditioned coaches		
5	mail and express cars		
3	mail cars (Newfoundland)		
50	standard baggage cars		
4	standard baggage cars (G.T.W.)		
3	standard baggage cars (Newfoundland)		
10	express refrigerator cars (Newfoundland)		
6	sleepers (Newfoundland)		
50	sleepers		
7	cafe parlor cars		
10	diners		
3	electric locomotives (Suburban Service)		
6	multiple unit cars (Suburban Service)		
15	multiple unit car trailers		
Total cost, including Sales Tax and Inspection Charges		$34,751,400	
Less amount of proposed Equipment Trust Issue		26,000,000	
			$ 8,751,400
Miscellaneous Equipment—			
20	16 cu. yd. air dump cars (Newfoundland)		
1	Jordan Spreader (Newfoundland)		
1	50-ton locomotive crane (Newfoundland)		
10	Russell snow plows, single or double track wing plow, steel, with flanger and ice-diggers		
4	Jordan Spreaders, standard type, with modified type "A" front plow attachment		
1	diesel industrial hoist, 30-ton capacity		
1	diesel industrial hoist, 30-ton capacity, with magnet		
100	70-ton Enterprise, or similar type, longitudinal hopper cars for ballast service		
28	air dump cars, Austin-Western type		
2	air dump cars, Austin-Western type (Central Vermont)		
1	standard type Jordan Spreader. (Revote Central Region AFE 71/252)		
17	water transports constructed from salvaged locomotive tenders		
	Total—Miscellaneous Equipment		$ 1,947,030
	Grand Total		$ 10,698,430

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line from Barraute to Kiask Falls, Province of Quebec

Authorized under Chapter 41 of 1946 Statutes

Schedule of Act

Location	Mileage	Estimates	
		To be Expended	Average Expenditure per mile
		$	$
From Barraute to Kiask Falls on the Bell River, in the Province of Quebec	55	4,125,000 Plus 15%	75,000

The location surveys for the above line were completed in September 1946 and contract was awarded to the lowest tenderer on December 26, 1946, namely, the Therrien Construction Company Limited, for the clearing, grading, culverts and trestles from mileage 0 to mileage 39·02.

Operations over this line, up to mileage 39·02, were commenced on February 28, 1949 with the inauguration of mixed train service.

$3,003,733.55 has been expended on the line under the authority of this Act to December 31, 1949.

The estimated expenditure for the calendar year 1950 is $230,000. This amount covers lifting of settlements and shrinkages of embankment across muskegs and bringing the track to finished elevations, extension of right-of-way fencing at locations being opened up for settlers, final payments to contractors and erection of permanent sectionhouses.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities and Retirement of Capital Obligations

—	1949 Budget	1949 Actual	1950 Budget
	$	$	$
Toronto Terminals Railway— Joint with Canadian Pacific Railway Co.—General Additions and Betterments—C.N.R. Proportion 50%	90,000	.....	100,000
Northern Alberta Railways— Joint with Canadian Pacific Railway Co.—General Additions and Betterments—C.N.R. Proportion 50%	400,000	250,000	425,000
Chicago and Western Indiana Railroad— Advances under agreement of March 1, 1936	180,000	183,062	187,000
Atlantic and St. Lawrence Railroad— Purchase of Capital Stock	5,000	1,936	5,000
Dominion Telegraph Securities, Limited— Purchase of remaining interest in the lease (expiring in 1978) of the properties of the Dominion Telegraph Company, the rental payable by the Canadian National Telegraphs under said lease being $62,500 per annum	1,017,000	997,760	.....
	1,692,000	1,432,758	717,000

The CHAIRMAN: Gentlemen, we are on the first budget item and I assume I can mark it carried because it is on last year's operations.

Mr. FULTON: Just before the budget carries do I understand that the reports which were considered in detail stand for adoption until one or two answers which are still outstanding are brought in.

The CHAIRMAN: They have been adopted, but an undertaking has been given that the questions will be answered and of course the matter will be fully considered before we draw up our committee reports.

Mr. FULTON: Yes, but I am not anxious for the answers to these various questions now, but I just want to be clear that an opportunity will be given to come back to them before the Canadian National Railways officials retire.

Mr. FRASER: You said that the report had been passed, I think, when we adjourned for luncheon.

Mr. MUTCH: We carried it and changed the subject.

Mr. FULTON: I remember Mr. Carter said he had a question to ask, and my understanding was that the report was not carried until these matters were cleared up.

The CHAIRMAN: Let us not waste any more time.

Mr. MUTCH: It was carried. No one dissented.

Mr. GORDON: There are two things we would like to mention. One is the statement covering for what purpose was the Canadian National securities trust created? That statement is now here and we will hand a copy to each member of the committee.

(*Statement appears as Appendix "A"*)

Secondly, before we turn to the budget, it is necessary to call attention to the fact that we have provided revised sheets and the revised sheets take care of the fact that we now have included in the budget the additional revenues which are anticipated will be resulting in 1950 from the decisions of the Board of Transport Commissioners under their order No. 7034 dated March 1, 1950,

so that I would ask each member to make certain that we are looking at the revised sheet of the budget which was distributed this morning. It is marked revised "I". That is the sheet we are studying.

If you are ready, Mr. Chairman, I will proceed. You will find on the sheet marked revised "I" that we have an operating budget in which we estimate a deficit for 1950 of $32,236,000. Members of the committee will now turn to page 2, also marked revised and you will find that the operating budget is also shown there for 1950 as compared with the actual figures of 1949 and the budget for 1949. Our operating revenues are budgeted for 1950 in the sum of $516,764,000; our operating expenses are budgeted for $482,500,000, showing a net operating revenue in the budget of $34,264,000, as compared with an actual result in 1949 of $22,221,726. Our net income charges excluding interest are budgeted for $20,753,000. The interest on our funded debt to the public is budgeted for $24,088,000, and interest on government loans for $21,659,000. The sum of these three latter items deducted from net operating revenue leaves us with an estimated deficit of $32,236,000, as compared with an actual deficit, on the same basis for 1949, of $42,043,027. Now, that takes care of the operating budget.

I suggest now the committee members turn back to page I again and I will now refer to the capital budget. You will find the capital budget shows additions and betterments estimated at $30,872,059. I think, perhaps, we had better take each item. If you will turn now to page three, the members will find that the figure of $30,872,059 is detailed by regions in the statement which you have before you, and further, on the next page, which is headed 3-A, there is a breakdown in the main items contained in that figure shown by regions and again you will find that the grand total of the regions in the breakdown amounts to the sum of $30,872,059. Now, if you will turn back to page I, you will find the next item as new equipment budgeted for $10,698,430. Turning now to page 4, you will find the breakdown there of the individual units for the 1950 program. I would ask members to particularly notice that while the grand total is shown on this sheet as $10,698,430, which ties in with the figure mentioned on page I, the cost of the items shown on page 4 will be $26 million more than the $10 million figure. The $26 million will be raised by means of an equipment trust issue, so we are only concerned with the item of $10,698,430. Now, if you will turn to page I again, you will notice that the next item is Barraute Branch lines, budgeted for $230,000, and on page 5 you will find the particulars of that expenditure.

Then, the last item on page "I" again is shown as $717,000 for the acquisition of securities, and the detailing of that item is given on page 6.

Now, then, the grand total of the four main headings in the capital budget which I have just given you, again referring to page I, comes to $42,517,489, and if we deduct from that the amounts available from reserves for depreciation and debt discount amortization totalling $17,935,000, it leaves a net total capital budget of $24,582,489.

Now, I would call particular attention before leaving this estimate that this 1950 budget, while it now has been adjusted to include an estimate of additional revenue granted to us the other day, as I mentioned before, does not include any provision for increased wage rates, and if the result of the negotiations now going forward means increased wages in any way, then the budget will be adversely affected to the extent of such wage adjustments. I am ready now, Mr. Chairman, I think that covers the main factors of it.

The CHAIRMAN: Shall we start at the first item capital budget, additions and betterments, the details of which you will find on page 3-A.

Mr. HATFIELD: The operating budget?

Mr. GILLIS: May I say this. I think that the statement contained in this budget, with the many wage negotiations that are now going on, is a piece of bad psychology. We stressed here yesterday the necessity of obtaining the co-operation of all of the employees of the C.N.R. Wage negotiations are now proceeding. This statement is going out to practically the whole of the service. You say that you are adopting a very skimpy budget, but you definitely tell the employees of the system across the country that you are not budgeting for anything as far as wage rates are concerned. If I was outside that would mean to me that the C.N.R. does not intend to increase wages anywhere along the line. If they intended that they would have provided for it.

Hon. Mr. CHEVRIER: It indicates nothing of the kind.

Mr. GILLIS: You are not putting anything in the estimates?

Hon. Mr. CHEVRIER: Why should you?

The CHAIRMAN: Has the president to prejudge the matter?

Mr. GILLIS: Just a minute. I say that the statement should have been left out because I think it is wrong to put it in and it creates the impression outside that you have laid down your budget. You have made a definite statement in the budget that no provision is being made for any anticipated wage increase.

The CHAIRMAN: Mr. Gillis, before you leave that point, I may say that I listened very attentively to what the president said. I understood that he simply gave a warning to the committee that, to the extent to which wage increases are made, the deficit item will be increased. Now I cannot read anything more than that into his statement.

Mr. GILLIS: Well, Mr. Chairman, you are sitting here and you are not a brakeman, an engineer, or a porter on the C.N.R. somewhere between here and Vancouver. You understand what is going on and I think I have a fairly good idea myself. However, I am talking about the psychological reaction to that particular statement being made in the budget. I say that it is wrong to put it in and I would like to ask Mr. Gordon a question. There is the notation that the Board of Transport Commissioners raised the freight rates by 8 per cent, but was it not definitely understood that the 8 per cent increase was necessary in order to offset anticipated wage increases or adjustments in this period?

Mr. GORDON: Oh no, that is not correct. May I point out that until a matter of a week ago this was a double-barrelled matter in that we had not made provision in the budget for increased wages that might come about as a result of the negotiations and nor had we included any revenue increase from the award of the Board of Transport Commissioners. If we had been considering the budget a week or ten days ago we would have had both statements in it but today we have the award of the Board of Transport Commissioners. I just realize now that I should have stated as well that the last judgment of the Board of Transport Commissioners is under appeal and we have not included in this budget any further revenue that might come by way of the appeal. I realize that we should have had that in. Moreover, this sort of statement has been shown in every budget coming before this committee, when, in fact, there were any negotiations-outstanding. We have followed the same procedure every year.

Hon. Mr. CHEVRIER: I was going to say that the railway workers received an increase of 17 cents in July of 1948. When the president of the C.N.R. came here with his report he did not include the increased wage rates because the matter was before the conciliation board. He did not know what it was going to be. My recollection is that there have been two increases—there may have been three but I am sure that there have been two—and at no time were they included in the budget. It is not possible to include in the budget what has not been decided upon.

Mr. GORDON: This is the statement made in the 1948 budget, before the committee:

"No provision is made in the 1948 budget for any additional revenue which may result from hearings now before the Board of Transport Commissioners in respect of increased freight rates. Neither is there any provision for further wage increases included in the 1948 operating expenses."

Mr. GILLIS: The point I am endeavouring to clear up is not to let the impression go out to those now negotiating for the employees that the railways have closed their minds to any adjustments.

Mr. GORDON: I am not saying that at all. I am simply and honestly pointing out to the committee the fact that there might be wage adjustments and the budget will be affected if they are upwards; if they are downwards the budget will also be affected!

The CHAIRMAN: I do not assume that any committee member, after our long work up to now, will have any questions in regard to the first item—deficit. We have gone over the 1949 statement. Shall I mark the deficit carried?

Mr. GILLIS: This operating deficit is something that ought to be clearly understood. The Minister of Transport comes to the House of Commons every year and there is shown a deficit of $40,000,000 or $42,000,000 against the C.N.R. The assumption by most people in the House, and by the public generally is that the road is a very inefficient road. The C.N.R. goes in the hole, whereas the C.P.R. makes money. I was rather surprised to find that practically all of the deficit that accrues to the C.N.R. year by year is the result of interest payments.

Hon. Mr. CHEVRIER: That is right.

Mr. GILLIS: More than the total deficit we pay each year accrues because of interest and not because the railroad is not operating efficiently and making money as such. I know that Mr. Gordon is making a representation now to the royal commission on this particular point, but I think it is something that should be made clear to the public. It is not understood by the public and it is not understood in the House of Commons—however I am going to see that it is understood this time.

Mr. GORDON: May I just make a statement? The point Mr. Gillis has raised has been pointed out by the railway on every conceivable occasion when there was a chance of obtaining publicity.

Mr. GILLIS: But you are not getting much publicity.

Mr. GORDON: My trouble is, and I have informed the royal commission, that so long as the results of the present capitalization draw down to a deficit, then as soon as the figure is released for the year the newspapers will publicize it. There is no way of controlling that sort of reaction—it just happens that way. It is much more spectacular to have a headline showing a deficit of $32,000,000 or $42,000,000 than it is to say that if it had not been for interest charges the C.N.R. would have shown a profit. That sort of thing would not make headlines.

Mr. GILLIS: Would you tell us what you have in mind by way of changes in capital structure?

Hon. Mr. CHEVRIER: May I interrupt here to say that I have been making a number of speeches on this very matter in the last couple of months. I have been taken to task by your colleague, the member for Winnipeg North Centre. He does not like the speeches I have been making in this regard and I wish he would agree with you on this matter.

Mr. GILLIS: I will see that he does.

The CHAIRMAN: I accept the honourable member's undertaking.

Mr. ADAMSON: Mr. Gordon, in your budget for 1949 you budgeted for a deficit of $37,000,000 but you had an actual deficit of $42,000,000. In the budget of 1950 you are budgeting for a $32,000,000 deficit. Assuming that the 1949 figures are somewhat similar, one can estimate that actually you will have a deficit of considerably more than $32,000,000.

Mr. GORDON: I do not think that follows. In trying to arrive at a budget of this kind it is very very difficult to forecast all the conditions that will arise in a year. As you know it is a guess; but I would not want to say that you could take one year's figures, and by reason of the fact that our guess for that year was out by a certain percentage, that it would follow that the guess would be out by the same percentage for the next year. We are trying to give the committee the order of magnitude in regard to our figures.

Mr. ADAMSON: Have you any figures with respect to the wage negotiations which are going on? I understand that the men are asking for 14 cents an hour?

Mr. GORDON: I mentioned that yesterday.

Hon. Mr. CHEVRIER: It is referred to on page 6.

Mr. ADAMSON: Yes. What will it mean, have you any estimate?

Mr. GORDON: We have at this moment outstanding requests from labour organizations for increases of pay or revision of working conditions—forty-nine individual applicants on our Canadian lines and ten applicants on our lines in the United States. If all the requests were granted on the basis of the submissions now before us, it would add an additional cost for wages generally of practically $58,000,000. That is on the C.N.R. alone.

Mr. MUTCH: What would that raise freight rates to?

Mr. GORDON: If we include the other railways, the additional cost of present submissions would total something in excess of $80,000,000.

Mr. HATFIELD: You would have a $90,000,000 deficit.

Mr. GORDON: If you added the $58,000,000 to the $32,000,000 you would have a defict of $90,000,000. I do not mind saying, Mr. Gillis, that I hope we do not have to do that.

Mr. ADAMSON: That is just on the C.N.R.?

Mr. GORDON: Yes—if the requests were granted.

The CHAIRMAN: Mr. Fulton, you have been trying to get the floor.

Mr. FULTON: Yes. In the detail here it shows the anticipated deficit as $32,000,000. I see you have shown operating revenue for 1950 as being anticipated to amount to $516,000,000. I notice that the operating revenues which you actually received in 1949 were $20,000,000 below your 1949 budget. You have referred to that in your report as being largely due to a decline of some 5 per cent in the over-all volume of traffic. If your operating revenues in 1949 fell in spite of some increases in freight rates what trend do you foresee, or what is the basis upon which you foresee an increase in the revenue in 1950 over 1949?

Mr. GORDON: In part it will be due to the increase in freight rates which will become applicable this year—the increased rates effective from March 20th of this year; the last 8 per cent we received. We expect to pick up about $11,764,000 additional revenue on the same volume of traffic. Then last year the first 8 per cent was not effective for the whole year. If we put that on an annual basis, and add to it the new increase we got, we expect to get an additional revenue of $26,099,000.

Mr. FULTON: On the same volume of traffic, but due to the increased rates.

Mr. GORDON: Yes, due to the increased freight rates.

Mr. FULTON: May I ask you this: in your estimates have you allowed for a continuance of this decline?

Mr. GORDON: Let me put it this way: we expect by reason of increased rates a total of $26,000,000 but we expect a traffic decline which would affect our earnings minus to about $12,000,000, and that comes off to figure of roughly $14,000,000 increase; and if we enjoy the same volume of freight movement in Newfoundland we add another $2,000,000 to get the total increase of $16,000,000. And there, may I point out, that our figure with respect to last year deals with only nine months of operation in Newfoundland whereas this year we are considering operations for the full period of twelve months.

Mr. FULTON: Again you are budgeting for a deficit of $32,000,000, but I frankly do not understand the system by which the government, or parliament shall I say, cover the C.N.R. deficit with respect to interest, the C.N.R. deficit of course arising largely out of interest charges as it does. I find it rather hard to understand and follow just what takes place in respect to this C.N.R. deficit when it comes up in the budget in the House of Commons.

Hon. Mr. CHEVRIER: May I say this, that we do not budget for it, we vote it under the Canadian National Re-financing Act at the end of each year; or, if this committee approves of the budget of the Canadian National then the system under the Re-financing Act can borrow from the government, through the Minister of Finance, the money it needs from time to time to carry on its operations; and then at the end of the fiscal year that amount is provided for. You will recall that three or four days ago I had in my supplementary estimates this item of $42,000,000 or $43,000,000 upon which certain information was required.

Mr. FULTON: That is the part that I do not understand. Why do you not set off against that the approximately $21,000,000 which they pay on account of interest? In other words, there is a vote of $42,000,000, but against that there is this other amount of $21,000,000 which is paid in the form of interest by the railways to the government, and I do not see why we should tax ourselves this amount of $42,000,000 when we really have a credit of that other amount of $21,000,000.

Hon. Mr. CHEVRIER: But we are not taxing ourselves. It is the method we have followed all along, and it seems to be the most logical method; certainly it is the one which has been recommended by the auditors of the Canadian National Railways and also by the auditors of the government.

Mr. GORDON: One point I think will make that clear: While you show on the expenditure side of the government accounts $42,000,000 which you pay to take care of the C.N.R. deficit, the government also shows income or receipts amounting to $21,000,000 which is received in interest on loans made to the C.N.R.

Mr. FULTON: I see that.

Mr. GORDON: So the net amount so far as the over-all budget is concerned is a debit of $21,000,000.

Hon. Mr. CHEVRIER: May I just say that I have just been informed that the C.N.-C.P. Act provides specifically that the debt of the Canadian National Railways shall not be funded.

Mr. GORDON: At the time of the 1937 revision it was agreed that the deficit of the Canadian National Railways should be paid out of the current year's budget. The old system was one whereby we borrowed all the money we needed in the open market and the government of Canada guaranteed the bonds. That has been discontinued. Up to that time we were constantly borrowing money in the market to pay deficits which continually pyramided our fixed charges. With regard to that item of $26,000,000 for new equipment, that is taken care of in the form of an equipment trust issue and does not further increase our

borrowings from the government. That is the type of issue we float in the open market, although we can secure the funds required in the other way.

Mr. FRASER: The government guarantees those bonds?

Mr. GORDON: Except the equipment trust issues.

Mr. FULTON: They would both be interest bearing?

Mr. GORDON: Definitely, yes.

Mr. ADAMSON: I asked Mr. Cooper this morning if he would prepare a statement along this line relating to accumulated deficits.

Mr. COOPER: I haven't got around to that yet.

Mr. ADAMSON: I take it the members of the committee are interested as it is right along the line of this same subject.

The CHAIRMAN: Shall the item carry?

Some Hon. MEMBERS: No.

Mr. FOLLWELL: Do I understand that during the course of the year if the Canadian National Railways find themselves running short of money they can call from time to time on the government for a grant at no interest?

Mr. GORDON: Yes, the Canadian National, when this goes through, is authorized to anticipate their deficit and draw down from the government a certain amount each month.

Mr. FOLLWELL: Draw down as you require it?

Mr. GORDON: That is right.

Mr. FOLLWELL: Then I take it, for instance, that if you are operating at a greater deficit than you anticipate—let us say that you budget for a deficit of $32,000,000 and you find yourself faced with a deficit of $33,000,000—you can keep on drawing on the government; or, do you have to wait until a final adjustment is made? There is no interest charge on that, I take it?

Mr. GORDON: There is no interest on the deficit.

Hon. Mr. CHEVRIER: That is covered by section 9 of the Re-financing Act.

Mr. FOLLWELL: The management does not have to wait until the end of the year to draw this down, they can finance their deficits from month to month as they go along?

Mr. GORDON: You are quite right.

Mr. ADAMSON: And if your deficit runs over the $32,000,000 for which you budget is that covered?

Mr. GORDON: That would be a matter for the government. It can be financed under the provisions of the Act.

Mr. FOLLWELL: But up to the $32,000,000 you can draw it as you need it? And that comes in the supplementary estimates at the end of the year?

Mr. GORDON: Yes, there is authority under the Act to keep on advancing money to the extent of our deficit.

Mr. FOLLWELL: And that is paid from month to month?

Mr. GORDON: We estimate it each month and we draw on the Department of Finance as required.

Mr. FOLLWELL: And I see that you went from $37,000,000 to $42,000,000 in 1949, that meant an extra $5,000,000.

Mr. COOPER: That is correct.

The CHAIRMAN: Shall the item carry?

Carried.

The CHAIRMAN: Capital budget additions and betterments, you will find that on page 3.

Mr. HATFIELD: On pages 3 and 3 (a).

Hon. Mr. CHEVRIER: Yes, on pages 3 and 3 (a).

Mr. FRASER: I would like to ask a question here. We have the heading Highway and Crossing Protection in this item as it relates to different regions of the country. I see there is no item there for Newfoundland and none for the western region; apparently they have nothing at all for highways and crossings.

The CHAIRMAN: There is provision there for the western region; you will find it on page 3 (a) about a third of the way down the page.

Mr. FRASER: Yes, but there is nothing there for Newfoundland at all so far as I can see.

Mr. GORDON: Well, those requests apply to the different districts. If nothing is shown for Newfoundland it means that there are no crossroads which need additional protection. This is all new expenditure. Our operating officials are expected to know what they need and to put something in the budget if existing protection is regarded as inadequate. Is that right Mr. Dingle?

Mr. DINGLE: That is right.

Mr. FRASER: Yesterday I brought up the matter of marking freight cars. I personally feel that they should be marked as a safety precaution. The same matter was brought up by one of the C.C.F. members last year or the year before, and I am bringing it up again because I think something has to be done to protect the public at these crossings.

The CHAIRMAN: Mr. Fraser, that matter was fully dealt with yesterday. Is it your intention to bring it up at every sitting of this committee?

Mr. FRASER: I brought it up again because I want to express my very strong views that something should be done to protect the people of this country in this matter of highway crossing traffic accidents.

The CHAIRMAN: I understand your intention, but I was just asking you as a matter of information if you intend to bring it up at every meeting of the committee.

Mr. FRASER: This is only the second time I brought it up. I hope Mr. Gordon will make a note of it and see what can be done.

Hon. Mr. CHEVRIER: I think I indicated yesterday that the Board of Transport Commissioners must rule that this can be done.

Mr. FRASER: I hope the minister will bring it to their attention and see if something cannot be done because it is being done in the States.

Hon. Mr. CHEVRIER: I shall be glad to do that, but I should point out that it would have to be done not only by the Canadian National Railways; the Board of Transport Commissioners, if they were to order it done, would have to include all the railways, and it could only be done by an application made to the board by somebody.

Mr. FRASER: Even if they could only do it for twenty-five or fifty cars a year, it would certainly help greatly.

Mr. MOTT: What good is it going to do to have it done to twenty or twenty-five cars a year? You will have people looking for marks on these cars and when they don't see them many go right through and smash into the cars. Frankly, I think it would have to be done for all cars if anything were to be done at all.

Mr. GORDON: Mr. Chairman, may I say this, that there are before the Board of Transport Commissioners constantly all sorts of suggestions in regard to safety and it is quite impossible for us, I think, to form any judgment of a

new idea of this kind. There is a regularly constituted body that is entrusted with the duty of examining all these devices and seeing which is best in the public interest. I might mention by the way that we have 107,000 cars that would be affected by this suggestion and fifty cars a year—well, it would take a long time to get around the whole 107,000 cars at that rate.

Mr. FRASER: But one of those cars so marked might save a person's life.

Mr. GEORGE: I do not think it would do very much good just to put this special marking on twenty-five or even fifty cars a year.

The CHAIRMAN: I am afraid it would only add to the hazard.

Mr. GORDON: It would be certain to increase the hazard. When people get used to seeing a device of that kind on a car they expect to find it on all cars, and when that is not the case you increase the hazard.

Mr. FRASER: I don't agree with you at all; I feel that this is an important development in safety measures; and suppose that it only saved one person from breaking his neck, it would be more than worth while.

Mr. GORDON: I always remember that it is differences of opinion which make marriages and horse races.

Mr. FOLLWELL: May I ask if there is anything to be provided for the elimination of grade crossings, level crossings?

Mr. ADAMSON: Yes, I was going to ask that question too.

Hon. Mr. CHEVRIER: That is a different matter altogether. I do not think it is covered here except in cases where the Board of Transport Commissioners has ruled that a grade separation shall be eliminated, and the Canadian National have included a sum of money toward the cost of doing so.

I have on the order paper today a bill to amend the Railway Act with regard to the Railway Grade Crossings Fund. I imagine there will be some discussion about it.

Mr. ADAMSON: I do not want to go into the bill; but may I ask where does it come in the budget? I assume that the railway pays some of the cost.

Mr. GORDON: It is covered in the heading of "Highway and Crossing Protection, $855,247".

Mr. ADAMSON: All right. And I would like to bring to your attention the very bad grade separation on highway 10, where the main line crosses at the station at Port Credit.

Hon. Mr. CHEVRIER: Methinks that I have heard of it before.

Mr. ADAMSON: Yes, I think you have.

Mr. MOTT: I notice an item about the seventh line down in the column headed "Western Region"; the item is in the sum of $148,500. Where would that be?

The CHAIRMAN: The item is that of "Tunnels", which is just above "Highway and Crossing Protection". A question is now asked in regard to the western region and this sum of $148,500.

Mr. GORDON: We can give you the details of that in just a moment. There is an item of $50,000 included to cover excavations of open cuts above the tunnel at mileage 12·1 on the Clearwater subdivision, which is required to relieve water pressure on the tunnel and thereby remove the hazard of collapse; and then there is an item of $98,500 which is concerned with the Kamloops division and the Albreda subdivision being a revote of work which was authorized in 1949 but not completed. It covers snow sheds and tunnels. And while we got some work done in 1949, we did not complete it. Therefore we are revoting this amount which was approved last year.

Mr. HATFIELD: May I ask where the Central Vermont Railway is; where does it run from?

Mr. DINGLE: It runs from St. Albans, or the border, to New London.

Mr. GORDON: At the back of the railway report you will find a map which shows it. You will see New London along the coast, and if you follow that line back up you will see the Central Vermont. It begins at St. Albans, at the international border and runs down through White River Junction, right down to New London.

Mr. HATFIELD: And then where does it go? Is that the end of it?

Mr. GORDON: It ends right at New London.

Mr. HATFIELD: It is all in the United States?

Mr. GORDON: That is right.

Mr. ADAMSON: From White River Junction to Montreal; is that on the Central Vermont?

Mr. GORDON: Only as far as the international border. Then the line becomes the Canadian National from the border to Montreal.

Mr. ADAMSON: Does not the same thing happen to the Grand Trunk Western? It stops at the border?

Mr. DINGLE: Yes, it stops at Port Huron and Detroit.

Mr. HATFIELD: I see that you have for "Stations and Station Facilities" the sum of $414,535 in the Atlantic region. Is any part of that for new stations?

Mr. GORDON: There will be a new station at Les Etroits, replacing an inadequate station; and the estimate is $20,000.

Mr. HATFIELD: I want to know the absolutely new stations, not replacements.

Mr. GORDON: All right. That is one of them. There are a lot of toilets being extended. I do not know why.

(At this point discussion took place off the record.)

Mr. HATFIELD: I was interested in a station at Cote.

Mr. GORDON: Are you referring to a brand new station?

Mr. HATFIELD: Yes. They promised to build a station at Cote. They have a box car run in there now, which they use for a station from September to June.

Mr. GORDON: Where is that place, Cote?

Mr. HATFIELD: It is in New Brunswick, near Grand Falls, between Grand Falls and New Denmark.

Mr. GORDON: There is no reference to such an item in this budget. Can you tell us anything about it, Mr. Dingle?

Mr. DINGLE: No, sir.

Mr. HATFIELD: Mr. Walton promised to take the matter up. Cote is one of your largest shipping points in New Brunswick. In fact, I believe it is your largest shipping point, yet they never had a station. An agent has been placed there from October to June these last two years. But there is no station. They run in a baggage car and use it.

Mr. GORDON: Was this matter taken up before?

Mr. HATFIELD: Yes, it was taken up two years ago.

Mr. GORDON: Well, it has not come to my attention; and Mr. Dingle, our new vice president in charge of operations, is rather at a disadvantage. We have never heard of this application. We shall have to look it up and see what the story is.

Mr. HATFIELD: But Mr. Walton knew all about it. I had a hard time to get a station agent there. And then they decided to put in an agent from June to September.

Mr. GORDON: I have noted the matter Mr. Hatfield.

Mr. ADAMSON: Is there anything in the budget for a station at Port Credit?

Mr. GORDON: You mean Port Credit, Ontario?

Mr. ADAMSON: It is on the Central region. That was the station which was built before the Indian Mutiny.

Mr. HATFIELD: And you want an ice breaker at North Sydney.

The CHAIRMAN: By the time we get through here there will be no money left.

Mr. GORDON: Mimico; that is pretty near to it?

Mr. ADAMSON: Yes. That was included with the other, and very necessary it was, too.

Mr. GORDON: I do not see Port Credit here.

The CHAIRMAN: I am afraid you will have to wait for another mutiny.

Mr. GORDON: There is construction of an express building required to handle increased traffic in Port Credit, but that is a small job.

Mr. ADAMSON: There is an old baggage car there now which they are using.

Mr. GORDON: And this new 45 by 24 express building was budgeted for this year in the sum of $8,300.

Mr. ADAMSON: Before you leave Port Credit—

Mr. GORDON: Perhaps I should point out that in so far as the budget is concerned, we have the total of $6,525,977 under that general heading of "Stations and Station Facilities." That is a fairly tidy chunk of money for one year.

Mr. ADAMSON: I think there are upwards of 700 commuters using the Port Credit station every day, in and out; the traffic is very very heavy, and we certainly need a new station.

Mr. GORDON: Well, let us remember that Rome was not built in a day, and neither was Port Credit.

Mr. GILLIS: I have a question having to do with the expenditure of money. But after looking at your fixed charges I am almost ashamed to ask for it. I believe the minister has already promised to build a bridge at the Strait of Canso. And in connection with that particular project the Canadian National Railways will have to do a considerable job in moving the terminals and rerouting the tracks for a distance of some eight or ten miles. We are looking forward to the time when this work will start in order to relieve a very bad unemployment problem. But I notice nothing in the estimates in regard to that project and I wondered if the new president would have anything to say about it? Has it been discussed?

Mr. GORDON: The matter is under active discussion with the people who are studying plans for the bridge. We will have a survey party in this year to determine the distance, and how the tracks will be located, and we are planning our operations so that we will be ready with the track when it is necessary to put it in; but we did not put it in the budget this year. However, we are keeping in close touch with it so that there will be no delay with respect to our tracks if and when the bridge is built.

Mr. GILLIS: That is fine. That is progress, anyway, and I am glad you are thinking of it. May I ask if you anticipate doing anything to improve the road bed between Sydney and Truro?

Mr. GORDON: It is under constant improvement.

The CHAIRMAN: I think it would be only fair now for me to go around the table because there are a lot of questions apparently on this matter.

Mr. GORDON: In the Atlantic region we are spending $215,635 covering ballast for improved drainage of track and general improvement of track, particularly on the Sydney subdivision.

Mr. GILLIS: That is what I am interested in.

Mr. CAVERS: Under the heading of the buildings in the Montreal station area, might I repeat my question of yesterday with regard to the income derived from the International Aviation Building at Montreal?

Mr. GORDON: As it stands at this moment, we have leases executed, and leases negotiated to a total of $511,592. And we expect, when we have leased all the space, that we will have a revenue of $547,858. And against that, our estimated expenditures are $503,019, so that we shall show a profit when all the space is rented of, roughly, $45,000.

Mr. CAVERS: Thank you very much.

Mr. GORDON: That is per annum; and in the expenditures I gave we have included a 5 per cent sinking fund charge to amortize the cost of the building over a period of 31 years with interest at 3 per cent. That item of expenditure alone is $205,500.

The CHAIRMAN: Any further questions, Mr. Cavers? Mr. Mott?

Mr. MOTT: That Grand Trunk Western Lines item under docks and wharves amounted to $135,500.

Mr. GORDON: Docks and wharves you say. The item of $135,500?

Mr. MOTT: Yes. What is that for?

Mr. GORDON: That covers at Milwaukee the reconstruction of an 85 foot wing fender and 104 feet of adjacent dock wall, installation of a 30 pile cluster and the repairing of 30 feet of wale timber at car ferry slip No. "I". This particular slip has not received any major repairs since 1927. The item is $40,500. Also, at Detroit, Michigan, there is an additional $95,000 covering reconstruction of car ferry apron and fender at the car ferry slip dock, Brush Street yard. This covers a revote of the unexpended balance of a 1949 authority approved for $195,232, and this total left here is a revote. The expenditure is $95,000 in 1950.

The CHAIRMAN: Any further questions, Mr. Mott?

Mr. POULIOT: What quantity of ties will be required this year?

Mr. GORDON: That is not a capital expense, that is an operating expense. We will see, however, if we can find it. The number of track ties it is estimated will be used for renewals is 4,376,500 ties in 1950.

Mr. POULIOT: Hard wood or cedar.

Mr. GORDON: There will be different kinds of ties.

Mr. POULIOT: That is the total number of ties?

Mr. GORDON: That is the total number of track ties to be installed in 1950.

Mr. HATFIELD: Are the ties creosoted?

Mr. GORDON: We have not finished our negotiations for this year, but last year, out of 4,088,000 ties that we put in, 3,442,000 were treated and 646,000 were untreated. That is 84 per cent of the total ties installed were treated.

Mr. HATFIELD: You have your own creosoting plants too?

Mr. GORDON: We buy them untreated. The way it works is, we buy the ties we require and we send them to a firm engaged in that business, and they are returned to us in a treated form. As I said, 84 per cent of the track ties installed last year were treated.

Mr. HATFIELD: The C.P.R. has a treating plant of their own. Do you use their plant?

Mr. GORDON: Not to my knowledge

Mr. GEORGE: On the question of ties, probably the only criticism I have ever had was when we came up here on this pit prop delegation. I am speaking more particularly now for Mr. Richard, the member for Gloucester. As you all know we lost the pit prop market, I hope only temporarily, and the suggestion was made to Mr. Howe and other members of the cabinet by Mr. Richard that perhaps the Canadian National Railways could stock pile track ties in Kent, Northumberland and Gloucester counties. These farmers all have small woodlots of their own and two or three hundred dollars per farmer per year means the difference between living and starving to death in a winter like this with no pit prop orders and no lumber operations. I was wondering if it could be arranged for the Canadian National Railways to watch the purchasing and allocation of orders for railway ties so that they could be allocated to these areas where unemployment is very great, greater than normal.

Mr. GORDON: Mr. Howe asked me to look into that question about six weeks ago, in January I think it was. We made a careful study at that time and I advised him that the suggestion was not a practical one for this reason: we buy ties roughly a year in advance and we try to buy them in the community nearest to where they are going to be used. If we try to do what you suggest you would only be robbing Peter to pay Paul. You might get a large number this year, but next year you might not be able to get any and you would be worse off than ever. Furthermore, we have found in practice that if we try to stock pile ties it is not a satisfactory operation, and if we try to differentiate as to where we place the orders, then we would simply get protests from other communities. Our practice now is to separate them and distribute the orders as equitably as we can and to see that each community gets a fair share.

The CHAIRMAN: Any further questions on ties?

Mr. POULIOT: So long as Mr. Gordon sees that each community has a fair chance, I am satisfied. I support to a certain extent what Mr. George has just said. In my part of the country there are many many settlers who work as lumberjacks, and last year the timber operations were much less than the previous winter, and the one before that. Therefore, they are unemployed at the present time, and they are very anxious to work. They have timber on their own land and they could do some of that work. I know the mayor of one of these municipalities, Mr. Paul Begin, of St.-Juste du Lac, who is in contact with the railway and has sold them some material. I will tell the railway officials that they cannot imagine how much it has helped the community to give a tie contract to that man who spreads it among the needy of his district, and I hope that practice will be followed in Kent county just the same as in mine.

Mr. GORDON: As a matter of fact, I should have mentioned one point that occurred to me as you were speaking, Mr. Pouliot, that another part of the policy is to arrange the purchasing as much as possible so that the largest number of operators get some of the contracts, and that such discrimination as there is, is in the favour of the small operators.

Mr. HATFIELD: I might say that they used to use hewn ties on the railway, but I do not think they could compete with small sawmills. They use the heart of the tree now for ties. I do not think they could hew them by hand and compete at all. I think the only proper way for the people to get a market to replace this pit prop business is in pulpwood.

The CHAIRMAN: Mr. Carter?

Mr. CARTER: My question is on telegraphs.

The CHAIRMAN: Telegraphs—all right.

Mr. CARTER: I see there is no provision here for any extension of the telegraph service in Newfoundland.

Mr. GORDON: That is due to the manner in which the statement was written up. If you will run your eye down a column headed "other" you will see an item of $1,485,653, and another item of $5,656,052. I do not know if I can give you a breakdown, though. There will be a large portion of that spent for the improvement and betterment of telegraph facilities in Newfoundland generally Yes. I have it here, the total for Newfoundland is $825,232.

The CHAIRMAN: Mr. Fulton?

Mr. FULTON: On page 3, under additions and betterments, under subsidiary companies, can you explain how you budgetted in 1949 for an expenditure of $44,001. You show the actual expenditure to be a credit item of $708,541. How does the credit of $708,541 arise from the debit of $44,001 estimated for the year 1949?

Mr. GORDON: That is due to adjustments which took place in the accounts resulting from property retirements not contemplated in the budget, such as the sale of the Steamship *Dalhousie City* also *Lakeside Park,* both operated by Niagara, St. Catharines & Toronto Railway; and abandonment of Mine No. 6 of Rail and River Coal Co., (loss covered by depreciation accruals).

Mr. FULTON: Would you explain how the retirement of track ends up in a credit to additions and betterments?

Mr. GORDON: I think I had better leave that to Mr. Copper.

Mr. COOPER: It is quite simple. We retire a piece of property. I am speaking now of a unit of roadway property. We retire from the investment account the amount at which it is carried in that account, and assuming there is no salvage, we charge the amount to operating expenses.

Mr. FULTON: It is transferred then from one account to another?

Mr. COOPER: Yes, sir.

Mr. GORDON: It represents a write-off which is charged to our operating expenses.

The CHAIRMAN: It is in the books as a capital item, and then it has to be written off somewhere. It is a write-off.

Mr. GORDON: You will find a very detailed analysis on this very question, which Mr. Cooper gave before the royal commission. I commend it to your study. It is a most complicated matter, but Mr. Cooper has made it beautifully clear in his submission to the royal commission.

Mr. FULTON: To the royal commission, not to the Board of Transport Commissioners?

Mr. GORDON: The Royal Commission on Transportation which is now sitting.

Mr. FULTON: Would you just give me the date of it?

Mr. GORDON: During last week. I may say, gentlemen, that is why Mr. Cooper lost his voice.

Mr. FRASER: Along that line which Mr. Fulton has raised, you mentioned $197,000 write-off on the St. Catharines-Niagara line. That would be that part you spoke of this morning?

Mr. GORDON: No, that was for 1949. We are now dealing with the budget for 1950.

Mr. FULTON: Going back to page 3A, can you give me the main items under stations and station facilities for the western region totalling $1,417,000?

Mr. GORDON: There are four pages of closely typed material respecting those items. I am a little in a quandary as to how to summarize it for you.

There are a number of small items and the grand total comes to $1,417,046. Perhaps I could take the items over $100,000 or over $50,000 if that would suit you?

Mr. FULTON: Take the items over $100,000.

Mr. GORDON: There is an item of $701,100 which is a re-vote covering $630,000 for the new freight shed being erected at Edmonton. That was authorized in 1949 and this represents a re-vote to complete the item for 1950. There is a gantry crane for $6,100 for Vancouver; $65,000 to extend the freight yards in Vancouver—again those are re-votes covering the unexpired portions in 1949. There is $136,000 covering the construction of a new freight shed, complete with tracks and loading platform in the inter-city area served by the main line—a replacement of the inadequate present facilities on north Vickers street in Fort William. Those are the only large items that I can see. There are four pages of items running all the way from a matter of a few dollars to thousands of dollars.

Mr. FULTON: I was chiefly interested in Vancouver and Edmonton and you have given the figures for them.

Mr. GORDON: I do not see anything else of any size for Vancouver or Edmonton.

Mr. FULTON: Then under signals and interlockers you have an item for the western region of $943,601. Perhaps you could shorten you explanation there because I assume the amount is for the automatic block signals to which you referred in your report.

Mr. GORDON: Yes, it is all signals, although included is a total of $229,130, representing re-votes for various types of signals—approach signals, block signals and so on. The majority, apart from the re-vote, seems to cover the automatic block signal system between Jasper and Red Pass. There are two items in the re-votes for the Kamloops division in which you might be interested, Mr. Fulton. These are a re-vote of $112,000 and another of $76,000 for block signals. The two items total $188,000 being the balance of the 1949 authorization.

Mr. FULTON: I wonder if there is any leeway in that item for work on the slide detector fences should it be found, as a result of the inquiries you are making, that they should be proceeded with? I am wondering whether you have allowed yourself anything to do that work with this year?

Mr. GORDON: There is a general contingency fund under which we can take care of items not specifically provided for—a general contingency fund. In the western region there is an amount of $250,000 for emergency operations not foreseen under this particular item.

Mr. FULTON: Could that be used for the particular item?

Mr. GORDON: Yes, it could be used for the item in question.

Mr. FOLLWELL: The minister was looking to see if there was anything in his detailed information for a station in Belleville?

Hon. Mr. CHEVRIER: I think I can find it.

Mr. HATFIELD: Is there anything there for the road from Richmond to Portland Maine?

Mr. GORDON: The short answer is that it is part of the central region. Have you any particular part of the region in mind?

Mr. HATFIELD: There is only one division and one road. Is there anything in the way of betterments for that part of the road?

Mr. GORDON: I do not know whether we can identify the actual mileage.

Mr. HATFIELD: It starts at Richmond, Quebec, and goes to Portland, Maine. It is part of the old Grand Trunk.

Mr. GORDON: Yes, that is right, but what I do not quite follow is whether we must turn up the whole central region and show you a series of mileage points where these betterments are planned.

Mr. HATFIELD: Is there any work being done at Portland, Maine, on the sheds there?

Mr. GORDON: I do not see anything here specifically for Portland, Maine.

Mr. HATFIELD: The harbour sheds are in very bad repair.

Mr. GORDON: At Portland, Maine? There is nothing in the capital budget, but there might be and probably is something in the maintenance account. There is nothing in the capital budget that would constitute new work.

Mr. HATFIELD: Is there anything in the capital budget for Saint John, New Brunswick. I have reference to a new shed on the east side.

Mr. GORDON: There is an item covering our contribution to the construction of a viaduct across Mill street. The amount is $175,000.

Mr. HATFIELD: Does the C.P.R. pay any part of that?

Mr. GORDON: This is called our contribution but I do not know whether it is a divided operation.

Mr. DINGLE: Yes, it is.

Mr. GORDON: I presume that the C.P.R. must pay something like the equivalent sum.

The CHAIRMAN: Have you any further questions Mr. Hatfield?

Mr. GORDON: I find here that there is a new power house and brick chimney at Gilberts' Lane, Saint John, N.B., and we have set aside an amount of $62,220.

Mr. HATFIELD: What arrangement have you with the C.P.R. for crossing the bridge from the island yards to west Saint John?

Mr. GORDON: That question is under discussion now with the C.P.R. and with the city of Saint John. It is in the negotiation stage.

Mr. HATFIELD: What is the distance between the fruit terminal in Montreal and the sheds you are now building?

Mr. GORDON: You refer to Bonaventure?

Mr. HATFIELD: Yes?

Mr. DINGLE: It is less than half a mile.

Mr. HATFIELD: There is no connection with the land?

Mr. DINGLE: Yes, it is all in one strip.

Mr. ADAMSON: I would like to ask about this item—yard-tracks and sidings, in the central region—$674,000. What are the improvements being made to the Mimico yards? The chairman asked me to wait until the budget to bring up the question of centres of tracks. It was my opinion that the distance between the tracks was below standard and certainly below the practice of the C.P.R. at Lambton? It may be that the Board of Transport Commissioners regulations passed some years ago should be revised in view of the heavier traffic, higher speeds, and so on.

Hon. Mr. CHEVRIER: The regulations of the board are revised from time to time upon the representations made by the brotherhoods.

Mr. ADAMSON: It has always amazed me that the brotherhood never complained about conditions in that yard.

Mr. DINGLE: I might say here that the new Mimico yard is being set on standard track clearances.

Mr. ADAMSON: Which are six feet?

Mr. DINGLE: No, from centre to centre it is something like thirteen feet six inches.

Mr. ADAMSON: Yes, thirteen feet six inches between centres. Have you bought any new property there?

Mr. DINGLE: There is no new property there—we have the property that we purchased some years ago.

Mr. ADAMSON: You are using that now?

Mr. DINGLE: For the expansion of the yard.

Mr. GORDON: The total cost of the improvements in the Mimico yard is $2,850,000. The provision in the 1950 budget is $950,000. Up to the end of December 1949 we spent $1,118,000. Our estimated expenditures this year will be $1,027,000 of which $950,000 is treated as capital. Our estimate expenditure in 1951 will be $703,512—making a grand total of $2,850,000.

Mr. ADAMSON: It is one of your biggest projects?

Mr. GORDON: Yes, one of our large projects.

Mr. ADAMSON: I am glad to see that, because you are increasing your yards from a capacity of 3,000 to a capacity of 4,000?

Mr. GORDON: Yes.

Mr. ADAMSON: And you are replacing the station which is just really a freight station?

The CHAIRMAN: Mr. Gordon has already commented on that. It is merely an express shed or something of that sort?

Mr. GORDON: You see this $2,850,000 covers a whole big project. I have not got the details before me of the whole thing, but when it is finished it will be right up to date in every respect.

Mr. ADAMSON: Are you considering the matter of lighting?

Mr. DINGLE: Yes.

Mr. GORDON: I think I can put it this way, Mr. Adamson: when we spend $2,850,000 on a job of that kind you are going to have a bang-up job.

Mr. ADAMSON: Thank you.

The CHAIRMAN: Mr. Fraser.

Mr. FRASER: On the bottom of page 2 we find:

> The 1950 budget includes $3,096,000 for contribution to the deficit of the I.C.R. & P.E.I. provident fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

Mr. HATFIELD: We are not on that yet.

The CHAIRMAN: We are on the general heading, additions and betterments.

Mr. HATFIELD: Yes, we are on additions and betterments.

The CHAIRMAN: Mr. Fraser, go ahead and put your question now. It is all right.

Mr. FRASER: There is a question I would like to ask on that. The Canadian Pacific have in a number of cases welded their rails right through to make more smooth running; is that being done on the C.N.?

Mr. GORDON: I am sorry; are you still on this item at the bottom of page 2?

Mr. FRASER: No, on additions and betterments. I was referring to the welding of rails to cut down the bumpety-bump noise; is anything of that kind being done on your line?

Mr. DINGLE: We are building up rail joints.

Mr. FRASER: That is what I meant; welding the joints, isn't that it?

Mr. DINGLE: Yes, sir.

Mr. FRASER: Is that being done?

Mr. DINGLE: Yes, all over the system. We have a program each year.

Mr. FRASER: Is it being done between here and Toronto?

Mr. DINGLE: Yes; welding of rail joints has been going on right along.

Mr. FRASER: Yes, limiting the bumpety-bump sort of thing?

Mr. DINGLE: We hope so.

Mr. FRASER: And that is done by welding the joints?

Mr. DINGLE: That is right.

Mr. FRASER: Is that going forward as speedily as possible?

Mr. DINGLE: Yes.

Mr. FRASER: And has the road been improved?

Mr. DINGLE: We have a regular maintenance program, sir.

Mr. FRASER: It was in very bad condition after the war and so far as I have been able to see there had not been very much done up to last year.

The CHAIRMAN: Any further questions, Mr. Fraser?

Mr. FRASER: Not on this page.

The CHAIRMAN: Mr. James.

Mr. JAMES: I am a new member of this committee along with some of the other members and it is quite interesting to me to hear the way in which the officials of the Canadian National Railways and especially Mr. Gordon answer these questions having so much to do with facts and figures. My understanding of the committee was that we were here to get information about the operation of this road for next year, or the future. It seems to me that most of the questions have come from certain members trying to get as much as they possibly could for their own districts, and I suppose in that way they are rendering a practical service to the C.N.R. I feel confident, from the conversations that have gone on here, that the C.N.R. is being run very well. My one trouble of course is that being a new member of this committee where we are dealing here in billions and millions, I do not just know how I am going to get down to the small practical matter of paying my rent at the end of the week; that will be something of the order of $50.

Mr. THOMAS: I would like to know under this heading what amount it is planned to spend on the MacDonald Hotel in Edmonton during the coming year?

Mr. GORDON: We are just coming to hotels, and I think you will find there again under the heading "other" an item of $1,934,238. I will be able to give you the breakdown on that in a moment. We just give the grand total here, I can give you the particular item in which you are interested in just a moment.

Mr. THOMAS: I was wondering how much you were planning to spend in connection with the Macdonald Hotel at Edmonton this year.

Mr. GORDON: We expect to spend on the Macdonald this year $1,200,000.

Mr. MACDONALD: I appreciate your interest in that.

The CHAIRMAN: Have I missed any other member?

Mr. GILLIS: Yes, Mr. Chairman. I would like to ask Mr. Gordon a question. I know that it does not concern his budget at the moment. Is there any intention on the part of the Canadian National to expand their system from Sydney to New Glasgow?

Mr. GORDON: Did you say from Sydney to New Glasgow?

Mr. GILLISS Yes.

Mr. GORDON: Not to my knowledge. Do you know anything on the subject, Mr. Dingle? I know there is no project, so to speak, under way.

Mr. GILLIS: I mention it to you so that you may think about it in future. There is a fairly decent road from the Dominion Coal Company there, one which is heavily subsidized by the government. There is little traffic on it,

naturally, and the accommodation for the travelling public is very poor, to say the least; the passenger service is very inadequate, although it serves an area of 60,000 or 70,000 people. Now, what I am suggesting to you is that consideration might be given by the C.N. or the government, or both, to taking over the S. & L. Railway, because the government is paying very large subsidies in connection with this operation.

Mr. GORDON: You mean it is a separate company now?

Mr. GILLIS: Yes, it is a subsidiary of DOSCO.

The CHAIRMAN: Mr. Mott has one more question. I had hoped we were through.

Mr. MOTT: The question I wanted to ask has to do with the different regional districts on the railway. It is my understanding that at the present time the headquarters for all of western Canada is at Winnipeg; is that right?

Mr. GORDON: Yes.

Mr. MOTT: And for the central region it is Montreal?

Mr. GORDON: No, Toronto.

Mr. MOTT: And Atlantic?

Mr. GORDON: Moncton.

Mr. MOTT: What I am thinking about is the distance between Winnipeg and British Columbia. Is there any thought at all of another region being set up? For instance, there is a lot of traffic out of Edmonton up into the Peace River country, and there is a lot of oil and all that sort of business, a good deal of which moves to the coast. The way things are at the present time anyone in British Columbia who has a matter to be taken up with the management is required to go through Winnipeg, and that is a very considerable distance to have to go to have matters dealt with.

Mr. GORDON: Well, to break down the two points in your question. From an operating standpoint definitely the opinion of the experts in the western region is that for operating purposes and for freight services and from the point of view of railway operation it is desirable to have the headquarters of the western region at Winnipeg. You may perhaps recall that we recently appointed a manager in Vancouver; I think that appointment was made about two years or so ago.

Mr. DINGLE: Yes, a little over two years ago.

Mr. MOTT: That does not seem to help at all; you still have to go to Winnipeg if you have a matter which has to be disposed of.

Mr. GORDON: The question was raised by Mr. Gillis yesterday and I thought I had dealt with the matter then. I am not prepared to agree that our railway officials are as helpless as members of this committee seem to indicate.

Mr. MOTT: I did not say that.

Mr. GORDON: There is no reason why they should be because they are authorized to make decisions on their own. I have heard from one or two places that there is the belief that there is too much centralization and that it does not give a good service. I have taken due notice of it.

Mr. MOTT: There is definitely a feeling in the west that another region should be established. You have a lot of business in the prairies and into and out of Edmonton.

Mr. GORDON: There you get into the technical aspects of railway operation. The railway and operating officials are strongly of the opinion that the present organization of the western region, from an operating point of view, is quite satisfactory and the best set-up under present conditions.

The CHAIRMAN: Shall that item carry?

Carried.

The CHAIRMAN: We are now on new equipment.

Mr. HATFIELD: Now I would like to ask my question. Has anything been done to improve what you call the caboose on the end of the train to accommodate the trainmen?

Mr. GORDON: That is a technical question. As I understand it, Mr. Hatfield, you want to know whether cabooses can be improved?

Mr. HATFIELD: I know they can be. I am asking whether anything has been done to improve them. I do not see anything in here that mentions caboose.

Mr. DINGLE: We are building new cabooses, sir, and we are putting in certain improvements; however, cabooses do not have running water or electric lights.

Mr. HATFIELD: Do they have toilets?

Mr. DINGLE: No sir.

Mr. HATFIELD: Don't you think they should?

Mr. DINGLE: No.

Mr. HATFIELD: I know, but don't you think they should have them? I thought they were rather poorly fitted out. The men have to spend not only the day but the night in them.

Mr. FOLLWELL: Have you had any complaints from the unions about cabooses?

Mr. DINGLE: We always hear about cabooses.

Mr. FOLLWELL: Sure.

Mr. HATFIELD: They could be improved.

Mr. ADAMSON: I asked Mr. Cooper yesterday if he could give me the age of freight cars. I think you have it ready. He promised me something on the efficiency of rolling stock and of the new diesels.

Mr. GORDON: Just before Mr. Dingle answers that question, as to part of it I refer to the relative efficiency of new and old rolling stocks I definitely reserved my decision. I said I was willing to examine it to see what was possible in relation to the sort of thing you have mentioned. It is certainly not an item I am prepared to deal with at this meeting of the committee. I hope to be prepared next year but I cannot do it this year.

Mr. ADAMSON: Well, that is the statement of the president and I accept it. My other point related to the ton mile cost of operation, particularly as it relates to freight, a comparison of the figures for let us say 1948 and 1949 as against 1939. I think possibly you have that in the figures before you.

Mr. GORDON: That is in the report, Mr. Adamson. I think we can probably give you something on that.

The CHAIRMAN: Mr. Adamson, would you be willing that the information be tabled?

Mr. ADAMSON: I thought they could get it now. I think it is very important information to get. Roughly, how much more it costs to do the job now than it cost in 1939.

The CHAIRMAN: I would have thought in view of the heavy expenditures being made up in your part of the country that you would have been the first to stand by and smile at the officials.

Mr. ADAMSON: And believe me, they are very necessary. It is, I think, the largest freight yard in Canada.

Mr. GORDON: If you will turn to page 37 in the report I think you will find exactly what you want. Down the next to the last item you will see the heading there—net railway operating income, gross railway operating charges per mile of road—and then it shows the figure for 1949 and 1948. We could give you that figure for 1939. Would that meet your wish?

Mr. ADAMSON: I think that is what I would be interested in.

Mr. GORDON: If we have it here we can get it for you.

Mr. FULTON: On page 3 it is stated, as Mr. Gordon pointed out, that $26,000,000 of the new equipment program is being met, or is supposed to be met, by a new trust equipment series; does that trust series add to the debt in the hands of the public?

Mr. GORDON: Yes.

Mr. FULTON: Well then, I notice you budget for a reduction in the interest to the public. I am just wondering how you do that when you add $26,000,000 for this account in the next year.

Mr. GORDON: I didn't get that; would you say that again?

Mr. FULTON: I notice that in your main budget you anticipate a reduction in the interest on funded debt held by the public.

Mr. GORDON: Oh well, that is because we had a major refunding job done last year, you remember; some $60,000,000 5 per cent bonds were refunded at an average rate, speaking from memory, let us say of 2-$\frac{7}{8}$ or 3 per cent, close to that; and we get the benefit of the reduction in the interest rate to that extent in the 1950 year.

Mr. FULTON: They were done late in 1949.

Mr. GORDON: In 1949 they were bearing interest at 5 per cent and we called the bonds in October and February. At all events, we get the benefit of the savings, starting in 1950.

Mr. FULTON: Are you able to set aside anything from your current earnings to cover the cost of new equipment?

Mr. GORDON: If you turn again to page 1, you will see that we do set aside a sum out of depreciation. It will be $17,935,000. That is an estimate in the budget for 1950.

Mr. FULTON: Set aside?

Mr. GORDON: Yes. Have you got page 1?

Mr. FULTON: Yes.

Mr. GORDON: $17,935,000 becomes available for reserves from depreciation and debt discount amortization. In other words, while we spend $42,517,489 we are only asking for an item in the capital budget of $24,582,489 because we get the balance of $17,009,000 from these depreciation reserves which come out of current revenues.

The CHAIRMAN: Over the years?

Mr. GORDON: I mentioned it to you for this year, yes.

Mr. FULTON: I notice in your details which are given on page 4—but before I go into that, I should say as to that $17 million odd figure, you do not make any attempt to apportion it between additions and betterments and new equipment, do you?

Mr. GORDON: No. It is spread over the total of the items.

Mr. FULTON: Coming next to the details of new equipment on page 4 I note that your new locomotives are all diesel. Have you ever considered the question of electric motive power?

Mr. GORDON: We have some electric motive power in the Montreal area and there are three electric locomotives budgeted for this year.

Mr. FULTON: But I meant on the main line?

Mr. GORDON: Oh no. It would be much too expensive. If we were to go out of steam locomotives, obviously the thing to do would be to go into diesel. You see, we already have budgeted for some electric locomotives and multiple units cars which are also electric. Those can be made a paying proposition in a heavy passenger traffic area. But we have very few areas of sufficient traffic density to justify the capital cost of electrical equipment.

Mr. MOTT: Just electric locomotives, not electric cars?

Mr. GORDON: Yes. You have to have the cars and you also have to have the overhead wires and whatever it is that is used to drive them.

Mr. MOTT: I understand that just over the border from Kamloops they have electrified the railway?

Mr. GORDON: Do you know what the traffic density is there?

Mr. MOTT: I do not think it is heavy. It is quite wild country with mountains.

Mr. GORDON: I do not know. But I would not want to contemplate the cost of putting in an electrified system over the Rocky Mountains. I think that would call for a pretty stout heart.

Mr. FULTON: Has the company made a survey?

Mr. GORDON: I do not think we have made a specific survey. I think our people would know enough about it to dismiss the proposition at once without making a survey worth while.

Mr. FULTON: But once you have got the electric installation in, are not the maintenance and operation costs very, very considerably reduced?

Mr. GORDON: That may be so. But under current conditions, if we were changing in an area where there is a steam loomotive proposition, and if it were operating cost reductions that we were after, then the obvious thing to do would be to do it with diesels. Diesels would give more economy than electrification. At least, that is my understanding of it.

Mr. DINGLE: Yes, sir. The initial cost of making electrical installations is too high.

Mr. ADAMSON: You would have to have some density of traffic such as they have on the Pennsylvania main line?

Mr. GORDON: On the Montreal lines we can take care of it because of the traffic density there.

Mr. DINGLE: We also have electric motive power through the Port Huron tunnel.

Mr. ADAMSON: I notice that there are no steam locomotives on order.

Mr. GORDON: None are on order at the moment.

Mr. ADAMSON: You do not contemplate it, or is that a leading question?

Mr. GORDON: You had better not arouse any hope.

Mr. FOLLWELL: What is that M. & S. C. railway under the item of "Diesel Locomotives" on page 4?

Mr. DINGLE: That represents the Montreal and Southern Counties railway.

The CHAIRMAN: Does the item carry?

Carried.

Mr. FRASER: Are these "automobile cars (Newfoundland)" for tourist purposes?

Mr. DINGLE: No. Mainly to handle new automobiles going to the dealers.

Mr. FRASER: Would you have that much business in there?

Mr. DINGLE: There is quite a heavy automobile business at the present time. We found that our car supply was not sufficient to handle the traffic.

Carried.

Mr. ADAMSON: Would it be possible for you to let me have the revenue per ton mile? I think you have that, and would it be possible to get the costs per ton mile?

Mr. COOPER: We agreed to give you the expenses per road mile.

Mr. ADAMSON: That is right.

The CHAIRMAN: Does the item carry?

Carried.

The Barraute branch line. Does the item carry?

Carried.

Mr. HATFIELD: When this branch line was to be built, and when it came before the committee three or four years ago, we were told that it would open up an agricultural country and also serve the paper mills.

Hon. Mr. CHEVRIER: I think it is the other way round.

Mr. HATFIELD: I thought it was to open up this territory for the Brompton Paper Company.

Hon. Mr. CHEVRIER: A contract was entered into between the Canadian National Railways and the Canada Paper Company for the purpose of getting the railways some freight and at the same time helping to open up the country.

Mr. HATFIELD: Has anything been done? You have a Department of Agriculture, and has anything been done to open up the lands along the railway?

Mr. GORDON: You mean in the matter of locating agriculture? I do not know of any special action in regard to agricultural development. What seems to me to be the most interesting item in that line at the moment is the development of base metals and minerals.

Mr. HATFIELD: It was built for the Canada Paper Company?

Mr. GORDON: That was one of the propositions. I had a large delegation from this area in to see me on Saturday morning. They discussed with me the possibilities of that district. I understand there are a number of very interesting prospects there including some copper deposits and various other base metals as to which the Dome Mines are interested at Batchelor Lake. They proposed that we put a line through to Chibougamou.

I told them that we were definitely interested in extending the line as soon as these prospects begin to prove up, but we want something more than the development they have got. However, we are interested in going along just as fast as the prospects prove up, and as soon as development of the area indicates that we would have economic traffic on the line. They were generally satisfied with our attitude.

Mr. HATFIELD: Four or five years ago when they came before the other committee, I mean the Committee on Railways, Canals and Telegraph Lines, to get the authority to build this road, there was an agricultural man from your department, or from the railway, who pointed out to us what agricultural lands there were along this railway, and how it would open them up for agriculture. So I was just asking if anything has been done since then?

Mr. GORDON: Well, it is true that the proposition was that the line would carry the pulpwood and lumber for the Canada Paper Company and serve to colonize and develop the agricultural possibilities of the area. But I think it is a little too early to talk about the agricultural end of it. However, there are enormous timber limits there waiting to be developed, and I would think that if

we are to get the agricultural possibilities really developed, the land would have to be lumbered over in the first place, because first you must cut down the trees, and then you try to grow the carrots.

The CHAIRMAN: Carried.

Mr. ADAMSON: I think the Consolidated Smelters are very much interested in that district as well.

Mr. GORDON: The Canadian National Railways are very interested in the whole area and believe there are intriguing possibilities for development there. We have a great many surveys and reports already made on it, and we believe that the district has a genuine future. We intend to develop it just as fast as economic considerations justify doing so.

Mr. HATFIELD: If the Quebec government should grant agricultural lands, they would not want all the timber cut off.

Mr. GORDON: Oh, no. But you have to get some lumber off if you are going to carry on agriculture.

Mr. FULTON: What is the reason it was authorized in 1946 and a contract was awarded in 1946, yet nothing appears to have started until 1949?

Mr. GORDON: We spent $3,003,000 up to December 31, 1949. We did not start it in 1949.

Hon. Mr. CHEVRIER: The line had to be built before the railway could operate over it. That is what that means. It is operations over its line up to March 1949, which were commenced on February 1949.

Mr. FULTON: Fifty miles?

Hon. Mr. CHEVRIER: I think 39·02 miles were built.

Mr. HATFIELD: What in the Canada Paper Company going to do?

Mr. GORDON: From the date that operations were commenced on this portion of the line, February 28, 1949, until the end of November, 1949, a period of nine months, 34,680 cords have been actually moved. The December traffic is estimated at 5,385 cords. Those two figures result in a total estimated movement of 40,065 cords for the ten-month period ended December 31, 1949. The paper company agreed or guaranteed to ship 40,000 cords over the line in the first year, and 45,000 cords each year thereafter for a period of five years.

Mr. HATFIELD: And what have they shipped?

Mr. GORDON: In the ten-month period ending December 31, 1949, they shipped 40,065 cords. Therefore they have gone over their guarantee in the first ten months of the year.

The CHAIRMAN: Does the item carry?

Carried.

Mr. FULTON: It looks as if the line will be a paying line from the operational point of view.

Mr. GORDON: We would expect so.

The CHAIRMAN: Does "Acquisition of Securities and Retirement of Capital Obligations" carry?

Carried.

Now, that completes the budget items for the Canadian National Railways.

Mr. FULTON: When I asked the question this morning whether there would be anything in the budget in relation to pensions, I think Mr. Cooper said there would be. Therefore I deferred my question. There has not been an opportunity to ask about it under the budget, so I should like to ask this question before the budget is carried.

Mr. HATFIELD: We shall go into the "Operating Budget" next, shall we not?

Mr. FRASER: I want to ask a question on the operating budget.

Hon. Mr. CHEVRIER: But the operating budget has already gone through.

Mr. HATFIELD: No, no. The capital budget is the only budget which has gone through. We have not gone into the operating budget at all.

Mr. FRASER: No, no. The chairman checked me up and said I could not ask that question.

Mr. FULTON: There has not been an opportunity to do so and I should like to have asked those questions before the budget was carried.

Mr. FRASER: Mr. Chairman, I wanted to ask a question on the operating budget, and you told me you were not on that item yet.

Hon. Mr. CHEVRIER: The operating budget has gone through.

Mr. HATFIELD: The capital budget is the only one that has gone through.

Mr. FRASER: The chairman checked me up and said I could not ask that question because it was on the operating budget.

Mr. HATFIELD: I would like to have that understood, Mr. Chairman; we have been on the capital budget and now we have finished with it.

Hon. Mr. CHEVRIER: Mr. Chairman, we took the operating budget up first.

The CHAIRMAN: If there is any misunderstanding, we are going to have another meeting.

Mr. HATFIELD: You did not take up the operating budget first; you took the deficit only; the operating budget is on page 2.

Mr. FRASER: Yes, it is on the revised budget.

The CHAIRMAN: Perhaps you have the old sheet.

Mr. FRASER: It is the same on the new and on the old sheets.

The CHAIRMAN: We will meet at 11:00 o'clock in the morning.

—The committee adjourned to meet again Thursday, March 30, 1950, at 11:00 a.m.

APPENDIX A

CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

1. FOR WHAT PURPOSE WAS THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST CREATED?

The Trust was an arrangement incidental to the 1937 Capital Revision Act. The Government had agreed that loans for deficits should be cancelled; that all unpaid interest should be cancelled; and that Government loans which had been made for capital purposes should be converted into equity capital. The various corporations, Grand Trunk, Grand Trunk Pacific, Canadian Northern, and Canadian National Railway Company were indebted to the Government for very considerable sums of both principal and interest. These amounts then appeared as liabilities on the system balance sheet. It was desired that as far as the railway system balance sheet was concerned the loans for deficits and all unpaid interest should be eliminated.

At the same time it was intended that the four debtor corporations should not be freed from their liabilities in respect of the principal and interest referred to. To some extent the claims of the Government ranked ahead of other obligations of the four companies, and certainly they ranked ahead of the common

shares of some of the subsidiary companies in which the public had a minority share interest. The problem therefore was to make an arrangement which would relieve the railway system of the liabilities in question but which would not relieve the separate corporations which comprise the system. The arrangement decided on was the creation of a trust corporation to which the Government transferred its claims against the debtor corporations in exchange for the capital stock of the trust. There was no relief to the debtor corporations, but the creditor became the Trust instead of the Government. The Government's ownership of the claims became indirect—through the Trust—instead of being directly against the corporations themselves. The Trust was declared in the legislation to be a corporation comprised in the National Railway System. This meant that one system company, namely the Trust, carried the claims as assets, other system companies carried the claims as liabilities, and on a consolidation of accounts the assets and liabilities wash themselves out.

The capital stock of the Trust was then owned by the Government. The ledger value of its shares was fixed initially at the amount of Government loans used for capital purposes, namely $270,037,437.88. This capital stock liability was of course included on the railway system balance sheet as equity capital against which there was a corresponding asset account in Public Accounts. It was under this arrangement that the loans for deficits and claims for interest were purged from the system balance sheet, nevertheless they are still kept alive on an inter-system basis.

2. What Is The Securities Trust?

The Securities Trust, is a corporation created by Sec. 12 of the Capital Revision Act. Its entire capital stock is held by the Minister of Finance on behalf of His Majesty. There are five Trustees, three representing the Government and two representing the Railway. The Government Trustees are the Deputy Minister of Finance, the Deputy Minister of Justice, and the Deputy Minister of Transport. The Railway Trustees are Mr. Donald Gordon, Chairman and President, and Mr. T. H. Cooper, Vice President. The Capital Revision Act stipulates under what conditions the initial stated value of the Trust shares may be increased or decreased. It may be increased by capital gains, and by surplus earnings retained by the railway. It may be reduced by capital losses which are excluded from cash settlements on deficit account. The initial value of $270 million plus was increased by $112,502,061.64 representing surplus earnings of the railway during the war years 1941-1945. It was also increased by capital gains amounting to $19,105,651.38 representing gains on the redemption of repatriated securities at a price less than their par value. The initial stated value has also been reduced by $23,127,015.88 representing capital losses, chiefly line abondonments. The present ledger value of the shares of the Trust is $378,518,135.02. This amount is carried as equity capital liability by the railway and in a corresponding asset account in Public Accounts. There have been no transactions affecting the ledger value of the shares since 1947.

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, MARCH 30, 1950

WITNESSES:

Mr. Donald Gordon, C.M.G., L.L.D., Chairman and President; Mr. S. F. Dingle, Vice-President and Mr. T. H. Cooper, Vice President and Comptroller, Canadian National Railways. Messrs. Frank P. Turville, C.A., and O. A. Matthews, representing George A. Touche & Co.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

ORDER OF REFERENCE

THURSDAY, 30th March, 1950.

Ordered,—That the name of Mr. Browne (St. John's West) by substituted for that of Mr. Adamson on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

59193—1½

MINUTES OF PROCEEDINGS

THURSDAY, March 30, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11.00 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cavers, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Hatfield, Healy, James, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman and President, Mr. S. F. Dingle, Vice-President, Mr. T. H. Cooper, Vice-President and Comptroller; Mr. J. C. Lessard, Deputy Minister of Transport.

Mr. Gordon read a statement outlining his objections to divulging certain information requested by Mr. Fulton with respect to the leasing of mineral rights owned by the Canadian National Railways, copies of which were distributed to members of the Committee.

Mr. McCulloch moved that the Committee meet at 4 o'clock p.m. and 8 o'clock p.m. this day.

After discussion, it was agreed that the Committee meet at 4 o'clock p.m. and that a decision as to an evening sitting be deferred until later in the day.

The Chairman tabled a letter dated March 29, 1950, addressed to him by Mr. Gordon Isnor, M.P., regarding C.N.R. coal purchases, which, together with the information requested therein, as furnished by Mr. Gordon, is printed as *Appendix A* to this day's minutes of proceedings and evidence.

The Chairman also tabled a statement from Mr. Carter regarding transportation problems in Newfoundland, together with a series of questions on the Newfoundland Railway and telecommunication services in Newfoundland, which are printed as *Appendix B* to this day's minutes of proceedings and evidence.

Mr. Gordon undertook to furnish the answers to Mr. Carter's questions with the least possible delay.

By unanimous consent, the Committee reverted to consideration of the operating budget of the Canadian National Railways for the year 1950.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

The Committee proceeded to consideration of the annual report of the Canadian National (West Indies) Steamships Limited for the year 1949.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Beaudry, Bourget, Browne (*St. John's W.*), Carter, Chevrier, Cleaver, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, Knight, Macdonald (*Edmonton East*), McCulloch, McLure, Mutch, Pouliot.

In attendance: Messrs. Gordon, Dingle and Cooper; Messrs. Frank P. Turville, C. A., and O. A. Matthews, representing George A. Touche & Co., the Auditors of the Canadian National Railways; Mr. J. C. Lessard, Deputy Minister of Transport.

Mr. Fulton moved that the President of the Canadian National Railways be required to furnish to the Committee information regarding the mineral rights referred to in the annual report under the consideration and to give the following particulars:

(1) The name of the company, companies or persons with whom the rental and royalty arrangements have been made, and the acreage under contract with each.
(2) The annual or other periodic rental provided for under each contract.
(3) The rate of royalty or other consideration provided for under each contract.
(4) The length of time allowed to each company or person under each contract, before active exploration work is to be commenced.
(5) The length of time within which actual development must be undertaken after the property has been proved.
(6) Whether any rights have been sold outright and the companies or persons to whom they were so sold, and the purchase price paid.

After discussion, and the question having been put on the said motion, it was negatived on the following division:

Yeas: Messrs. Browne (*St. John's W.*) Fraser, Fulton, Hatfield, McLure—5.

Nays: Messrs. Beaudry, Bourget, Chevrier, George, Gillis, Healy, Helme, Knight, Macdonald *(Edmonton East)*, McCulloch—10.

The Committee resumed consideration of the annual report of the Canadian National (West Indies) Steamships, Limited, for the year 1949.

Examination of Messrs. Gordon, Dingle and Cooper was continued.

The annual report of the Canadian National (West Indies) Steamships, Limited, was adopted.

The Budget of the Canadian National (West Indies) Steamships, Limited, for the year 1950 was considered and adopted.

The annual report of the Canadian National Railways Securities Trust for the year 1949 was considered and adopted.

The Committee proceeded to consideration of the Auditor's Report to Parliament of the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, for the year 1949.

Messrs. Turville and Matthews were called, questioned and retired.

The Auditors' Report was adopted.

The following estimates for 1950-51 were approved:

Vote 493—Maritime Freight Rates Act, Canadian National Railways;

Vote 494—Maritime Freight Rates Act, railways other than Canadian National;

Vote 558—Prince Edward Island car ferry and terminals, deficit 1950;

Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950.

The witnesses retired.

At 5.20 o'clock p.m. the Committee adjourned until Monday, April 3, at 11 o'clock, a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
March 30, 1950

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Order, gentlemen, we have a quorum.

I believe that Mr. Gordon has a short statement to make.

Mr. GORDON: In reference to the lease for the exploration and development rights on a rental and royalty basis in respect of certain lands in Saskatchewan:

I have been concerned about my inability to persuade Mr. Fulton on a question of principle that the details of this contract should not be divulged through this committee.

The minister has been kind enough to say that he is prepared to support my position with the committee. He has done so without discussion with me other than that which has taken place in this committee so that all members will form their judgment entirely on the discussion which has taken place between Mr. Fulton and myself.

However, I dislike to see this question settled "on division", so to speak, and I thought I would make one further attempt to put the question in perspective. I have every respect for Mr. Fulton as a reasonable and a fair individual and in our contacts in the past I hope he has formed the same impression of me. I say, therefore, that I am distressed that we shoud maintain a difference on a point of principle. May I, therefore, summarize the situation as I see it.

1. Mr. Fulton is under the impression that this is not a continuing transaction—that it is a closed deal and so no one would be inconvenienced or hurt if the particulars were given. I must point out that this is a misunderstanding of the nature of this lease-option so-called. What we have given is an option to rent certain acreage for oil exploration at a stipulated price per acre and in large blocks at varying prices per block. If the option is exercised the rental becomes payable, if it is surrendered then the rental is reduced in accordance with a formula stipulated in the lease. Still further if oil is found then the C.N.R. agrees to grant petroleum and natural gas leases on such lands as the oil company shall designate from time to time, such oil and gas leases are to be on a standard form approved by the province and for a stipulated rental per acre, plus an agreed royalty on current market value.

2. The company who is the successful tenderer for this lease is in the business of making offers to other holders of mineral rights. It would be unfair to that company, therefore if the arrangement made with the C.N.R. were disclosed and it would accordingly prejudice the C.N.R. if it were known that such details were to become a matter of public knowledge. As I have stated the company has the option *not* to take up the exploration rights within the terms of the lease so that it may well be the C.N. would still have the mineral rights to dispose of in the future. I should add that I have spoken to the company with whom we have negotiated this rental lease-option and royalty lease and they have expressed strong exception to the details of their arrangement with us being made public through the committee.

3. I should like also to point out that exploration work of this character is of a highly speculative nature. It is not something, therefore, on which the C.N.R. should embark on its own account. Even if oil were discovered at a later date, it should not be thought that the Canadian National Railways should

have got the advantage of the full discovery through having proceeded on its own account. To engage in exploration work would involve very high capital costs and since the C.N. is not in this business it would be imprudent for the system to undertake such a speculative operation. Oil companies regularly in the business diversify their risks not only in various districts but in various countries in the world. If the C.N. were to embark on exploration work in this field it would be a "one-shot" proposition involving a capital cost far in excess of what would be justified as matters now stand.

In light of what I have said about the nature of these lease-options and also the objections which the oil company holding this option has to the disclosure of this business transaction, I wonder if Mr. Fulton would be satisfied to drop his question in the knowledge that our income account will show the results year by year in any event.

Mr. FULTON: At the outset, I should like to confirm Mr. Gordon's reference in his statement to my appreciation of his character and his qualifications as a reasonable and extremely able man. I should like to confirm what others have said as to the railway and the country being fortunate in his appointment as president of this company.

I think the statement he has made is a very important one. It does raise consideration of the question of whether or not this is a continuing transaction. My feeling, as I have indicated before, is that when a public company makes a final disposition of its assets, then the public is entitled to know the terms of that disposition—not the details of the negotiation, not the methods by which the final settlement was arrived, but merely the terms of the final settlement. It is with that principle that I am concerned and, at the present, I feel that is still the principle before us. However, I should like to make this suggestion. I think Mr. Gordon's statement is a very important one. I would like an opportunity, if it meets with the consent of the committee, to study the statement if I may have a copy of it, and that will enable me to say whether I am prepared to modify my request for particulars.. I might be able to have that decision for the committee later this afternoon.

I should say, before concluding, that the six subjects on which I asked for information in my letter yesterday, do not involve, it seems to me, full disclosure of all details of the contract. I ask for disclosure of the terms, the rate of royalty rental provided for, the length of time before exploration must begin, the length of time after the property is proved before development must begin. I do not see at the moment that those points would involve any disclosures prejudicial to the oil company concerned but I would like an opportunity to reconsider the matter in the light of Mr. Gordon's statement.

Mr. FRASER: Mr. Gordon said yesterday that he would not object to giving the name of the company that has taken the lease of this property.

Mr. FULTON: I understand that Mr. Gordon is still willing to give the name but, if it meets with the wishes of the committee, I suggest that the whole matter be dealt with at one time.

Mr. FRASER: Why not get the name now?

The CHAIRMAN: Since Mr. Fulton has raised this point, and as he has asked the privilege of having time to consider Mr. Gordon's statement, I think that if it meets the wishes of the committee the matter should stand—

Mr. GILLIS: Just a moment...

The CHAIRMAN: ...in its present position, without prejudice to the rights of anyone to raise further questions after Mr. Gordon's statement has been considered. Is that not fair, Mr. Gillis?

Mr. GILLIS: No, I do not think it is. It looks now as if the only two people interested or concerned about this matter are Mr. Fulton and Mr. Gordon. The matter is before the committee and is the property of the committee. I think that each member of the committee should at least express his opinion.

The CHAIRMAN: Pardon me for interrupting, but I am just wondering if all the members of the committee would not be wise in taking time to consider Mr. Gordon's statement and we will deal with the matter carefully and prudently after the members have had opportunity of thinking it over.

Mr. GILLIS: As far as I am concerned I have listened to Mr. Gordon and I have made up my mind.

The CHAIRMAN: If you would like to express your views I have no objection.

Mr. GILLIS: I do not want the minutes of this meeting to indicate that there is only one man interested in protecting the natural resources of this country. I have listened to Mr. Gordon's statement and I say that if the Canadian National Railways was in a position financially to develop these resources then Mr. Fulton would be absolutely right and we should insist on all details of the transaction. The point at issue, as I would interpret Mr. Gordon's statement, is whether this is a continuing negotiation. Mr. Fulton assumes that the transaction is finalized but I would judge that it is not. They have leased some of the resources but there are others. In the future they may have to lease other areas and, in that light, it is a continuing matter. The C.N.R. is not in a position to develop the resources themselves—that is indicated very clearly in the financial statement which is before us.

As far as I am concerned, and under the circumstances, I think Mr. Gordon's statement was a very reasonable one. He is prepared to say what company is involved but he does not wish to make the details public. If he made those details public at this time he might find great difficulty in leasing mineral rights again. In my opinion, if and when the Canadian National is put on a proper financial basis as a government owned railway, this kind of thing should not be permitted. Any transaction then which might take place, if the company was able financially to handle it, should be public property. However, in the light of the circumstances as they exist now I am quite prepared to say, as a member of this committee, that I accept Mr. Gordon's statement that it is in the best interests of the country and the Canadian National Railways to omit the details with regard to this transaction.

The CHAIRMAN: Thank you, Mr. Gillis.

Mr. HATFIELD: Mr. Gordon's statement seems to make the matter more complicated. It seems that the railway has given one company a permit to go in there and try to find oil and to drill wells. What the railway company has done now is to give one company a permit to explore and try to find oil in the particular area concerned, and if they find oil then they take out a lease, but that relates to just the one company.

Mr. GORDON: As I explained before, all companies who are interested in that field were invited to tender to us a price whereby they would be given the exploration rights in that area and the best tender received for that purpose was accepted, but all the companies had an equal right to make us a bid for that right. And, remember, it is a very intangible thing we are talking about. It is only a mineral right which we are talking about. A great many people who have bought land out in that part of the west are now searching the titles to their property and many of them are pleased to find that the mineral rights went with the property. Many of these properties were sold years ago and in the case of a good many of them, such as those sold by the Canadian National, or the old Canadian Northern as it was then, had the mineral rights reserved to the railway at the time of sale. Now that oil is being discovered on the properties, those who retained their

mineral rights have the right to share on a royalty basis, and we have simply said to those companies who are engaged in exploration work: if any of you would like to exercise this right of exploration then you can submit a bid to us for the purpose of acquiring that right. But as I said, at the moment the whole proposition is purely speculative, and the value of these rights will only be established as and when oil is found.

Mr. HATFIELD: What about the Alberta lands; were any held by the old Canadian Northern on which they reserved any of these rights?

Mr. GORDON: I do not know what land we have in Alberta. In any event what we are talking about is the mineral rights reserved to the Canadian Northern as it was then.

Mr. HATFIELD: That is in Saskatchewan only?

Mr. GORDON: Saskatchewan, definitely, yes. We don't have very much land in Alberta. I cannot say whether we have any mineral rights there or not at the moment.

Mr. HATFIELD: How did you come to find that you had these mineral rights?

Mr. GORDON: That is a matter which has become a very live issue in western Canada since oil has been found. Everybody is looking over their deeds and people are discovering that they have mineral rights they didn't know were still preserved to them. Until oil was discovered up there these mineral rights were not regarded as being of any particular significance.

Mr. FULTON: Mr. Chairman, what I am concerned about at the moment is this: Mr. Gordon has said that he is anxious if possible to avoid settling the point "on division" in committee. I fully realize that other members are just as interested in this matter as I am. I am not going to assert that I am more interested than anyone else, but in order that we may all have an opportunity of considering this matter whether we should insist on a statement being made, or whether the thing should be permitted to carry "on division" there is a particular point I would like to have you consider and to that end I should like to make a suggestion: I would say that I am prepared, as far as I am personally concerned, to make a decision on the matter by the time the afternoon session comes around, to state my position then, which by no means precludes discussion and which means that the whole matter can be discussed; and all of us would have an opportunity to consider our course at that time.

Hon. Mr. CHEVRIER: I think probably we could have the statement made by Mr. Gordon mimeographed immediately so it would be ready for distribution to the members before one o'clock.

Mr. FRASER: Mr. Chairman, could we not have the name of the company? Would it not simplify matters which are going to be involved in the discussion this afternoon if we were to have the name of the company?

Hon. Mr. CHEVRIER: I think, Mr. Fraser, if you will allow me, the matter is one about which a statement is going to be circulated; would you let the matter stand till then?

Mr. FRASER: I think it might be well to have the name in connection with the statement. Mr. Gordon said yesterday there was no objection to the giving of the name.

Hon. Mr. CHEVRIER: May we not dispose of it as a whole rather than piecemeal?

Mr. FRASER: Mr. Gordon stated yesterday that he had no objection to giving the name; and I think it would be well for us to have the name of the company concerned; and, as a matter of fact, I thought that we were going to be given it yesterday.

The CHAIRMAN: I have no motion before the chair on this matter. I think Mr. Fulton's request is a reasonable one and if the committee is willing the matter will stand until the opening of our afternoon sitting. Is that agreed?

Some Hon. MEMBERS: Carried.

Mr. FULTON: Mr. Chairman, I would like to raise a point of order about our sittings today. According to the notice in front of me here we are to sit at 11 o'clock this morning, at 4 o'clock this afternoon and at 8 o'clock this evening. I was not aware that a decision to sit this evening had been taken as a result of a discussion in the committee. I do not think we have had any discussion on that point. Now, there is no steering committee in this committee and I personally feel strongly that steps should not have been taken that we should sit at 8 o'clock tonight without reference to the committee. I think that is a matter which should have been left to the committee to decide.

Now, on the merits of the situation, I personally feel very strongly that we should not be requested to sit three times a day, because we are all interested in what is going on in the House. It means that members of this committee simply have no opportunity of taking part in the discussions in the House of Commons. I would like to repeat what I said yesterday that we have a railway which involves a capital structure of $2 billion—it is a $2 billion corporation—and we are considering both the past year's operation and the coming year's budget, both of which run into $500,000,000. While I fully appreciate the desirability to release the management officials as soon as possible, I am convinced that they would agree with us that we cannot competently examine the affairs of this company for the past year and for the coming year in this manner by sitting three times a day. May I point out that the annual report of the Canadian National Railways, the Canadian West Indies Steamship Company, the auditor's report to parliament, and the Canadian Securities Trust were not tabled in the House until Thursday, a week ago today. This committee commenced its examination of these matters on Monday. It has been difficult enough even to read through these documents in that time let alone to get any grasp of what is there, and I suggest that the only way we can understand them is by reading the documents, which is difficult enough in the time at our disposal, and putting questions to the members of the railways staff. For instance, let us take a matter such as the telegraph operations. It is not possible except through questions and answers to get the information, to bring the matter forward in such a way that it can receive the consideration it should have. If we as a committee are to sit here three times a day, we are not, as members, going to have an opportunity to take any interest in what is going on in the House. Personally, I feel that the decision with respect to the evening sittings should not have been taken or decided upon without a reference to the committee, and I strongly urge all members of the committee to consider whether they will actually be able to do better work for the railway and for the country if we sit twice a day rather than three times.

Hon. Mr. CHEVRIER: Mr. Chairman, I just want to make one observation, not to the point of order raised, but to one statement made by Mr. Fulton in the discussion of the point of order, one which I think should be made clear. You said, Mr. Fulton, that the reports of the railways were tabled a day or two before the sittings of this committee commenced. I want to remind you that the members of your party took the position that we should meet as early as possible this year and that is what we have tried to do and to accommodate the House as well; and I think we have met earlier this year than we have ever met before in order to meet the wishes of all members.

Then, as to the report, may I say that I tabled it just as quickly as I could. I think the president of the Canadian National Railways sent it to me one evening—I have forgotten the date—and the next day I tabled it in the House.

I did not have an opportunity of reading it. So, while I am not speaking to the point of order as such, I think you should be reminded that it was to meet the wishes of the House that we met earlier, and that the reports were tabled in the House just as quickly as possible.

Mr. FULTON: I have no objection to that, sir.

Hon. Mr. CHEVRIER: I hope you are not addressing your criticism to the officers of the C.N.R.?

Mr. FULTON: No, and I should like to make that clear; I have no objection of that sort at all. The point I am making, and desire to make, is whether we should be able to consider the material before us adequately if we sit three times a day.

Mr. KNIGHT: May I ask who made the decision that we were to meet tonight?

The CHAIRMAN: I shall be pleased to answer that question. As members of this committee are aware, this committee follows a standard practice of adjourning to meet at the call of the chair. Wherever a committee of the House has an agenda committee or steering committee, of course it is up to that committee to make the decision. In the absence of an agenda committee or a steering committee it is the responsibility of the chairman. I assumed that responsibility when I found that it was most important that the officials of the Canadian National Railways should complete their work today if it could be done. It seemed to me wise to send out the notice so that members would be advised at once that we might have to meet tonight in order to get on with our work. At the conclusion of its sittings yesterday afternoon the committee had already spent as much time on the C.N.R. report, the report of the West Indies Steamships, and so on, as has been the practice in other years, and it was hoped that by holding three sittings, if necessary, today we could complete our enquiries to the point where we shall be able to release these very important men, the officers and officials of the Canadian National Railways. In that regard I would also like to remind members of the fact that other House committees are not down to work yet and I know that many members of this committee are members of other important House committees and are anxious to attend meetings of those committees when they meet; so, for all of those reasons I thought that members of the committee would like to spend their time almost exclusively on this matter with the hope of getting it cleared up and out of the way before other committee work starts. Now, I am of course entirely in the hands of the committee; but I thought it only fair that notice should go out as soon as the state of affairs became apparent, so I asked the clerk of the committee, and I was quite within my rights in doing so, to send out a notice for morning, afternoon and evening sittings.

Mr. POULIOT: Mr. Chairman, I think you were quite within your rights, but may I say that time is progressing.

The CHAIRMAN: I may say further that it was my thought that members should be notified immediately as soon as the fact came to my attention that an evening session might be necessary.

Mr. MCCULLOCH: And it was merely a suggestion.

The CHAIRMAN: Yes, it was merely a suggestion. Now, I am in the hands of the committee and I am open to a motion that we should meet this afternoon and this evening.

Mr. MCCULLOCH: I move that we sit this afternoon at 4 o'clock and tonight at 8 o'clock.

The CHAIRMAN: Are there any amendments?

Mr. GILLIS: I do not think we should so move, for this reason. I agree with Mr. Pouliot that we are making progress, but before a decision is asked on the matter I should like to have the benefit of the views of some of the other members of the group I represent.

The CHAIRMAN: Very well, we can decide that this afternoon by motion, if necessary.

Mr. FULTON: I think it is well that the decision should be left over. There are a number of questions I would still like to ask with regard to the activities of the Canadian National Railways, and I feel that I will be in a better position to make a decision on this matter when we resume this afternoon. I hope members of the committee will not press for us to finish our business today. I hope it is not the decision of the committee that we should definitely conclude our sittings with the C.N.R. today.

The CHAIRMAN: I think it is a reasonable expectation that we should, and I do not think you can complain of the chair attempting even to suggest that you should refrain from asking questions. I think you have had your full share of questions asked and answered.

Hon. Mr. CHEVRIER: Let us get on.

The CHAIRMAN: There are just one or two small points.

Mr. POULIOT: It is nearly half past eleven and we have not made much progress yet.

Mr. GORDON: I have the answer to a question asked by Mr. Adamson covering "Gross railway operating charges per mile of road". I shall just hand my answer to the reporter and he will see that it is included in the record. The answer reads as follows:

The 1939 figure of gross railway operating charges per mile of road was $8,086; while the 1949 figure is $20,716.94, showing a percentage increase of 156·2 per cent.

The increase has been brought about by (*a*) increased costs of operation, and (*b*) increased volume of business. The increased cost of labour and material (due to change in price level) has been 73·0%. The increased volume of business has been (*a*) measured by revenue ton-miles per mile of road, 79·3%; and by passenger-miles per mile of road, 83·3%.

There was a second question asked by Mr. Adamson, covering a general inquiry as to the deficits, and with your permission, Mr. Chairman, I shall file the statement with the reporter which shows: Revenues, expenses, net revenue, income available for fixed charges, fixed charges, and cash surplus or deficit from the years 1923 right through to 1949, covering the entire period.

(*Statement follows on next page*)

RESULT OF OPERATIONS—1923-1949

—	Revenues	Expenses	Net Revenue	Income Available for Fixed Charges	Fixed Charges	Cash Surplus or *Deficit*
	$	$	$	$	$	$
1923	256,961,590	235,838,046	21,123,544	13,787,801	36,787,994	*23,000,193*
1924	239,596,670	221,622,049	17,974,621	20,334,974	40,509,200	*20,174,226*
1925	249,411,884	216,290,434	33,121,450	32,532,229	42,337,405	*9,805,176*
1926	270,982,223	223,561,262	47,420,961	42,689,113	41,116,492	1,572,621
1927	274,879,118	233,305,267	41,573,851	38,170,597	42,589,898	*4,419,301*
1928	304,591,268	249,731,696	54,859,572	49,114,173	45,650,421	3,463,752
1929	290,496,980	248,632,275	41,864,705	37,751,443	50,013,074	*12,261,631*
1930	250,368,998	228,288,023	22,080,975	19,879,904	55,557,001	*35,677,097*
1931	200,505,162	199,312,995	1,192,167	*1,836,732*	59,131,706	*60,968,438*
1923-1931	2,337,793,893	2,056,582,047	281,211,846	252,423,502	413,693,191	*161,269,689*
Average	259,754,877	228,509,116	31,245,761	28,047,056	45,965,910	*17,918,854*
1932	161,103,594	155,208,161	5,895,433	*1,151,547*	59,690,180	*60,841,727*
1933	184,519,742	142,812,559	5,707,183	*48,703*	58,906,685	*58,955,388*
1934	164,902,502	151,936,079	12,966,423	9,814,579	58,222,480	*48,407,901*
1935	173,184,502	158,926,249	14,258,253	9,471,352	56,892,817	*47,421,465*
1936	186,610,489	171,477,690	15,132,799	8,869,043	52,172,437	*43,303,394*
1937	198,396,609	180,788,858	17,607,751	10,924,549	53,270,417	*42,345,868*
1938	182,241,723	176,175,312	6,066,411	*862,454*	53,451,742	*54,314,196*
1939	203,820,186	182,965,768	20,854,418	13,392,644	53,488,164	*40,095,520*
1932-1939	1,418,779,347	1,320,290,676	98,488,671	50,409,463	446,094,922	*395,685,459*
Average	177,347,418	165,036,334	12,311,084	6,301,183	55,761,865	*49,460,682*
1940	247,527,226	202,519,813	45,007,412	36,340,244	53,305,288	*16,965,044*
1941	304,376,778	237,768,437	66,608,341	57,178,681	53,162,354	4,016,327
1942	375,654,544	288,998,675	86,655,869	76,733,203	51,669,935	25,063,268
1943	440,615,954	324,475,669	116,140,285	87,828,948	52,189,536	35,639,412
1944	441,147,510	362,547,043	78,600,467	73,501,404	50,474,480	23,026,924
1945	433,773,394	355,294,049	78,479,345	73,765,637	49,009,507	24,756,130
1946	400,586,026	357,236,718	43,349,308	37,723,746	46,685,316	*8,961,570*
1947	438,197,980	397,122,607	41,075,373	30,040,697	45,925,891	*15,885,194*
1948	491,269,950	464,739,970	26,529,980	12,808,986	46,341,727	*33,532,741*
1949	500,723,386	478,501,660	22,221,726	6,588,869	48,631,896	*42,043,027*
1940-1949	4,073,872,747	3,469,204,641	604,668,106	492,510,415	497,395,930	*4,885,515*
Average	407,387,274	346,920,464	60,466,810	49,251,042	49,739,593	*488,551*
1923-1949	7,830,445,987	6,846,077,364	984,368,623	795,343,380	1,357,184,043	*561,840,663*
Average	290,016,518	253,558,421	36,458,097	29,457,162	50,266,076	*20,808,914*

The CHAIRMAN: While we are concerned with this business of tabling answers to questions, have you anything further to say in reply to Mr. McLure's question regarding a bridge. What was the name of that bridge, Mr. McLure?

Mr. MCLURE: The Hillsborough bridge. I think Mr. Gordon said that he would make a statement about it on Tuesday.

Mr. GORDON: Oh, I thought I said that the matter was under discussion with the Prince Edward Island government. I thought that is what I said. I have not made any further inquiries because I did not think I was expected to do so. I am sorry if I have misled you. But the matter is under discussion now with the premier of Prince Edward Island in respect to the proposed route of the Trans-Canada highway and the fact that the proposed route will traverse the Hillsborough bridge. That is the point you have in mind.

We told the premier what we are telling you now that the matter is under active study by our officials and that we will be ready to discuss the matter with him. I shall quote from my letter:

> In the last paragraph of your letter you suggest that I should visit our Island Division as soon as possible, or, alternatively, that we should receive a representative of your government to begin discussions on the question of replacing the bridge over the Hillsborough river. I expect to be engaged all of next week with appearances at Ottawa before the Select Standing Committee on Railways and Shipping owned and controlled by the Canadian government, and thereafter certain other commitments already made will probably make it impossible for me to visit Prince Edward Island until some time in the coming summer season. I shall probably therefore have to adopt your suggestion of arranging a meeting in Montreal with a representative or representatives of the province, and as soon as I am in a position to suggest a date I shall communicate further with you by telegraph.

The CHAIRMAN: There was a further question asked by Mr. Adamson in regard to the age of rolling stock, and a table was to be prepared and filed.

Mr. GORDON: I think Mr. Dingle will handle that answer.

Mr. DINGLE: Out of 104,875 units of equipment owned by the Canadian National, that is exclusive of Newfoundland, it breaks down this way: We have 51,388 units averaging in age 9·7 years; 48,089 units averaging 27·4 years; 5,372 units averaging 22·6 years; and 26 units averaging 41·3 years.

The CHAIRMAN: Thank you. Then there was another question raised, I think, by Mr. Fulton, whether it was possible to table a summary of the different exchanges of property which occurred with respect to the Montreal project.

Mr. GORDON: I have been in touch with Montreal and I have been informed that it is a very ponderous matter but that we expect to have a summary for you, and I am looking forward to receiving it in this morning's mail. Therefore, I hope to have it for you this afternoon. It will be the best that we can do with it in the time that was available.

Mr. FULTON: Thank you.

The CHAIRMAN: If I have missed any question to be answered I hope some member of the committee will ask about it. Now, my next note concerns the tabling of a statement showing Canadian National deficits. Oh, that has already been done.

Mr. GORDON: Yes, it is now tabled.

The CHAIRMAN: Are there any other outstanding questions?

I have a wire which I received this morning and which I should read into the record. I have no comment to make in respect to it. It is addressed to the railway committee and is signed by S. R. Wadden, Town Clerk of Glace Bay. The wire reads as follows:

> Town of Glace Bay endorses protest of Louisburg re statement of CNR policy towards Port of Louisburg as stated by Mr. Donald Gordon and request matter be referred to railway committee.

Mr. GILLIS: That telegram happens to come from my own home town. There is considerable anxiety throughout the whole island of Cape Breton with regard to the use of Louisburg as an alternate port for North Sydney during the time that North Sydney is frozen up. My friend, the member from Newfoundland, made a very strong case a few days ago. Louisburg is an isolated spot and there is no accommodation there. It is about twenty-six miles from Sydney where there is accommodation, but there is no bus service; yet for about two months in the year that port of Louisburg is used.

Mr. GORDON: Who services the port of Louisburg now?

Mr. GILLIS: The S. & L. railway.

Mr. GORDON: It does not occur to me that it should be regarded as a Canadian National baby.

Mr. GILLIS: Because the ferry from Newfoundland to North Sydney is part of the Canadian National set-up, and because that ferry may be diverted from North Sydney to Louisburg, it may be said that Louisburg is a Canadian National responsibility.

Mr. GORDON: We have to pay for using the facilities in and out of the port of Louisburg.

Mr. GILLIS: In my opinion the main responsibility rests on the S. & L. railway which is a subsidiary of the Dominion Steel and Coal. They are the people who should provide the accommodation when the boat has to be diverted, but they have not done so.

Another point is: It is proposed that instead of diverting the boat to Louisburg, it be diverted either to St. John or to Halifax, which would make the water trip much longer, and result in loss of business to Louisburg. My main point, however, is the lack of accommodation. And may I have an assurance from the Canadian National that you are not going to divert that boat from North Sydney to St. John or to Halifax?

Mr. GORDON: The point I want to make clear is that primarily I do not see how the difficulties with respect to the port of Louisburg in respect of service are essentially a Canadian National responsibility. I do not say that we will not further review the matter to see whether or not there is anything we can do about it. I am perfectly willing to agree with what you say and to see if there is any reasonable review or change of attitude which would be justified. I would emphasize, particularly in the light of this protest, that I hope you are making it clear to your Glace Bay associates that the whole responsibility in this matter should not be assumed to be that of the Canadian National railways.

Mr. GILLIS: Oh, I have already done that.

Mr. GORDON: I am glad you have done it today; but the telegram would seem to suggest that I have taken a cavalier-like attitude towards Louisburg.

Mr. GILLIS: No. I discussed this matter some time ago with the board of trade when I said that in my opinion it was not the responsibility of the Canadian National railways to provide this service at Louisburg, but rather that it was the responsibility of the Dominion Steel and Coal Company. But the point I would like to have clear is your assurance that the boat is not going to

be diverted to St. John or to Halifax and that you would continue to use Louisburg as an alternate to North Sydney in the event that the boat had to be diverted.

Hon. Mr. CHEVRIER: I have never heard of any intention to divert the boat from North Sydney to Halifax or St. John. And in addition, under the terms of union with Newfoundland, it was agreed, and I think it is part of the statute, that the traffic from Sydney to Port aux Basques shall be considered as all rail traffic. And if we were to divert it, it could no longer be considered as such. Therefore, I think it would be highly disadvantageous to those who have to ship to Newfoundland, at least from the point of view of freight rates. As I say I have not heard of it; and if it were done I do not think it could be done advantageously.

Mr. GILLIS: So far as you know, the government policy is to live up to the agreement made with Newfoundland?

Hon. Mr. CHEVRIER: What is that again, please?

Mr. GILLIS: So far as you know, the government policy is to live up to the agreement made with Newfoundland, and that part of the Newfoundland agreement is that Louisburg be used as an alternate point in the event of North Sydney being closed?

Hon. Mr. CHEVRIER: No. I have never heard of that one either. But it is the intention to carry out the obligations under the terms of union and I may say that we are spending some $2 million at North Sydney, and we are also considering plans and specifications for considerable expenditures at Port aux Basques which would indicate that we are carrying out the terms of union.

Mr. GORDON: We do not know where this rumour arose. There has certainly been no statement made by the Canadian National Railway officials that we had it in mind to divert. The matter has not been under consideration.

Mr. GILLIS: Well, it is a rumour. I know that.

Mr. GORDON: Yes.

Mr. GILLIS: But I am satisfied that so far as Mr. Gordon and Mr. Chevrier are concerned the arrangement which is now in existence of using Louisburg as an alternate port is going to remain. The other matter is, I think, the responsibility of Dominion Iron and Steel.

The CHAIRMAN: Gentlemen, Mr. McCulloch also has a wire from the Louisburg board of trade which should be read into the record. It reads as follows:

> H. B. McCulloch, M.P., Ottawa, Ontario.
>
> In view of statement by Mr. Donald Gordon re Canadian Press release March 28, 1950 re statement of policy of CNR by Mr. Gordon as follows that the CNR is not interested at present in a proposal to develop port facilities at Louisburg, Cape Breton Island. It has its port developments work at North Sydney about twenty miles north of Louisburg and didn't require use of the latter. We consider that this statement is incorrect in view of the fact the CNR Newfoundland ferry is at present docked at Louisburg and has docked nine times at this port this past winter due to ice conditions which made it impossible to reach North Sydney and we ask that this information be brought to the attention of Commons Railway Committee and the claims of Louisburg be considered on its just merits re port facilities here.
>
> Louisburg Board of Trade.

I also have two letters from Mr. Gordon Isnor which are addressed to the chairman of this committee. The first letter reads as follows:

Ottawa, March 29, 1950.

Mr. Hughes Cleaver, M.P.,
Chairman, Special Committee on
Railways & Steamships,

House of Commons,
Ottawa.

Dear Mr. Cleaver,—

In a sessional return made to me under date of March 22nd, it was shown that Trains Nos. 3 and 4, Halifax, had been cancelled in January 1950. This fine train known as the Ocean Limited, was later restored to service, which fact was much appreciated by the travelling public of the maritime provinces.

It was, nevertheless, felt that with the resumption of service, consideration should have been given to faster running time and it has been suggested from many quarters, and I have advocated same for some years, that this train should leave Halifax around 10.00 a.m. and arrive in Montreal about 8.00 o'clock. It is generally accepted in railway circles that this could quite easily be done and would not affect other schedules to any extent and prove of material advantage from the standpoint of time departure and eliminate what appears to be an unnecessarily long wait after arrival at Montreal to passengers travelling beyond that point. I have in mind particularly the connection with trains leaving for Toronto and Ottawa.

It was further pointed out that No. 59, "Scotian", leaving Halifax, could pick up any through passengers at places not scheduled for stops by the Ocean Limited (No. 3), and if necessary could transfer them, if they so desired, to the Ocean Limited at such junction points as Truro, Moncton, Campbellton, and thus arrive in Montreal on the before mentioned fast express.

Would you be good enough to place this before the president and his traffic experts in the hope of procuring a favourable reaction.

Yours very truly,
Gordon B. Isnor, M.P.

Mr. GEORGE: I would like to add my endorsement to that. We have felt for years that the service should be speeded up.

Mr. GORDON: I want to make one comment. I do not want to answer the question in detail, but I notice the expression used that "it is generally accepted in railway circles that these changes could be made without any difficulty." I cannot agree with that offhand. Just before leaving Montreal I received a very lengthy and detailed report from the operating officials which sets forth in detail how these schedules are worked out. It is quite a difficult procedure. I have not reached any conclusion in the matter, but it is under study at the moment. A matter of that kind cannot be decided without difficulty.

Mr. GEORGE: I realize that, Mr. Chairman. I would like to mention the fact that this has been discussed with various officials of the Canadian National Railways at various times, and we were told that one of the reasons that the Ocean Limited arrives in Montreal at the time that it does is because of the fish that are brought up in cars destined for Toronto? Is that a sufficient reason to delay the schedule of the train?

Mr. GORDON: I hope to be able to give an answer soon that will convince anyone who is open to conviction as to why the present schedule is followed.

The CHAIRMAN: The letter, already read, will be answered by Mr. Gordon. I have another letter asking information from the minister and Mr. Gordon on another matter. I will hand it to him.

(See Appendix "A")

I have now a list of questions that Mr. Carter would like to have answers to and also a short statement which he would like to place in the record. Is it your wish that I should file there.

(Carried. See Appendix "B")

I will hand the questions to Mr. Gordon and he will take time to answer them at our next sitting.

Now we are on Canadian National (West Indies) Steamships Limited.

Mr. HATFIELD: No, Mr. Chairman, we are on the operating budget. You told us time and time again Monday and Tuesday when we were going over the items in the operating accounts for 1949, that these questions can be answered under discussion on the budget. Now, I have some questions to ask on the operating budget.

The CHAIRMAN: Would you carry on, Mr. Hatfield?

Mr. HATFIELD: What is being done with the Portland sub-division?

Mr. GORDON: I thought that was touched on yesterday, was it not?

Mr. HATFIELD: I know, but you just touched on the betterments. Are you operating that road?

Mr. GORDON: Oh, yes.

Mr. HATFIELD: Are you operating an elevator?

Mr. GORDON: Yes, sir.

Mr. HATFIELD: Is it full of grain? What are you doing there, or what do you propose to do there?

Mr. DINGLE: The elevator is full of grain.

Mr. HATFIELD: What do you propose to do with the sheds you have there on the waterfront? You have eight or ten sheds at Portland that are falling down. What do you propose to do with those sheds? They take up a very valuable piece of property there. Are you using those sheds?

Mr. DINGLE: The sheds in the past two years, to my knowledge, have been used for storage of bulk cargoes such as rubber and so on.

Mr. HATFIELD: Has anything been done to repair the sheds? Would it not be better to turn the sheds over to some other railroad line, some American railroad, or the city. You occupy the whole waterfront there, you know.

Mr. DINGLE: We have had some offer on the sheds, I believe, but to date nothing concrete has arisen.

Mr. HATFIELD: I do not know why you are letting the sheds run down. The last time I walked through the sheds they were all empty and there were just pigeons roosting there. Those sheds take up the whole waterfront of Portland, Maine. It is a very valuable property.

Mr. GORDON: Is it your idea, Mr. Hatfield, that we should increase our traffic through Portland, Maine?

Mr. HATFIELD: No, my idea is to settle the whole works and get out of there.

Mr. GORDON: We will take that under advisement.

The CHAIRMAN: Have you any further questions, Mr. Hatfield?

Mr. HATFIELD: Now, in regard to control of cars, what is being done to regain control of your empty cars after they are unloaded, especially refrigerator cars.

Mr. DINGLE: Are you speaking of cars within Canada?

Mr. HATFIELD: In Canada and the United States.

Mr. DINGLE: The matter is policed very thoroughly, and we endeavour to secure the quick return of our cars after being unloaded.

Mr. HATFIELD: You have many cars in Prince Edward Island and New Brunswick going to North and South Carolina and points in the United States. I would like to know if anything is being done to have those cars routed back through Boston and New York with loads. Those cars in a number of cases are loaded with goods going away west and probably they make one trip a year.

Mr. DINGLE: Under the car service rules as laid down by the A.A.R., an American road must either load that car back to its home road, or if that is not possible, must return it empty.

Mr. HATFIELD: Now, at West Saint John there have been a lot of potatoes shipped through West Saint John this winter. Have you any man in West Saint John,—that is a C.P.R. point,—to see that after your cars are unloaded at West Saint John that they get back to your own road.

Mr. DINGLE: Yes, sir, our staff at Saint John look after that, and also at Moncton.

Mr. HATFIELD: I know, your staff at Saint John. Do you have a man at West Saint John, posted there?

Mr. DINGLE: We have a terminal superintendent at Saint John.

Mr. HATFIELD: The reason why I am asking that question is that, during the fall I was in my office one day—my office is situated beside the Canadian Pacific—and there was a very severe shortage of freight cars on both roads. My office is probably six miles from the Canadian National road; it is on the C.P.R. I was calling up your agent at East Saint John in regard to cars and he told me that there were no cars in sight. At that very moment a train pulled into the C.P.R. yard with twelve of your reefer cars. The whole train, had twelve C.N.R. empty cars on it. We loaded two of those cars and we hauled the goods from a C.N.R. point to load them. Now, those cars were empty at West Saint John and were hauled by the Canadian Pacific Railway on their line and loaded on the C.P.R.

Mr. DINGLE: You have to understand, Mr. Hatfield, in these matters that each road tries to satisfy their own customers. I will admit there is a little thievery of cars between roads when they can get away with it.

Mr. HATFIELD: There is another situation there which ties up your cars. One of those cars would be spotted at West Saint John for loading ships that probably would not come to West Saint John for weeks after the cars arrived there. Now, those cars remained loaded there, or they may be loaded and waiting at Island Yard, then they are shifted over to West Saint John and they remain there a few days. If the ship is not in they can be unloaded into the sheds, yet sometimes the sheds remain empty as they prefer to keep the goods in the car rather than pay the high shed charge. In other words, they are taking advantage of the full ten day free time to keep the cars loaded.

Mr. DINGLE: We have had considerable difficulty over that point.

Mr. HATFIELD: Could there not be some co-operation worked out between the Harbour Board and the railway in this matter. I think that is what the trouble is with the refrigerator cars, they have been tied up there for weeks and months at a time.

Mr. DINGLE: That is a very active matter and we do our best to get the return of our cars from all points. West Saint John, as you say, has been somewhat difficult.

Mr. HATFIELD: We have loaded, I would say, hundreds of your cars on the Canadian Pacific.

Mr. GORDON: Your opinion, Mr. Hatfield, is that the Canadian Pacific is better at stealing our cars than we are at stealing theirs?

Mr. HATFIELD: No, I do not say that. If you could have more use of your cars it would be better. You have so many reefer cars which could be used if they were released in time. My point is to have a man stationed at West Saint John, as a man in the office at East Saint John cannot look after this proposition. I think it would be money spent in a good way to have a man stationed there and when a car is unloaded to see that it gets back to East Saint John to your Island Yard.

Mr. DINGLE: I can assure you, Mr. Hatfield, that our staff at Saint John crosses to West Saint John and tries to police that situation.

The CHAIRMAN: Have you any more questions, Mr. Hatfield?

Mr. HATFIELD: Yes. I would like to ask this. Take a car loaded with potatoes or any other goods from Prince Edward Island or New Brunswick going to the southern states, how is that car routed?

Mr. DINGLE: That is pretty much of a traffic matter, sir, and as I understand the situation, the shipper has some choice in the routing.

Mr. HATFIELD: I know that but he does not have much of a choice after it gets away from your road. Is it routed by St. Johns, Quebec, and the Central Vermont?

Mr. DINGLE: Where was the car going to, sir?

Mr. HATFIELD: Suppose it is going to Philadelphia?

Mr. DINGLE: That would quite likely be routed through Saint John, New Brunswick, but it depends on circumstances.

Mr. HATFIELD: Then to a C.P.R. point at North Devon, delivered to the C.P.R. there?

Mr. DINGLE: You understand of course, we have a joint arrangement in that area?

Mr. HATFIELD: And from North Devon to Vanceboro, Maine? You would not have much of a haul out of that car.

Mr. DINGLE: That is true.

Mr. HATFIELD: Should not some of those cars be routed by St. Johns, Quebec, and the Central Vermont?

Mr. DINGLE: It all depends on the destination. Undoubtedly there are cars that move that way. It pretty well depends on the destination.

Mr. HATFIELD: Some of them go to Moncton and are routed over the old transcontinental to St. Leonard, then go over to Van Buren. The point I am making is that other lines haul a car 1,000 or 2,000 miles which ties up the cars. Now, your rates from Prince Edward Island or New Brunswick points are from ten to thirty cents a hundred higher than from C.P.R. points in New Brunswick. In other words, I can load a car of potatoes in Prince Edward Island, bring it to Woodstock, New Brunswick, over your road, then transfer it on to the C.P.R. and reship it to South Carolina cheaper than I can ship it from a point in Prince Edward Island to South Carolina.

Hon. Mr. CHEVRIER: Mr. Hatfield, may I say that you wrote me, on that point, at some length. It is a pretty technical matter of freight rate computation

and, because it is a technical matter, I suggested in my reply that you might have a discussion with the officers of the Board of Transport Commissioners.

Mr. HATFIELD: I know you did, and I have a plan that will save me and will save the shippers a lot of money.

Hon. Mr. CHEVRIER: I wonder if we could leave it at that. Personally, I am not technically able to deal with it and I do not know whether Mr. Dingle is, but it is really a very complicated freight rate structure matter and for that reason I suggest you take it up with Mr. Kirk who is the expert for the Board of Transport Commissioners.

Mr. HATFIELD: I am prepared to do that, and I have all the information.

Hon. Mr. CHEVRIER: Would you not prefer to handle it in that manner?

Mr. HATFIELD: Well, yes. Now, when you take over these lines, like the Temiscouata, or the St. John's valley road which you took over in 1926, is there anything done to make the lines profitable? I will talk about the St. John's valley road which starts at a C.P.R. point, at Westfield, and extends to Centreville. It ends in a field at Centreville. Has there been anything done to make that line profitable or to extend it? I do not think it pays. When you get to Westfield, from there to the road to west St. John, and going over to the island yards you pay two bridge charges.

Mr. GORDON: It is very difficult for us to deal with these specific points which you bring up. I can tell you in a general way that we have these matters followed by the research and development department which constantly reviews any pieces of the road which appear as if they are operating under disabilities or not paying their keep. I am quite sure that if you would let me have the items in which you are interested we could give you a report on them, but it is not possible for me to answer the specific points here.

Mr. HATFIELD: I am interested in moving potatoes out of New Brunswick on your road, and out of Prince Edward Island, at a competitive rate with the C.P.R. It can be done if it is given attention. You have had this St. John's valley road for twenty-five years. When we get cars we load them but when we do not get cars the goods are hauled over to the C.P.R.

There is another thing I would like to bring up and it is the matter of delivering cars in bond. I think your road got into a lot of trouble in Montreal, which seems to be the worst point. Both New York and Montreal are weak points in this connection. There was a case this fall involving one receiver and an amount of some hundreds of thousands of dollars. The goods—potatoes we will say—were shipped on an order bill of lading. The receiver had an arrangement with his bank,—I believe a yearly bond. The railway, instead of making the receiver pick up the draft with the order bill of lading attached to it, allowed him to secure the shipment under the yearly bond. The shipper meanwhile is paying interest to the bank. He is paying bank charges on a draft attached to the order bill of lading. The bank is responsible, finally, because they have the bond, but the shipper is out his money for a long period.

Mr. GORDON: Was this due to some delay on the railroad?

Mr. HATFIELD: No, no.

Mr. GORDON: Do you mean that the freight was surrendered without a bill of lading?

Mr. HATFIELD: Yes.

Mr. GORDON: I would think in that case it would become a legal matter to be examined in the light of specific circumstances. I have no doubt, Mr. Hatfield, that in the tremendous operation which we undertake that there will be specific instances where our employees are at fault but I think each case must be examined on its merit.

Mr. HATFIELD: I am not saying that you are at fault but I am saying the situation could be remedied. If you do not have the guarantee from the bank, the trust company, or some other financial company, then you might require the receiver to put up a cheque for double the value of the shipment. I would like to see this bond done away with and the receiver have to put up his cheque. If the bill of lading is not surrendered in a week's time you could see that the shipper is paid for the car. In the case that occurred this fall they held the drafts for months.

The CHAIRMAN: I wonder, Mr. Hatfield, whether there is not some way in which these special problems and the valuable recommendations which you are making with respect to them could not be dealt with in a little more business-like manner, instead of having twenty-five members of this committee sitting around and listening? Would you be kind enough to make a written submission which we will incorporate in our committee records. It will then come before the officers of the C.N.R. and can be studied.

Mr. HATFIELD: I am trying to make helpful suggestions to the railway.

The CHAIRMAN: If you will make the suggestions in writing we will incorporate them in our minutes.

Mr. HATFIELD: Sometimes bills of lading do go astray but that does not happen often. It is a point though that something should be done where a bill of lading is lost. The railway should follow it up.

Mr. GORDON: I will be glad to make a note of your suggestion and to look into the matter.

Mr. FULTON: With respect to operating expenses, I wonder whether Mr. Cooper could give us a breakdown of the forecast for 1950?

Mr. GORDON: Do you want it under specific headings?

Mr. FULTON: Yes.

Mr. GORDON: You are talking of the budget program of $482,500,000?

Mr. FULTON: Yes.

Mr. GORDON: You want expenses only?

Mr. FULTON: Yes.

Mr. GORDON: Maintenance of way and structures, $88,100,000; maintenance of equipment, $108,000,000; traffic, $9,300,000; transportation, $247,500,000; miscellaneous, $6,100,000; general, $23,500,000. Those figures will total $482,-500,000.

Mr. FULTON: Where does the item for payroll and wages appear?

Mr. GORDON: It is included in every one of those headings, depending upon what department it applies to.

Mr. FULTON: Do you not have it separately?

Mr. GORDON: I can give you the payroll figures, yes.

Mr. FULTON: Would you, please?

Mr. GORDON: Our actual payroll in 1949 was a total of $311,041,852, of which charged to operating expenses the total was $284,515,396. We are basing our 1950 budget on approximately the same payroll total, provided that we are not confronted with any wage adjustments arising out of the submissions now before us from various labour groups.

Mr. FULTON: Thank you. I want to come back to that in a moment but, with respect to pensions, have you any item for your contribution to the pension fund?

Mr. GORDON: Our pension costs in 1949 were $11,562,547. We expect an increase of $917,000 for the year 1950, so that our budget item is approximately $12,480,000.

Mr. FULTON: Can you tell us the present state of negotiations with respect to pensions?

Hon. Mr. CHEVRIER: I think I made a statement in answer to a question asked by Mr. George on Monday. I do not know whether you were here, but in so far as the government is concerned the statement is on the record and I do not think that I wish to repeat it.

Mr. FULTON: It was made on Monday in this committee?

Hon. Mr. CHEVRIER: Perhaps it was Tuesday.

Mr. FULTON: I have been here throughout the sittings but I must have missed it. It will appear on the record?

Hon. Mr. CHEVRIER: Yes.

Mr. FRASER: Mr. Chairman, yesterday I tried to ask a question in connection with this superannuation fund. There is a rumour going around that Mr. Vaughan, when he retired, received a superannuation pension. I think it would be a good thing if the committee could be informed if he did receive a pension and how much it was.

Mr. GORDON: You are referring to the pension payable to Mr. Vaughan?

Mr. FRASER: Yes.

Mr. GORDON: Mr. Vaughan received a pension payment calculated in accordance with the regular rates under the C.N.R. pension plan.

Mr. FRASER: What was that, have you any idea?

Mr. GORDON: Well, I do not think that we give individual pensions.

Mr. FRASER: The reason I asked, Mr. Chairman, is that it has been rumoured, and stated in the press, that he received $50,000 as a lump sum—

Mr. FULTON: In addition to the pension.

Mr. FRASER: I do not think that the rumour should be passed on; it should be spiked right here.

Mr. MUTCH: It has not been the practice, even from the beginning when the railroad was operated as a department of the government, nor when it became operated as a government owned but independently managed company, to disclose the wages paid to management. It is generally known that remuneration in the higher brackets is, in many instances, substantially lower than that paid by other railways. At the operating level, however, the men do share the same wages. If it is said that the pension was paid on the usual rates applicable under the pension fund, then by a little arithmetic it could be discovered what the payment was. Under the circumstances, unless there is a change of policy on this matter of disclosing salaries, and so on, I doubt if the information should be given.

Mr. FRASER: This is not salaries, this is pensions.

Mr. MUTCH: I know.

Mr. GORDON: With respect to the Canadian National pension plan, that is a matter of public information. The pension which would apply to Mr. Vaughan, by and large, is calculated on the basis of his own contribution to the pension fund plus the regular additional accruage by the company on the same basis as to every one of its officers. That is to say, Mr. Vaughan contributed to the pension fund the amount which he is entitled to contribute under the rules of the plan and the company made its contribution up to a maximum of 5 per cent;

and then the total amount of money thereby made available at the end of his services will produce for him a pension, which is really an annuity, based on the various options which are available to him under that plan.

Mr. FULTON: According to rumours, many of which I have heard, I have every reason to believe that Mr. Vaughan received in additon a lump sum payment in addition to his pension.

Mr. GORDON: I ws referring to his pension; Mr. Fraser was asking about his pension.

Mr. FULTON: I was going to ask whether that lump sum payment was included in his pension. I do not see it in this statement here. It looks to me, if that is charged up to pensions, that that would be a considerable reason why, I think, in fairness to the men concerned, either Mr. Gordon or the minister himself, probably, should answer the question as to whether there was a lump sum payment, as Mr. Fraser mentioned, in addition to pension.

The CHAIRMAN: I am quite sure that these rumours that members have been good enough to bring to the attention of the committee are now pretty fully known, and fully brought to the attention—I may say quite adequately—of the president of the C.N.R. and of the minister; and I would suggest that it is their responsiblity from now on as to whether they think they should make a statement in regard to them. I do not think it is our business.

Mr. MUTCH: If it was a lump sum payment then I do not think it would be a charge against the pension fund.

Mr. GORDON: May I say one thing at once, and that is that there is no charge against the pension fund of any character which is not fully justified under the rules of the fund.

Mr. FULTON: Perhaps the minister would like to make a statement on the matter.

Hon. Mr. CHEVRIER: I will make this comment, that that or a similar question was asked in the House and the reply was made then that the management of the Canadian National Railways always took tthe stand that it was not in the public interest to release information pertaining to salaries or remuneration paid to its officers. Then I would like to bring to the attention of the committee a decision of this committee which was made in 1931. At that time there was a discussion of these very matters, salaries and wages and other additional payments, and the Committee on Railways and Shipping established a sub-committee to deal with the whole matter, and the sub-committee went into it and reported as follows: (Page 303 of the minutes of proceedings and evidence of the Select Standing Committee on Railways and Shipping, 1931)—Honourable James Dew Chaplin, was the chairman of that committee; and I quote:

> Certain questions relating to the salaries and emoluments paid to executive officers of the company were asked by members of the committee, and were by resolution of the committee submitted to a sub-committee for consideration. The report of the sub-committee has been received accompanied by a statement from the president of all salaries of $15,000 per annum and over, together with the means of the officials receiving them. The president, Sir Henry Thornton has expressed the opinion that it is not in the best interests of the railway that the list of such salaries and the names of the recipients be published.

Your Committee while of opinion that many of the salaries are much too generous, and in some instances excessive, accede to the expressed wish of the president that the list be not published for the reasons given by him.

And in addition I draw to the attention of the committee the last paragraph:

Your committee are glad to record that all the members present as hereinafter stated are unanimous in the foregoing report, namely:—

Hon. R. J. Manion, Minister of Railways, Canals and Telegraph Lines,

Hon. J. D. Chaplin, Chairman,

Hon. Robert Rogers,

Hon. W. D. Euler;

and there follows a list of the names of the members of that committee.

This was a decision taken by the committee when a government other than the present government was in power. This is a decision that has always been followed in this committee, certainly since I have been a member of it; and, in view of the statement already made in answer to question 3 I would think that the information should not be given.

Mr. FULTON: Does the minister then take the position that the rule covers, as I understand it, salaries and emoluments to officers?

Hon. Mr. CHEVRIER: That is right.

Mr. FULTON: And that it also covers payments on retirement, after a man is retired from office?

Hon. Mr. CHEVRIER: I would think so.

Mr. FRASER: It did not say that.

Hon. Mr. CHEVRIER: No, it does not say that, but it is clear that such was the intention, and that certainly is the way that I would interpret it; because, as has already been said by Mr. Mutch a moment ago, if it is the amount of the pension that is required that can easily be obtained.

Mr. MOTT: It does mention bonuses and royalties.

Mr. FRASER: It applies only to those who were in office at that time; it does not say anything about anyone who is retired.

Mr. GILLIS: I am not going to argue whether Mr. Vaughan's pension should be disclosed or not, but I certainly do not agree with the reasons given by the minister.

Mr. FULTON: If it is a matter of pension.

Mr. GILLIS: That particular government was defeated and did not come back again to the House, yet we use that as a precedent.

The CHAIRMAN: You think that throws a doubt on the report of the committee?

Hon. Mr. CHEVRIER: The answer to that is that that particular government also passed legislation in the House which is still in effect under which this parliament operates now. Until it is repealed it is still considered as a rule by which we are guided.

Mr. GILLIS: I still do not think it is a good argument.

Mr. FRASER: I never asked for salaries, but I would like to know if something extra was given at the time of Mr. Vaughan's retirement.

The CHAIRMAN: Your request has been quite fully made and dealt with.

Mr. FRASER: I do not think that the minister's argument is sound; I do not think it covers the case at all. I think the committee should have that information.

The CHAIRMAN: I am open for a motion, if you want to make one, but I do think the principle involved there is obvious and has been dealt with very carefully, and it was dealt with by the unanimous report of a special committee, unanimously supported by all parties in the House.

Mr. POULIOT: Mr. Chairman, may I give you my views on this matter? One thing is clearly apparent, that the precedent was established under a Conservative government, and whether it was good or otherwise, it was passed by that committee and it is a precedent. I do not want to know how much was paid to Mr. Vaughan so long as he has gone out.

Mr. MUTCH: Next order of business:

Mr. HATFIELD: As I said earlier before this committee, I think this is a matter which should be cleared up. It is rumoured that he received a lump sum payment of $50,000; and you know what rumours are like, it will very shortly be increased to $100,000 if it is not cleared up. That is the question before us.

The CHAIRMAN: I feel it is now in the lap of the minister and the president of the road. I do not think this committee has anything further to do with it.

Mr. FRASER: All right, it is still the same question; if a lump sum has been paid out to Mr. Vaughan, and that is the rumour that has been going about, I think it will be a good thing to have it cleared up.

Mr. GORDON: Perhaps I might make a statement, Mr. Chairman. I am in complete agreement that the amount of any retiring allowance which may be paid to a retiring president should not become a matter which is divulged, for reasons already stated. It is perfectly right and a perfectly normal thing to make a retiring allowance payment to a retiring president. It has been done in every other case of a retiring president, to my knowledge, and it has never been considered a question for comment. Now, in respect to the actual technique of the payments, if there were a payment made, it would not be in the accounts for 1949, it would be in the accounts for 1950 by reason of the fact that Mr. Vaughan retired at midnight on December 31, 1949; so that being made in January any payment to him would actually come in the 1950 accounts, which are not before the committee in the sense of an expenditure at this time.

Mr. FULTON: That is why I raised the point, it did not appear in the budget so far as I could see.

Mr. GORDON: It would be in the budget for 1950, yes.

Mr. FULTON: I understand that on his retirement a very substantial payment was made to the late Sir Henry Thornton?

Mr. GORDON: Yes.

Mr. FULTON: And that he had a contract with the railway, and in order to vary the terms of that contract, or to break the contract if you like, this payment was justified.

Mr. GORDON: Well, there has been a lot said on that. I do not think we can decide here whether there was any particular significance attaching to the payment made to Sir Henry Thornton. All we know is that he was paid a retiring allowance; and the same is true of Mr. Hungerford; and the same is true of Judge Fullerton; a retiring allowance was paid to each retiring president.

Mr. FULTON: Was that in addition to the pension?

Mr. GORDON: Yes, a retiring allowance quite apart from any pension rights which they might have accumulated. It is actually the normal thing that they should be granted such an allowance.

The CHAIRMAN: And not paid out of the pension fund?

Mr. GORDON: Not paid out of the pension fund in any way shape or form, nor does it affect in any way any payment which might be made to pensioners by reason of the rights accumulated by them under the pension plan. It is a complete and distinct matter.

Mr. FRASER: That comes out of the operating funds for 1950?

Mr. GORDON: That is right; it would come out of the operating expenses. It would not come out of the pension fund in any way shape or form.

The CHAIRMAN: I think that clears that up.

Mr. FULTON: I have some other questions on this...

The CHAIRMAN: Order, please.

Mr. FULTON: I see you have a total payroll of $311 million anticipated in 1950, I wonder if Mr. Cooper could tell me, with respect to the increases for the current year, how much of that is due to increased wages, and if the increase in rates will be sufficient to take care of it.

Mr. GORDON: I am sorry, Mr. Fulton, I was just having a talk with the minister; would you mind letting me have that question again, please?

Mr. FULTON: Yes. My third question to Mr. Cooper is: have the freight rate increases made to date since 1939 been sufficient to meet the wage increases since 1939?

Mr. COOPER: No. I do not think that you could tie the freight rate increases specifically to the increases in wage rates. The freight rate increases would be related more to increases in both wages and material costs.

Hon. Mr. CHEVRIER: May I be allowed, Mr. Chairman, in case there might be some misunderstanding of what I said a moment ago in connection with a question asked by Mr. Fulton concerning a lump sum payment to Mr. Vaughan, to make my position quite clear, and to indicate that if it is the wish and the desire of the committee that the information be given, I am in the hands of the committee. I have stated that it is the view of the officials of the Canadian National Railways that the information be not given, and I would, of course, support that view. But I would not for a moment want anyone to think that the committee is not the master of its own proceedings. If the committee should require to decide by a division, then I would not vote on it. But I want to make it quite clear that I, as minister, am not withholding any information from this committeee or from the House.

If the press reports that such is the case, I would naturally have to deny it. And I am now stating that if it is the wish of the committee, then I am in the hands of the committee. But I point to the decision of a previous committee and to the attitude of the Canadian National Railways as to the policy that has been followed generally on matters concerning salaries, emoluments, bonuses, allowances and the like to officers of the Canadian National Railways.

The CHAIRMAN: Thank you.

Mr. GILLIS: I think in this particular case it would be advisable to tell the committee exactly what happened in Mr. Vaughan's case. I have heard it rumoured that Mr. Vaughan was paid a large lump sum to retire because of difficulties on the road, and that kind of thing.

Mr. GORDON: I think that should be denied at once. With respect, I feel that should be denied at once.

Mr. GILLIS: Well, that is exactly the thing we want to clear up.

The CHAIRMAN: If I may interrupt, I am sure that it is not the desire of any member of this committee to add to groundless rumours or to inflame public opinion on questions of this kind. I think that any further discussion would not get us anywhere. But if any member wants to make a motion, for example, that we set up a special committee to go into the matter, then very well.

Mr. GILLIS: My point is that I think we should clear it up here instead of leaving it hanging in the air.

Mr. GORDON: May I say this: I am very conscious of my responsibility in connection with the matter, and I do not want the committee to feel that there is any concealment. I do not want to leave the impression that there is anything improper in regard to this matter. Therefore, I say that there was

a retirement allowance paid to my predecessor, and that retirement allowance, in my opinion, was a perfectly normal and natural one, and that there was nothing unusual either in regard to the method of payment or in regard to the amount. And having said that, I also express the view that, in accordance with what the minister stated, the amount should not be a matter which should be divulged any more than salaries or other payments should be divulged.

The retiring allowance was granted in recognition of the outstanding services which Mr. Vaughan gave to this railway as president with fifty-one years of service. And I would say as well that there was ample precedent for the action taken by the board of directors in authorizing such a payment, since it was done in the case of each retiring president of this system in the past.

Mr. FULTON: As far as I am concerned, I am very happy with Mr. Gordon's statement because it clears up a point which particularly interested me, namely, whether it would be a charge against the pension fund. He has said that it would not be.

As to Mr. Vaughan's service, I think we, as members of the committee should go on record. I understand that Mr. Vaughan was actually given a year's extension; that the government requested him to serve an extra year: therefore there can be no question that his retirement was at the request of the government.

For my own part, the question of the pension fund has been cleared up. And I think, as to the amount of payment, while I would not care to say that I feel bound by that previous ruling, yet, under the circumstances stated by Mr. Gordon, I would not press for disclosure of that amount. The other question was as to the pension fund.

Mr. GILLIS: Personally, I never had any doubts concerning the matter except the doubts which might have been created here. I am satisfied that Mr. Vaughan was retired in a normal way and, as in the case of every other president, that he was paid a lump sum, following established precedent.

Mr. POULIOT: I am perfectly satisfied with what the minister has just said. He put the matter in the hands of the committee and the committee has heard what Mr. Gordon has said about it, and I think it has been done in the regular way.

Mr. FRASER: I said before that I thought Mr. Vaughan quite deserved anything he got; but coming out of that, now that we know that Mr. Vaughan did get something, may I ask a question? Do the directors also get a retiring allowance?

Mr. GORDON: It has not been the custom, to my knowledge; although I think there was one exception. When the board of trustees was broken up, a small payment was made to one of the directors, a very small sum. It was a special matter. But since the formation of a board of directors as distinct from trustees, as far as my recollection goes—yes, I would go so far as to say definitely there has been no payment of any character to a director apart from his regular director's fees.

Mr. FRASER: And none to top officials of the Canadian National Railways?

Mr. GORDON: That is correct.

The CHAIRMAN: Would you proceed now, Mr. Fulton?

Mr. HATFIELD: How many directors are appointed on the recommendation of the government?

Mr. GORDON: All of them.

Mr. HATFIELD: And how many of those directors are active?

Mr. GORDON: All of them.

Mr. HATFIELD: How often do they meet?

Mr. GORDON: Once a month with practically full attendance at each meeting. There are exceptions of course. There are occasional absences, but the record of attendance of the Board of Directors of the Canadian National Railways is very good indeed.

Mr. HATFIELD: What advantage is there in your board of directors meeting every month?

Mr. GORDON: We have formal meetings once a month. But the board of directors are consulted on matters of policy constantly. I mean they are constantly at my call and I can talk to them by telephone. Occasionally I call two or three of them together as a sort of executive committee. We hold formal board of directors meetings once a month to look after legal details and so on. But in addition to that, the Board of Directors are constantly available to me for their advice and judgment in matters of policy.

The CHAIRMAN: Now, Mr. Fulton?

Mr. FULTON: My question has to do with additions to payroll by virtue of increased freight rate increases, as to personnel and whether the increase in freight rates has covered those increases in wages?

Mr. COOPER: In 1949 our total payroll was $311,041,852.—In 1939, it was $122,354,101.—So there is an increase in 1949 over 1939 of $188,687,751.—Of that increase $113,304,000 was due to increased wage rates. The percentage of increase was 68·3,—which leaves $75,383,751—due to additional business.

Mr. FULTON: Thank you, Mr. Cooper.

Mr. COOPER: Does that answer your question, Mr. Fulton?

Mr. FULTON: Does that mean an increase in the number of personnel?

Mr. COOPER: Yes.

Mr. FULTON: Necessarily involved?

Mr. COOPER: Yes.

Mr. FULTON: Would you be able to answer the other part of the question?

Mr. COOPER: Not if you relate the increase in freight rates solely to the increase in wage rates.

Mr. FULTON: No, I would not attempt to do that. I wondered if the total amount is available?

Mr. COOPER: Yes, I can do that.

I gave you the figure of $113,304,000 for increases due to changes in the wage rates. The increases in material prices, or as a result of changes in material prices, is $67,222,000; which, percentagewise is 82·4 per cent. Therefore our total increased cost of operation, due to the change in price levels, 1949 over 1939, was $180,526,000. The increase in revenues which we received in 1949 over and above the rates in effect in 1939, was $101,107,200. So that, as a result of the change in price levels, the net operating revenue of the Canadian National Railways in 1949 compared to that of 1939 was adversely affected to the extent of $79 million.

Mr. FULTON: Thank you, Mr. Cooper. That brings me to the next question which I was going to ask of Mr. Gordon.

Mr. GORDON: I beg your pardon?

Mr. FULTON: Perhaps I could summarize it. Mr. Cooper said that the increase in price levels which affected both materials and wages has exceeded the increase in revenue which you received from increased freight rates by the amount of $79 million. And my next question is directed to you, Mr. Gordon. It arises necessarily. Do you consider the present freight rates adequate from the point of view of the Canadian National Railways, that is, in the light of all the increases to date?

Mr. GORDON: It seems to me that the figures speak for themselves.

You have heard from Mr. Cooper as to the percentage rise in cost of labour and material and so on. Now, the effect of the increases in freight rates which have takean place in the same period I think is something in the order of 33 per cent, although I am speaking from memory. That 33 per cent compares with a rise of I think about 57 per cent in the case of United States railways. And if we should have anything commensurate with that rise, we would still be far short of the actual increase in the cost of labour and materials.

The freight rates are not sufficiently high, but I do not think we have necessarily to follow the full rise in labour and materials.

Mr. FULTON: Do you consider that you are approaching the point where a further increase would be followed by such a shrinkage in volume of traffic that it would, in fact, decrease your total revenue?

Mr. GORDON: That is a question which has given me a great deal of concern. It gets to the question of the law of diminishing returns. I can answer it this way: I do not believe we have reached that point yet. I believe that it is possible to reach that point, and it becomes a matter of very fine judgment to know when we are about to reach it.

It will vary in respect to different types of traffic, and it would depend on the type of competition which springs up as a result of increasing rates. So it becomes a very delicate matter of judgment indeed, and it is something which is giving the management of both railways very anxious thought.

Mr. FULTON: Would it be fair to say that you do not foresee any great increase in revenue or decrease in your deficits from a further increase in freight rates?

Mr. GORDON: I think we have already pointed out that this year, in the budget, we have substantially cut down our deficit by these increased earnings arising out of the increased freight rates.

Mr. FULTON: But we would still have deficits in future years?

Mr. GORDON: I say that I do not think that we have exhausted the possibility of additional revenue through increased freight rates if we were accorded the right to charge increased freight rates. It is true that our problem is not confined only to freight rates, our problem is also dealing with the burden of fixed charges as it affects our deficit. It is a two-pronged affair.

Mr. FULTON: Coming to a more specific question, again dealing with the deficit, you told us earlier that the acquisition of the Newfoundland railway as at present constituted would involve the assumption of an annual deficit on that operation. Has the railway given thought to encouraging increased industrialization of that province by any preferential rate structure so as to increase their development?

Mr. GORDON: I think I gave an answer to a general question of that kind by Mr. Carter the other day to the effect that our research and developments branch is actively watching and examining potential developments in Newfoundland as in other provinces. We would, of course, include in any such considerations the possibility of getting a new development started by helping in the matter of rates, but that would be a general question to be considered on its merits when we have specific proposals come before us; but I would say this that we do not have in mind any discriminatory action in respect to Newfoundland.

Mr. FULTON: But you are free at the moment to make rate variations in Newfoundland?

Mr. GORDON: We are free to make rate variations, as I understand it, anywhere. The rates set by the Board of Transport Commissioners are ceiling rates—perhaps I should not use that word "ceiling" now—they are maximum rates which we might charge.

Mr. HATFIELD: Another question, Mr. Chairman. What is your New York office doing? What is their function?

Mr. GORDON: They are constantly in touch with people who are interested in travel and so forth.

Mr. HATFIELD: What is the cost of maintenance of that office in New York?

Mr. GORDON: We do not break down our individual offices. We could get an estimate for you, but we have not got it here.

Mr. HATFIELD: How many freight solicitors have you?

Mr. GORDON: It is not a very large office from the point of personnel. We have one in Washington too and we have a number in the United States.

Mr. HATFIELD: Have you fewer freight solicitors now than you did have previously?

Mr. GORDON: In the back of the report you will read the following: the Canadian National maintains offices in the United States, Europe, Australia and New Zealand, to render helpful service and give information in connection with the traffic and other interests of the company and of Canada generally. The principal offices of this kind you will find in the back of the report.

Mr. HATFIELD: What about your freight solicitors in Canada?

Mr. GORDON: Well, what about them?

Mr. HATFIELD: We used to see one once in a while.

Mr. GORDON: Well, I will undertake to have one call on you tomorrow morning if that is an invitation.

Mr. HATFIELD: What is the use with no cars?

Mr. GORDON: Well, he might take a car under his arm if that will get some traffic.

Mr. HATFIELD: We see a lot of American faces but we do not see the Canadian Pacific or Canadian National any more.

Mr. GORDON: You do not? Over what period?

Mr. HATFIELD: Sometimes we have as many as seven American feight solicitors in our office at the one time.

Mr. CHAIRMAN: Any further questions?

Mr. FULTON: Without going into the details of your statement to the royal commission, Mr. Gordon, do you consider if your recommendations as made were carried out that they by themselves, apart from freight rate increases, would be sufficient to remove from the backs of the railway and taxpayers of Canada this constantly recurring annual deficit?

Mr. GORDON: Not necessarily. I was very careful to qualify that my statement was based on an assumption that the present serious imbalance between freight rates and steadily rising costs is to be removed in some way. The two things should go together; reasonable freight rates and an adjustment of our fixed charges, before I could say to you with confidence that there is a chance of putting C.N.R. operation on a reasonably profitable basis.

Mr. FULTON: But without both of them, there is no chance of doing that?

Mr. GORDON: The adjustment in regard to fixed charges will be a tremendous step forward. I do not say the two things must join together; I would accept with great satisfaction the adjustment of fixed charges as a great forward step in regard to the burden to management of this railway.

Mr. MCLURE: Mr. Chairman, I was going to ask one question more.

The CHAIRMAN: These "one" questions!

Mr. MCLURE: This is a very short one. I did not get in when the committee was talking about the retirement of Mr. Vaughan.

The CHAIRMAN: We are not going to open that up again.

Mr. MCLURE: I am not going to ask that. It is a personal question. We are all receiving letters with regard to the emolument given to Mr. Vaughan on his retirement. I received one before coming in here today and I would like to know how to answer it. I am going to answer the letter, which is from a newspaper down there wanting to know for a fact if he had $50,000 given to him besides his regular retirement pension. Now, after listening to the pros and cons here, I can answer safely by saying this: "neither the government minister of railways nor the president of the Canadian National Railways has denied or acknowledged that this report is true." I think that should be satisfactory.

Mr. GORDON: That is definitely not what was said. What I did say was that there was a retiring allowance granted, but we did not believe it was in the interest of the railway, in accordance with the past procedure followed by this committee, that any information in connection with salary or other forms of remuneration to officers should be given through this committee.

The CHAIRMAN: The annual report of the Canadian National (West Indies) Steamships, Limited. The report is a very short one. Shall the chairman read it before we adjourn for lunch.

Mr. FULTON: I suggest it be read, Mr. Chairman.

Mr. GORDON:

MONTREAL, MARCH 10, 1950.

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.
Minister of Transport,
Ottawa.

SIR:

The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1949.

The operating results for the year compare with those of the previous year as follows:—

	1949	1948	*Decrease*	
Operating revenues	$6,595,007	$7,964,719	*$1,369,712*	*17·20%*
Operating expenses	6,582,608	7,320,614	*738,006*	*10·08%*
Operating profit	$ 12,399	$ 644,105	*$ 361,706*	

Freight traffic contributed $5,172,073 in revenue which was a decrease of $1,374,697 or 21%. This decrease reflects the effect of trade restrictions as compared to 1948, resulting from dollar shortages. Exports from Canada decreased by 34,362 tons or 23% and imports to Canada by 42,693 tons or 16·5%.

The number of completed voyages was 65, as was the case in 1948.

Operating expenses, although mainly controlled by the number of voyages rather than by the tonnage of the cargoes, reflected a decrease of $738,006 or 10·08%.

Operating profit for the year was $12,399, a decrease of $631,706 from the previous year. After payment of interest on bonds and government advances there was a deficit of $460,497, which is payable by the Government and is so recorded on the Balance Sheet. The full income statement is shown on Page 8.

There was no change in the fleet during the year, which at present comprises the following vessels:

		Gross Tonnage	Dead-weight Tonnage
"Lady Nelson"	Freight and Passenger	7,830	6,410
"Lady Rodney"	Freight and Passenger	8,252	4,665
"Canadian Challenger"	Diesel powered and refrigerated	6,745	7,460
"Canadian Constructor"	Diesel powered and refrigerated	6,745	7,460
"Canadian Cruiser"	Diesel powered and refrigerated	6,745	7,460
"Canadian Conqueror"	Non-refrigerated	2,930	4,532
"Canadian Highlander"	Non-refrigerated	2,966	4,532
"Canadian Leader"	Non-refrigerated	2,930	4,532
"Canadian Observer"	Non-refrigerated	2,967	4,532
"Canadian Victor"	Non-refrigerated	2,963	4,532
		51,073	56,115

The balance in the Vessel Replacement Fund at the year-end was $3,941,939 and the Self Insurance Fund totalled $2,048,545.

The Directors again record their appreciation of the loyal and efficient services rendered the Company by officers and employees.

CONSOLIDATED BALANCE SHEET

AT 31st DECEMBER, 1949.

ASSETS

INVESTMENTS:		
Vessels	$ 9,844,445.48	
Less Accrued Depreciation	*4,836,385.10*	
	$5,008,060.38	
Vessel Replacement Fund	3,941,939.62	
		$ 8,950,000.00
CURRENT ASSETS:		
Cash in Banks	$451,217.41	
Special Deposits	3,550.00	$ 454,767.41
Accounts Receivable		80,717.32
Freight, Passenger and Agency Balances		116,164.40
Government of Canada—due on Deficit Account		460,497.65
Inventories		24,305.85
Advances to Captains, Crews, etc		19,810.68
Due from Insurance Fund		36,706.17
Due from Vessel Replacement Fund		104,513.87
		1,297,483.35
INSURANCE FUND		2,048,545.85
DISCOUNT ON CAPITAL STOCK		40,000.00
		$12,336,029.20

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100.00 each		$ 40,000.00
FUNDED DEBT:		
25 Year 5% Government of Canada Guaranteed Gold Bonds due March 1, 1955		9,400,000.00
GOVERNMENT OF CANADA ADVANCES		3,618,505.74
CURRENT LIABILITIES:		
Accounts Payable	$ 430,716.48	
Interest Matured Unpaid	3,550.00	
Unmatured Interest Accrued	156,666.67	
Passage Money Paid in Advance	192,846.91	
		783,780.06
UNADJUSTED CREDITS		63,703.29
INSURANCE RESERVE		2,048,545·85
PROFIT AND LOSS—*Deficit*		*3,618,505.74*
		$12,336,029.20

NOTE.—A reserve has been provided for pension contracts in force under the C.N.R. 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1949. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Steamships at the 31st December, 1949, and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1949, are correctly stated. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

10th March, 1950.

CONSOLIDATED INCOME ACCOUNT

	1949	1948
Operating Revenues:		
Freight	$5,172,073.30	$6,546,770.68
Passenger	904,215.69	962,886.88
Miscellaneous	55,760.33	66,374.11
Subsidies	99,223.75	122,610.00
Charter	363,734.43	266,078.15
Total	$6,595,007.50	$7,964,719.82
Operating Expenses:		
Voyage Accounts	$5,763,667.38	$6,524,876.10
Lay-up Expenses	34,834.01	—
Depreciation on Vessels	492,222.15	492,222.15
Management and Office Expenses	229,950.04	229,291.04
Pensions	6,272.47	31,792.43
Other Expenses	55,662.51	42,432.57
Total	$6,582,608.56	$7,320,614.29
Operating Profit	$ 12,398.94	$ 644,105.53
Vessel Replacement Fund Earnings	*$ 104,513.87*	*$ 85,733.06*
Interest on Bonds held by Public	470,000.00	470,000.00
Exchange on U.S. Funds	16,450.00	—
Interest on Government Advances	90,960.46	93,794.16
Deficit or Surplus	*$ 460,497.65*	*$ 166,044.43*

CONSOLIDATED PROFIT AND LOSS ACCOUNT
AT 31st. DECEMBER, 1949

Balance at 31st. December, 1949—*Deficit*	*$2,880,324.78*
Appropriation for additional depreciation	*738,180.96*
Balance at 31st. December, 1949—*Deficit*	*$3,618,505.74*

There is attached a consolidated balance sheet and a consolidated income account.

The CHAIRMAN: Thank you, Mr. Gordon. Shall we adjourn until 4:00 o'clock?

Mr. GORDON: May I just ask the indulgence of the chairman and the committee if I am a few minutes late when the committee resumes at 4:00 o'clock? I feel that I should be in attendance at the station at 3:45 this afternoon when the remains of the late ambassador of the United States to Canada leave Ottawa on our railway for the United States. The other officers in our group will be present with you promptly at 4:00 o'clock and I hope also to be here by that time.

The committee adjourned until 4:00 o'clock p.m.

AFTERNOON SESSION

March 30, 1950.

—The committee resumed at 4:00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Gordon is ready to table the last answer in connection with the Canadian National Railways report.

Mr. GORDON: Mr. Chairman, this is a summary of land exchanges with the city of Montreal. I promised to bring it here this afternoon. Would it be in order just to table the report?

Agreed.

SUMMARY OF LAND EXCHANGES WITH THE CITY OF MONTREAL

Exchange	Date of Deed	To City	To Railway		
1.	13 May 1932	36,284·00 Sq. ft.	Land between Seigneurs and Guy Streets.	34,937·00 Sq. ft.	Part of Richmond and St. Martin Streets.
2.	24 Apr. 1933	218,402·60 Sq. ft.	Lots fronting on Gascon, Du Havre, Ontario, Rouen, Hochelaga.	186,426·69 Sq. ft.	Lots fronting on Haymarket Square. Part of Lot 360, Parish of St. Laurent, Eastern Jct.; St. Urbain Street, Clarke Street, St. Lawrence Street, St. Denis Street.
3.	5 Apr. 1937	222,332·00 Sq. ft.	Lots fronting on Persillier, Papineau, Charland, Mountain, Guy, St. Maurice, William, Upper Lachine Road, St. Remi, St. Joseph Blvd., Smith St.	910,280·00 Sq. ft.	Land fronting on St. Gabriel Levee, Foreshore St. Lawrence River, Waterworks property, St. James Street, Bruchesi, Lacordaire, Monsabre, Dickson, Gravel Lane, Bourgeois, Curotte.
4.	21 May 1938	289,685·00 Sq. ft.	Lots fronting on Frontenac Street, Lafontaine, Harbour, Logan, De-Montigny, St. Catherine.	112,619·00 Sq. ft.	Various streets and lanes in Bonaventure area; Point St. Charles area; Central Station area.
5.	13 Oct. 1948	859,551·99 Sq. ft.	Notre Dame Street Subway; Relocation of Butler Street; St. Remi Street Subway; Masson and Iberville Streets.	354,045·80 Sq. ft.	Butler Street; Notre Dame Street; Atwater Avenue; Verdun; St. Philippe Street; St. Marguerite Street, Congregation Street.
	Grand Total..	1,626,255·59 Sq. ft. for 37·33 acres		1,598,308·49 Sq. ft. or 36·69 acres	
6.	The transaction known as the Sixth Exchange is not yet finalized.				

Lands in the above exchanges involved dozens of individual parcels which, collectively, were considered to be of equal value.

The CHAIRMAN: With regard to the Canadian National (West Indies) Steamships Limited, I have been wondering whether it might not be more satisfactory to the committee, if instead of considering the report clause by clause we were to move right into the balance sheet. I have many times asked members to postpone their questions when we were dealing with the reports but as I did so I felt there was a certain disappointment and I think we might just as well go into the budget items.

Mr. FULTON: Would you like this other outstanding matter settled?

The CHAIRMAN: Oh, yes.

Mr. FULTON: Mr. Chairman, if I have the consent of the committee, I will refer to the question set over this morning. I have very carefully read Mr. Gordon's statement—he was kind enough to let us have copies. While he does not specify the exact principle which he considers to be involved, I would say from our discussions, that there is no disagreement between us on the fundamental but there does appear to be disagreement on the application of the principle.

I cannot agree that the the application of any principle yet referred to in this committee would prevent the granting of the information requested. From the paragraph numbered 1 in Mr. Gordon's statement, it appears that the contract between the railway and the oil company is now concluded—the initial contract is now concluded and the rental and royalty rates subsequently to be charged are covered. I refer particularly to the sentence: "Still further if oil is found then the C.N.R. agrees to grant petroleum and natural gas leases on such lands as the oil company shall designate from time to time, such oil and gas leases are to be on a standard form approved by the province and for a stipulated rental per acre, plus an agreed royalty on current market value."

I would emphasize the words "the C.N.R. agrees to grant—" and my reading, and the logic of the situation, would surely indicate that the rental and the rate of royalty must be provided for in the original contract.

With reference to the point made in paragraph numbered 2, I cannot concede it is a valid ground for refusal of the information. It is indicated that the Saskatchewan government has general supervision over contracts for exploration and development of oil resources; so does the Alberta government in that province. Again I come to the point that the Alberta government publishes details of auction and other arrangements for oil rights; and apparently there is no fatal objection on the part of the oil companies—at any rate they continue to bid and pay handsomely for oil rights in Alberta.

Finally, this is public property. The disposition is a matter of public interest. It has, or may have a very important bearing on the present and future deficit position of the C.N.R. whose budget we are considering. I feel that the public which provides for those deficits, and members of parliament who vote the money, are fully entitled to the information requested.

I therefore, with the great respect for Mr. Gordon's position, feel that if it comes to an issue I must formally move that the committee request that the information be given. If it comes to a vote may I make a suggestion which I think will facilitate matters. I suggest that you call the various points on which information is requested separately. I understand that Mr. Gordon is willing to give the information called for in question number 1. I suggest that with respect to the others we vote only once and the remainder we will allow to be decided upon division.

The CHAIRMAN: Have you a motion ready?

Mr. FULTON: I would simply move, Mr. Chairman, that the president of the C.N.R. be required to furnish the information asked for in my letter to you dated March 29th, 1950.

The CHAIRMAN: Mr. Gordon has already indicated to the committee that he is prepared to give the answer to the first paragraph of Mr. Fulton's letter which reads as follows:

> "The name of the company, companies or persons with whom the rental and royalty arrangements have been made, and the acreage under contract with each."

Mr. GORDON: The company is the Imperial Oil Company Limited and the acreage under contract totals 3,146,249 acres.

Mr. FULTON: There is just one company involved?

Mr. GORDON: Just the one company.

The CHAIRMAN: Perhaps Mr. Fulton would then be good enough to state his motion with respect to the remainder of these matters mentioned in the letter.

Mr. FULTON: Mr. Chairman, I would move that the president of the C.N.R. be required to furnish to the committee information regarding the mineral rights referred to in the annual report under consideration, and to give the following particulars:

The annual or other periodic rental—

Hon. Mr. CHEVRIER: No, read out the first one.

Mr. FULTON: Mr. Gordon has given that information.

Hon. Mr. CHEVRIER: It does not matter, include that in your resolution.

Mr. FULTON: All right.

"1. The name of the company, companies or persons with whom the rental and royalty arrangements have been made, and the acreage under contract with each.

2. The annual or other periodic rental provided for under each contract.

3. The rate of royalty or other consideration provided for under each contract.

4. The length of time allowed to each company or person under each contract, before active exploration work is to be commenced.

5. The length of time within which actual development must be undertaken after the property has been proved.

6. Whether any rights have been sold outright, and the companies or persons to whom they were so sold, and the purchase price paid."

Mr. GORDON: Mr. Chairman, I have given the answer to question number 1. In respect of each of the other questions — 2, 3, 4, 5 and 6, I repeat my position which is that I believe it exposes the private business of the Imperial Oil Company Limited in respect of this deal with the C.N.R. If the position is taken that I am required to furnish the information, it will be to the disadvantage of the C.N.R., both in regard to this kind of operation as well as in regard to other types of contracts.

Mr. FULTON: May I ask the president if he is making that statement with respect to question number 6?

Hon. Mr. CHEVRIER: He makes it with respect to all of the questions.

Mr. GORDON: Yes.

Mr. FULTON: Question number 6 asks whether any rights have been sold outright?

Mr. GORDON: I am afraid that I must take the same position because an analysis of question 6 would be revealing the nature of the contract.

The CHAIRMAN: Are you ready for the question?

I declare the motion lost.

Mr. FULTON: May we have a polled vote or is there provision for that?

The CHAIRMAN: There is such a procedure. As the names of the members are called would they please answer "yes" or "no"? There is sometimes confusion when "yea" and "nay" are used.

(See minutes of proceedings.)

The CHAIRMAN: The clerk informs me there are five yeas and ten nays: I declare the motion lost.

Now will you turn to page 7 of the mimeographed budget items, operating revenues?

Mr. HATFIELD: Is that in this report?

Mr. GORDON: No, it is in the estimates, the last page.

Mr. FRASER: While we are waiting for Mr. Hatfield may I ask whether the shipping regulations which have been drawn up by the minister's department are going to be carried out by the Canadian National West Indies Steamships? The minister said that shipping regulations applied to ships registered in Canada, and I wanted to know whether the Canadian National is going to be in a position to carry out those regulations.

Hon. Mr. CHEVRIER: I did not say that.

The CHAIRMAN: The minister referred to certain recommendations made by the royal commission.

Hon. Mr. CHEVRIER: I think I indicated the contrary; that consideration was at the present time being given by the operators on the east coast, on the west coast and on the Great Lakes as to how far they could go to meet the regulations that were being proposed which would meet the recommendations of the Kellock Commission.

Mr. FRASER: Yes, but I would like to know how far the Canadian National Steamships are prepared to go in that direction?

Hon. Mr. CHEVRIER: I do not know. I cannot answer that until the Canadian National have completed their consideration of our proposal.

Mr. FRASER: Well, haven't they done that?

Hon. Mr. CHEVRIER: No, they are doing that now. I have just been informed that it would not affect the Canadian National West Indies Steamships because they operate outside of Canada; that is not a coastal movement, that is a movement to the British colonies and other dependancies in the West Indies.

The CHAIRMAN: Operating revenues.

Mr. HATFIELD: How many ships are now operating to the West Indies?

Mr. GORDON: I believe they are listed in a table on page 5 of the report, just above my signature.

Mr. HATFIELD: Are you operating the full number of steamships which were called for under the terms of the treaty?

Hon. Mr. CHEVRIER: My understanding is, no; that in fact quite a number have been dropped from the service; first, because of the fact that the agreement which was entered into by some of the colonies in so far as subsidies are concerned were not implemented to the full, and also because of a reduction in traffic.

Mr. HATFIELD: Are there any goods being carried on the southern trip to the West Indies, from Canada to the West Indies, to points such as La Guaira, and points in Venezuela. I wonder if you could give us the amount carried?

Mr. GORDON: I can give you the total movement in 1949, the total business for 1949 was 149,900 export tonnage.

Mr. HATFIELD: How much was it the year before, 1948?

Mr. GORDON: 149,342 tons. I have a breakdown of the goods, the cargoes, which I can supply if you wish; for 1949, flour, 51,602; fish, 4,241; potatoes, 3,502; lumber, 3,015; automobiles and trucks, 788; cement, 3; liquor, 993; feed, hay and straw, 8,200; staves and shooks, 1,406; vegetables, 1,645; canned goods, 6,323; meats, 3,122; butter, cheese and provisions, 1,546; rubber goods, 204; cereals, 2,877; paper, 2,040; livestock, 10; general, 23,463.

Mr. KNIGHT: And the number of ships being operated in the service you said was how many?

The CHAIRMAN: Ten.

Mr. KNIGHT: Did you say they were being run under your signature?

Mr. GORDON: No, I said that they would be found on page 5, just above my signature on the report.

Mr. HATFIELD: There are ten operating, yes; have any ships gone down there this last month?

Mr. GORDON: Pardon me?

Mr. HATFIELD: I asked you if there had been any go down there within the last month.

Mr. GORDON: I do not know that I have that here. I have not brought with me any records for the 1950 business; we are discussing only the 1949 report. I have nothing more with me.

Mr. HATFIELD: I meant the last month of 1949.

Mr. GORDON: Yes, the last month of 1949.

Mr. HATFIELD: Is there anything to prevent these ships proceeding? How about their taking a cargo of potatoes, say, now?

Mr. GORDON: I think if there were enough potatoes to warrant a shipment of potatoes alone we would take them. We are doing our best to operate these ships profitably and the management are continually looking for revenue producing traffic.

Mr. HATFIELD: You have lost of lot of revenue on account of the cancellation of the treaty, have you not?

Mr. GORDON: Yes.

Mr. HATFIELD: And under the treaty your ships would go to Trinidad, would they not?

Mr. GORDON: Personally, I do not know what the treaty covers. Our record here shows that we do go to Trinidad.

Mr. HATFIELD: How far is it from Trinidad to this port of La Guaira, and the coastal ports of Venezuela?

Mr. GORDON: I haven't got a map with me here and I do not know. I could find that out for you Mr. Hatfield, but I haven't got it here.

Mr. HATFIELD: It is not very far. I brought the question up because as I recall that on account of the treaty you were barred from going to any other ports in the West Indies. Now, we have lost a lot of business. The treaty has expired, and I do not see any reason why shipments going to places such as I have mentioned should not be carried.

Mr. GORDON: The only explanation I can give you is that whatever traffic is operating cannot be a very profitable traffic or we would be going after it. I will take your suggestion under consideration and examine it.

Mr. HATFIELD: I know the Aluminum Company ships take cargo on their way south. What is the name of that company that operates them?

Hon. Mr. CHEVRIER: I think you have in mind the Saguenay Terminals.

Mr. HATFIELD: Yes, they go down there and take cargoes.

Mr. GORDON: Yes, but they go down there at rates which are non-competitive because they are running on the basis of a one-way traffic.

Hon. Mr. CHEVRIER: Well, Mr. Hatfield, may I point out to you that in 1926 the West Indies Trade Agreement of that year was implemented by parliament and it contains the contributions that are to be made.

Mr. HATFIELD: I know that, but the treaty has now expired.

Hon. Mr. CHEVRIER: It has expired, but it is being carried out in part notwithstanding the fact that it has expired because some of the colonies are continuing to make subsidy payments. You are asking why we do not go to Venezuela and points like La Guaira. I suppose it is a matter for the management as to whether or not it would be good business. It might be good business. It is a matter for them to look into whether it is or not.

Mr. HATFIELD: Well, I know the Saguenay Terminals ships go down there and they take cargo to those ports and I suppose bring bauxite back.

Hon. Mr. CHEVRIER: I think if it could be established to the satisfaction of the steamship officials that it is good business they would be glad to look at it, because having lost some business in the Caribbean they no doubt will be glad to recover it elsewhere.

Mr. HATFIELD: As a result of the cancellation of that Canada-West Indies Treaty you have lost a lot of business. There was a good market in Cuba but Cuba put a duty against us to stop it. We lost a lot of business in Cuba. There should be quite a bit of business that could be picked up in and around the West Indies and that Venezuelan country there. In Cuba we used to have a market for flour, potatoes and fish, and such a trade is of great advantage to the maritime provinces, particularly to Prince Edward Island; but the fact was that they lost a lot of that business when this treaty went into effect. They used to give a preference to this country on sugar cane and raw sugar coming from the West Indies, and the minute that was done Cuba put a duty against all Canadian products almost blocking out everything except seed potatoes. I was wondering what the government of Canada are going to do about it.

Hon. Mr. CHEVRIER: I can only refer you to the statement which was made by the prime minister when he made his pronouncement in the House of Commons as to what would be done in reference to ships, and with the cost of operating ships in Canada almost 50 per cent higher than it is in any other country we had to adopt a policy to meet that position; and we have tried to come to the assistance of some of our operators. Nevertheless, that does not occur with Canadian National West Indies ships in so far as subsidies mentioned in the Prime Minister's speech go.

Mr. HATFIELD: Well, it is going to be awfully hard to make it pay if we keep on sending our steamships down there to the West Indies, and that is as a result of the effects of this treaty.

Hon. Mr. CHEVRIER: I do not think the Canadian National West Indies steamships should be forced to go there. Under the treaty they were required to operate a certain number of ships, but they have to have a cargo in order to make it profitable. They are not under any obligation to go.

Mr. HATFIELD: Well then, what are the Canadian National going to do with these ships?

Hon. Mr. CHEVRIER: Well, if there is no cargo I presume they will tie them up.

Mr. FULTON: Last year the committee discussed this question generally and Mr. Vaughan made a report which will be found in the proceedings of the committee of last year and he made this comment with respect to the treaty

agreement, he was referring to the decline in the volume of traffic and the fact that the subsidies should not cover the loss which the company was incurring. He said (this will be found on page 127):

> The advances in question did not represent additional capital investment in the enterprise nor did they provide assets capable of earning an interest return.
>
> The accounts of the company do not, however, reflect the full financial advantages to Canada of the company's operations. Prior to the inauguration if its services an annual subsidy of $340,666 had been paid to private operators for service to the eastern group of islands only. Under the 1925 trade agreement Canada undertook to provide certain ship tonnages and services for which tenders were invited from steamship interests. Private interests asked for an annual subsidy of $582,783 for operation of the eastern services only. No offers were made for the western service. The company was therefore incorporated for the purpose of carrying on both of the services called for in the trade agreement; and on the basis of the above-mentioned tender for part of the service only it is reasonable to assume that Canada has thereby saved a very large sum in subsidy payments.

I wonder if the minister or the management of the company would care to make any statement as to whether a new treaty has been negotiated or is being negotiated.

Hon. Mr. CHEVRIER: The question of the treaty depends upon a department other than the Department of Transport; I refer to the Department of Trade and Commerce. I do understand that it was the intention of Canada and some of the Caribbean countries to meet and discuss terms for a new treaty. Unfortunately, during the war, that was impossible. In the postwar period trade was relatively heavy and it was not necessary to do that. But at the moment I would think that the position is such that perhaps the time has arrived when negotiations should be entered into; but as I say, it is a matter for Trade and Commerce. Other than that I cannot add anything.

Mr. FULTON: Mr. Vaughan expressed the hope last year that in any new agreement which may be negotiated cognizance will be taken of the greatly increased cost of operation by the inclusion of enhanced subsidy provisions, and that it will contain some measure of assurance that the company will continue to obtain a fair share of the available tonnage movement commensurate with the services operated. I was going to ask if the tonnage has declined, and if so is consideration being given to a reduction in the number of trips? I notice that under the treaty arrangements there were to be 65 trips a year; is that number to be reduced providing tonnage is not available?

Mr. GORDON: The situation we are in at the moment is that we are keeping up the trips so long as we think we can make something on them at all but our competition is increasing steadily. I have a short statement in regard to the prospects which I shall be glad to read.

The CHAIRMAN: Yes, I think this would be a very good time.

Mr. GORDON: This is a report submitted to me in regard to the future.

> In regard to passenger traffic it is not expected that 1950 will be as good as 1949. There is the usual definite trend towards Europe and the normal heavy seasonal movement is intensified by the Holy Year. However, such large movements stir up interest in travel in general and as it is unlikely all who wish to travel in Europe will be able to, due to limitations of accommodation, it is felt that the situation thus created will stimulate travel in other directions and our lengthy "round Voyages" will benefit.

Territorial offices anticipate a fair year and while there are a few advance requests, interest will be stirred as soon as folders have been studied by the trade and prospects. The new itinerary for the "Lady" liners, viz., Montreal-Halifax-Boston and Bermuda, British West Indies and British Guiana will assist in creating renewed interest.

We estimate our total passenger revenue will be in the vicinity of $800,000.

Estimated freight earnings for the year 1950 are expected to amount to about $4,313,606.

Exports—The situation in so far as exports is concerned has been bad for several months past and very little hope of improvement is held unless the restrictions against purchasing in the dollar area are lifted or eased by the respective colonies with which we trade. The colonies are purchasing everything they can lay their hands on in sterling countries and buying in Canada in dollars what they cannot get elsewhere. Flour and grain products make up about seventy per cent of our cargoes; most other commodities are moving in small lots and some commodities cut out entirely such as autos, cement, steel goods, beer and a large variety of manufactured goods. Condensed milk is being imported from Australia, fresh and canned meats are also imported from Australia and New Zealand, as well as butter, and a large variety of goods are being bought in Britain regardless of price.

In addition to decrease in exports we are also facing more competition than ever. Saguenay terminals recently inaugurated a service to Barbados, Trinidad and Demerara in addition to Alcoa Steamship Company and ourselves. To Jamaica we have competition from the Federal Commerce and Navigation Co., Ltd., Swedish American Line and Pickford & Black Ltd. Federal Commerce & Navigation Co., Ltd., saw fit, in January, to break the rate on flour from 75 cents per 100 lbs. to 50 cents in order to secure a booking of 900 tons (about 22,000 bags) and then cancelled their proposed sailing and turned their commitments over to Pickford & Black at the reduced rate.

That incident is mentioned only to show the keenness of the competition; and from everything we see before us, that kind of competition will intensify. So I think we are facing a rather difficult year.

All I can say as to a decision with regard to the cancellation of voyages or trips is that it will be made when we reach the point where we feel a voyage cannot be made on a basis which gives any economic return at all.

Mr. FULTON: While you do expect there will be some slight increase in passenger traffic, you feel the prospects are rather poor with respect to freight traffic?

Mr. GORDON: The indications are rather poor in respect to freight traffic but that situation may change. However, that is the best forecasting we can make at this moment.

Mr. HATFIELD: I think that one of the reasons for competition is that the other steamship lines do not have to carry out the terms of the treaty. They can call at various ports in Cuba as they go on to the West Indies. But you are different from those other lines. You are trying to carry out the terms of a treaty. But it is a very costly treaty and it has expired. So I think there should be a new arrangement made.

Mr. GORDON: In regard to your question, Mr. Fulton, at the moment, of the five small non-refrigerated ships we mention in our report, two are in service, two are laid up, and one has been chartered. We are now keeping our eyes open to see if we can dispose of the two ships which have been laid up, but there has been no encouragement in that respect so far.

Mr. FULTON: So there may be a reduction in trips next year?

Mr. GORDON: I would not forecast that but we are trying to manage as many trips as we can, even if we only break even.

Mr. FULTON: In last year's report of the proceedings of the committee on Railways and Shipping Mr. Nicholson was commenting on the fact that according to the report of 1948, the deficit item was $2,880,324.78, and he asked Mr. Vaughan how many years it would take to pay off this deficit at the rate of annual returns from the company which were then coming in. And Mr. Vaughan, I think, replied at page 129:

> We have asked the government for relief and I think the matter is in hand by the government. But as to just what they will do about it I do not know. It would take a number of years yet at the profit which we made last year to pay off all the amounts which the government has charged against us together for interest on the deficits which were incurred in the early stages of operation.

Then the minister a little later on made this statement:

> Hon. Mr. Chevrier: As the president of the Canadian National Steamships has said, representations have been made by Canadian National Steamships to the government over a period of years asking the government to grant relief in connection with the amount paid for interest, and arrears of interest, over the years when there was unprofitable operation, between 1925 and 1934.

And he continued his statement as follows:

> ...This year representations were again made by Canadian National Steamships, and as a result a subcommittee of the cabinet was established to deal with the problem. So the problem is now under consideration by that subcommittee.

I wonder if the minister could tell us what were the results of that consideration?

Hon. Mr. CHEVRIER: I am afraid that I cannot add very much to what I said at that time last year, namely, that the government had given the matter consideration. No further consideration has been given since then. And the view taken at the time was that this loan was in an entirely different category from that of the Canadian National.

In other words, the Department of Finance had views on all of the financial arrangements of the Canadian National and they have, equally, views on all the arrangements of the Canadian National West Indies Steamships. The Department of Finance have taken the view that the recommendation suggested by Mr. Vaughan is not in accord with sound or responsible financial administration.

They assume that when the taxpayers' money is advanced to a corporation for the purpose of carrying on a business, the taxpayers have the right to demand proper accounts of the funds made available to the corporation and to know at all times what the operation is costing.

I should not say that that alone is the determining factor. I have to admit that I did not submit it to the cabinet. I do not think it should be submitted since a decision has already been made. But I would not have any objection to submitting it again, although I think that pretty much the same attitude would be taken at this time. It might well be that after the royal commission has reported on the question of the capital structure of the Canadian National Railways—while it was not asked to report on this matter of the steamships—, it might well be that that would be the time to ask the government to reconsider

the matter in the light of the recommendations made by the royal commission, provided they do make recommendations, concerning the capital structure of the Canadian National Railways.

Mr. FULTON: You just said in your statement that that decision was made last year, and I think you said it was an adverse decision.

Hon. Mr. CHEVRIER: I should not say that it was an adverse decision, and if I created that impression, I should not have done so. It was not an adverse decision. It was a consideration of the subject matter and it was thought that no favourable decision should be taken because of the attitude of the Department of Finance. It was not a declining of the proposal made. That is why I say, in view of the whole question of recapitalization of the Canadian National Railways being before the royal commission I do not think this would be an opportune time to ask them to consider it, because I feel the answer would be: Let us wait for the report.

Mr. FULTON: It is a very similar problem.

Hon. Mr. CHEVRIER: Yes, somewhat.

Mr. FULTON: Again in last year's proceedings or report of proceedings, one member of the ecommittee raised a question about the shipment of apples from the Maritimes to the West Indies and drew attention to the fact that apple growers—and I am now referring to page 130—complained that there were no proper cold storage facilities provided for the carriage of apples. And, on page 131, as a result of a question asked by the minister, Mr. Hazen said:

> My information was that there was a market for 10,000 barrels last season and that we were not able to avail ourselves of this market because they could not get proper transportation facilities on government boats.

And then Mr. Vaughan said:

> I think there is something in that complaint which came to our attention some time ago. We have investigated to see if there is not some place where we could stow these apples in cold storage compartment in a way that would not affect other products in cold storage.

I would like to ask Mr. Gordon if any steps have been taken to provide cold storage for apples from the Maritimes going to the West Indies?

Mr. GORDON: Not so far as I am aware. I think we would be most reluctant to engage in any further capital expenditure with regard to these ships.

The CHAIRMAN: Is there any hope of selling those apples in the West Indies?

Mr. GORDON: I would doubt it, but I could not be definite about it.

Mr. FULTON: Well, Mr. Hazen made the statement in the committee and it was not corrected, that there was a potential market for 10,000 barrels.

Mr. GORDON: I shall make a note of what you say and I shall look into it. There has been quite a change in trade conditions, but I would question whether that market is still in existence.

Mr. FULTON: Would you be able to say what the approximate freight revenue from 10,000 barrels of apples would be?

Mr. GORDON: I am afraid we have not got that. That is rather a technical matter and I could not give it to you off hand. But I will take a note of the question and provide the information for you just as soon as possible.

Mr. FULTON: One other question: Last year it was stated in the evidence before the committee that the cost of operation in 1948 was increased because

of strikes which affected the Canadian National West Indies Steamships. I have two questions arising out of that. Again I refer to page 132 where Mr. Hazen said:

> Is there any reason for the strikes on these boats? Is it due to communist activity?"

And then Mr. Vaughan replied:

> We believe it is and we think the time has come for a showdown, that we have got to run our own ships.

And then later he replied to another question, and he said:

> Yes, this strike has been expensive to us. We have not only lost cargo but the expenses have increased considerably.

I would like to ask Mr. Gordon if he has any knowledge of, or any comment to make on what the situation is now with respect to strikes, or whether they handled it and eliminated the trouble-makers as Mr. Vaughan intimated they were prepared to do; and secondly, whether there has been any appreciable reduction in costs due to the settlement of those strikes?

Mr. GORDON: So far as I know the trouble to which Mr. Vaughan referred has been eliminated by reason of the fact the strike was handled resolutely, and subsequent agreement has been such that there is no trouble that we can see at the moment.

In respect to the second part, I can only say that we estimate that the cost of the strike was $149,328. That cost covered various items due to delay and diversion of ships and so forth so that in respect to the Seamen's strike, that would be a non-recurring item and to that extent we would have less expenditure this year.

Mr. FULTON: May I ask if they found any actual trouble makers whom it was necessary to remove.

Mr. GORDON: I cannot say. Perhaps the minister has received a report on it.

Hon. Mr. CHEVRIER: I do not remember any report in connection with the Canadian National West Indies Steamships. All I know is that the C.S.U. were not very successful in their attempt to tie-up ships, not only in Canada but all over the world. They failed in Canada and they carried on the strike from the United Kingdom for a time, having failed in Canada. I think the C.N.S. ships continued with their trips.

Mr. FULTON: But you do not recall that there were trouble makers planted there by communists?

Hon. Mr. CHEVRIER: I would not have knowledge of that. I think, perhaps, the Department of Labour would be in a better position than we would be to give that information. Mr. Lessard brings to my attention that the strike was started against a Canadian National Steamships boat first last year but the Canadian National Steamships were able to get their ship out of the harbour and proceed to bring it to other ports and carry on their operations.

Mr. FULTON: And there has been no recurrence of a similar nature?

Hon. Mr. CHEVRIER: No.

Mr. FULTON: I think this is about my last question. I find on page 134 of last year's committee proceedings that Mr. Hatfield asked the question: "Could some of those ships be used in Newfoundland trade"; to which Mr. Vaughan replied: "We cannot tell until we get into that trade. As you know the Newfoundland railway has twelve to fifteen vessels of its own".

Now that you are in the trade what would you say with regard to that? Is there any chance of increasing the usefulness of those ships?

Mr. GORDON: We have that situation under examination. We did charter one of the vessels to the Newfoundland trade, and we found it possible to utilize one of our ships in that way but that is all we have been able to do at the moment.

Mr. BROWNE: Is there a big difference in the freight rates on a shipment going across the straits from North Sydney to Port aux Basques and then through to St. John's as compared to going from Halifax to St. John's. Is that not one of the difficulties?

Mr. GORDON: I cannot tell that to my knowledge. Mr. Dingle is giving me an answer I am not quite sure of but I will let him answer your question on his own information.

Mr. DINGLE: On that score, when we chartered this C.N.S. ship last year it was to take care of cargoes that we could not handle on our own through North Sydney but I did not understand that there would be any additional freight charges accruing because we handled it out of Halifax. I am not a traffic man but that is my understanding.

Mr. BROWNE: Well, actually, were the same rates charged for destination at St. John's on the route Halifax to St. John's as on the route North Sydney to St. John's?

Hon. Mr. CHEVRIER: Does that not raise the whole matter that was brought up in the House the other day by your colleagues, and is that also not a matter now before the Board of Transport Commissioners?

Mr. BROWNE: I was considering the question of the utilization of some of these ships which are tied up.

Hon. Mr. CHEVRIER: Yes, but you are coupling it with the freight rates.

Mr. BROWNE: Not intentionally. My information is that the railway are jammed with freight at North Sydney and Port aux Basques. Is not that correct?

Mr. DINGLE: That is correct. There has been a lot of ice trouble in the straits.

Mr. GORDON: The point there is that it is ice trouble that has caused the temporary freight jam.

Mr. BROWNE: I do not think that is all the reason. There is an enormous amount of freight moving there, and I understand it is due to a difference in the rates.

Hon. Mr. CHEVRIER: Well, I was hopeful we would not get into a discussion of the rates.

The CHAIRMAN: Shall the item carry?

Carried.

Operating revenues. We are now on operating expenses. Shall the item carry?

Carried.

Operating deficits? Shall the item carry?

Carried.

Mr. FULTON: With respect to the time since the end of the war, you expect a deficit this coming year, an operating deficit?

Mr. GORDON: I think that is right. The first since 1934.

The CHAIRMAN: Vessel replacement fund earnings. Shall the item carry?

Carried.

The minister has just called my attention to the fact that there is one item missed in the list here.

Hon. Mr. CHEVRIER: There was referred to the committee item No. 559 which is a deficit for the year 1950 of $720,000 and that is the item included in the budget. Having approved of that deficit item in the budget I think we might as well disposed of item.

No. of Vote	Service	Details on Page No.	1950-51	1949-50	Compared with Estimates of 1949-50	
					Increase	Decrease
			$	$	$	$
559	Amount to provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31, 1950, in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding.....	.....	720,000	360,000	360,000	
			1,879,000	1,519,000	360,000	

No. 559, which is the same amount.

The CHAIRMAN: That is my oversight, Mr. Minister. Item 559. Shall the item carry?

Carried.

Vessel replacement fund earnings. Any questions?

Mr. FULTON: Could Mr. Cooper say from what source these earnings are derived?

Mr. COOPER: The vessel replacement fund carries the amount set aside for depreciation. The earnings on the investment of the replacement fund are the earnings which are described as vessel replacement fund earnings.

Mr. FULTON: You have it invested in securities which produce the income, as I understand it?

Mr. COOPER: Yes.

Mr. FULTON: Is the replacement fund still accumulating?

Mr. COOPER: To the extent of the annual depreciation accruals, yes. Whatever amount we set up in our operating account for depreciation that amount of cash is added to the fund and increases the earnings of the fund.

Mr. FULTON: And how long is it since you have had any call on that fund?

Mr. COOPER: After the war we bought several ships out of the fund. The three motor ships and the five dry cargo ships were all purchased out of the vessel replacement fund. The only two ships we have today which were not bought out of the fund are the two lady ships.

The CHAIRMAN: Shall the item carry?

Carried.

Mr. HATFIELD: You bought the ships after the war?

The CHAIRMAN: I am sorry, Mr. Hatfield.

Mr. HATFIELD: I just asked the question if they bought these ships after the war.

The CHAIRMAN: Interest requirements.

Mr. FRASER: Are these bonds callable?

Mr. COOPER: No.

Mr. FRASER: You wish they were, I suppose.

Mr. COOPER: Yes, particularly if they were callable at par.

Mr. GORDON: Wishing won't call.

The CHAIRMAN: Shall the item carry?

Carried.

Exchange on United States funds?

Mr. FRASER: Why is this item up this year?

Mr. COOPER: The Canadian dollar is devalued in relation to the United States dollar.

The CHAIRMAN: Interest of government notes and advances. Shall the item carry?

Carried.

Shall the report carry?

Carried.

Now we come to the annual report of the Canadian National Railways Securities Trust.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Ottawa, 24th February, 1950.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees of The Canadian National Railways Securities Trust submit the following report for the calendar year 1949.

No capital losses were charged to Proprietor's Equity during the year and accordingly the book value of the capital stock of the Securities Trust, as shown on the Balance Sheet, remains unchanged from December 31, 1948.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

Pursuant to Chapter 8, 1945, an Act to amend The Canadian National Railways Capital Revision Act, 1937, the Board of Directors of the Canadian National Railways passed a resolution at a meeting held on January 27, 1950, naming Mr. Donald Gordon, Chairman of the Board of Directors and President, and Mr. T. H. Cooper, Vice-President and Comptroller, as Trustees of the Securities Trust.

The Trustees present herewith the Balance Sheet as at December 31, 1949.

J. C. LESSARD,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st. December, 1949.

Assets			Liabilities		
Claims for Principal of Loans—			*Capital Stock Owned by His Majesty—*		
Canadian Northern Railway	$ 312,334,805.10		5,000,000 shares of no par value capital stock:—Initial stated value	$270,037,437.88	
Grand Trunk Railway	118,582,182.33				
Grand Trunk Pacific Railway	116,006,599.08				
Canadian National Railway Company	96,936,971.75	$ 643,860,558.26	Gain from transactions subsequent to 1st. January, 1937—per contra	108,480,697.14	$ 378,518,135.02
Claims for Interest on Loans—					
Canadian Northern Railway	$ 309,702,897.65				
Grand Trunk Railway	103,250,802.95				
Grand Trunk Pacific Railway	107,326,622.84				
Canadian National Railway Company	54,501,313.57	574,781,637.01			
Transactions subsequent to 1st. January, 1937, affecting the book value of the capital stock of the Securities Trust—					
Canadian National Railway System:	Year 1949 / Total to Date				
Surplus Earnings	$ 112,502,061.64				
Capital Gains	19,105,651.38				
Capital *Losses*	*23,127,015.88*	108,480,697.14			
Collateral Securities—			Amount by which the book value of claims and interest thereon — per contra — exceeded the initial stated value		948,604,757.39
As per Schedule A.1					
		$1,327,122,892.41			$1,327,122,892.41

T. H. COOPER,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st. December, 1949.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st. December, 1949, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

10th. February, 1950.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

SCHEDULE A.1

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

	Loans Outstanding	**Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099 68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000 02	None.	
5% Loan, Chapter 4, 1915	10,000,000 00	None.	
6% Loan, Chapter 29, 1916	15,000,000 00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid	.....	6% Demand Notes	$ 497,566 80
†6% Loan, Chapter 24, 1917	25,000,000 00	6% Demand Notes	33,012,414 32
†6% Loan, Vote 110, 1918	25,000,000 00	6% Demand Notes	27,203,003 65
†6% Loan, Vote 108, 1919	35,000,000 00	6% Demand Notes	40,031,122 27
†6% Loan, Vote 127, 1920	48,611,077 00	6% Demand Notes	53,008,779 65
†6% Loan, Vote 126, 1921	44,419,806 42	6% Demand Notes	50,259,312 47
†6% Loan, Vote 136, 1922	42,800,000 00	6% Demand Notes	46,691,634 60
6% Loan, War Measures Act, 1918	1,887,821 16	6% Demand Note	5,700,000 00
		3½% and 4½% Debenture Stocks	7,139,399 00
†6% Equipment Loan, Chapter 38, 1918	56,926,000 82	6% Demand Notes	56,858,496 44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	.....	Miscellaneous Bonds and Debentures	14,097,470 59
		Miscellaneous Bonds and Debentures	20,721,191 12
†Mortgage covering loans above	.....	Mortgage dated November 16, 1917	.....
Total Canadian Northern	$ 312,334,805 10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 479, 1920	$ 25,000,000 00	6% Demand Notes	$25,479,226 97
6% Loan, Vote 126, 1921	55,293,435 18	6% Demand Notes	56,646,816 12
6% Loan, Vote 137, 1922	23,288,747 15	6% Demand Notes	23,288,747 15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000 00	4% Demand Note	15,000,000 00
		4% G.T.P. Debentures	15,000,000 00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	.....	4% Debenture Stock	60,801,700 00
		6% 2nd. Mortgage Equipment Bonds	1,693,113 33
Total Grand Trunk	$ 118,582,182 33		

GRAND TRUNK PACIFIC RAILWAY:

3% Bonds, Chapter 24, 1913	$ 33,048,000 00	3% 1st. Mortgage Bonds	$33,048,000 00
6% Loan, Chapter 4, 1915	6,000,000 00	4% Sterling Bonds	7,499,952 00
6% Loan, Vote 441, 1916	7,081,783 45	Mortgage, June 28, 1916	.....
6% Loan, Vote 444, 1917	5,038,053 72	Mortgage, October 18, 1917	.....
6% Loan, Vote 110, 1918	7,471,399 93	Mortgage, October 18, 1917	.....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162 35	Receiver's Certificates	53,339,162 74
Interest guaranteed by Government of Canada	8,704,662 65	Cremation Certificates, coupons destroyed	8,698,170 42
Interest guaranteed by Provinces of Alberta and Saskatchewan	2,898,536 98	Cremation Certificates, coupons destroyed	2,925,723 88
Agreement with Government under Chapter 71, 1903	.....	Grand Trunk Pacific Development Company Capital Stock	2,999,000 00
Total Grand Trunk Pacific	$ 116,006,599 08		

forward

SCHEDULE A.1—*Concluded*

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates *Cr.*	*1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,00.000	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates *Cr.*	*364,898.56*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand Notes	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes	29,910,400.85
5¼% Loans, Chapter 6, 1932	11,210,815.56	5¼% Canadian National Railway Company Demand Notes.	11,210,815.56
Temporary Loan 1930, repaid		166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937 *Cr.*	*1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Mr. COOPER: Gentlemen, the only change in the report of the Securities Trust is that the year 1948 has been changed to the year 1949. There were no transactions during the year. The report is exactly as it was adopted by the committee a year ago.

The CHAIRMAN: Shall the report carry?

Carried.

Now, we will consider the auditor's report to parliament on the Canadian National Railways.

10th March, 1950.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1949, under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

In our reports of previous years we have commented on certain matters to which we do not propose to refer in this report in view of the appointment of the Royal Commission on Transportation.

GENERAL SCOPE OF AUDIT

In brief, our audit of the System accounts for 1949 included:

(*a*) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders-in-Council and Acts of Parliament;

(*b*) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the System. In this connection we worked in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of Cash Receipts and Expenditures, Securities Held, Material Stores and Accounts Receivable of all types. The System is further protected by Fidelity Bond Insurance with outside Underwriters;

(*d*) Audit of the Consolidated Income Account and the Consolidated Balance Sheet and certification thereof.

Our test audit covered the various Balance Sheet accounting units in Canada, the United States, London (England) and Paris (France) with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters which comprise the System as an operating entity. In view of the initial difficulties experienced by the Canadian National Railways in the transfer of the accounts from the Newfoundland Railway, we have found it impracticable to complete our audit tests of this district. We shall, however, do so at the earliest possible date.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the Capital Stocks of the Affiliated Companies are insufficient to give voting

control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In a few instances their accounts were certified by Public Accountants but for the most part they were audited by joint committees composed of System accountants and representatives of outside interests.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" Fixed Properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately $1\frac{2}{5}\%$, has been made during the year for the United States Lines of the System through Maintenance of Way and Structures accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the same accounts the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for Depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for Depreciation has been made for the Equipment of both the Canadian and United States Lines of the System. The $3\frac{1}{3}\%$ annual depreciation rate used for Rail Equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by the Class I Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the Maintenance accounts as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

During 1949 Deferred Maintenance Reserve was utilized to the extent of $8,000,000 which amount was credited to Maintenance of Way and Structures.

We have received certificates from the responsible operating and executive officers to the effect that the Fixed Properties, subject to the utilization of the unexpended balance of $9,000,000 in the Deferred Maintenance Reserve, and Equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such Physical Retirements, which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such Retirements has been given to the Accounting Department.

Insurance Fund Operations

The operations for the year resulted in a net profit of $303,000 which was credited to railway income. The fund operations included the receipt of $381,000 covering the Fund portion of the settlement made in 1949 in respect of the 1945 fire damage to the Point Edward Docks. The Reserve amounts to $12,296,000 and includes the estimated amount of $296,000 set aside to meet the larger unadjusted loss claims.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st January, 1923, there have been properly

applied the reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January, 1923, the Additions and Betterments less Retirements of the System have been shown on the general basis of cost. It should be pointed out, however, that no additions have been made to the property investments relative to the Newfoundland District prior to 1st April, 1949.

The several special funds including Capital and Other Reserve Funds, Deferred Maintenance Fund, Insurance Fund and Pension Contract Fund, amounting in total to $76,697,000 are represented by investments in the securities of the Government of Canada and the National System, cash and sundry current assets. At the year end, the market value of the securities held in respect of these special funds exceeded the book figure, which for Government securities was based on cost and for System securities on par value.

The portion of Insurance Fund investments of $4,642,000 in System securities, the listings of which were withdrawn from the Exchanges as a result of the war-time Untied Kingdom Vesting Orders, have been taken at par for the purpose of the foregoing year-end market valuation. In view of the fact that these Insurance Fund investments are in System securities no provision has been deemed necessary to cover the devaluation of sterling from the former par of $4.86\frac{2}{3}$.

The par value of National System securities held in the foregoing special funds aggregates $12,406,000 of which par value $7,647,000 is covered by the guarantee of the Government of Canada.

Investments in Affiliated Companies are represented by the Capital Stocks, Bonds and obligations for Advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of unlisted investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the Balance Sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1949 Financial Statements issued by the companies representing the larger investments indicated that Profits aggregated some $1,468,000 and Losses some $567,000 for the year 1949. Included in the latter total was the loss of $423,000 incurred by the Northern Alberta Railways Company, 50% of which loss has been taken up as an Income charge by the National System, the other 50% being chargeable to the Canadian Pacific Railway. The loss does not include provision for interest on the Company's bonds, such interest having been treated as waived.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit, and are valued at or below cost. The balance is represented by Securities of the Government of Canada and the National System (Government Guaranteed) the year-end market value of which in total exceeded the book figure based respectively on cost and par value.

Temporary Cash Investments are represented by Government of Canada securities, the year-end market value of which exceeded the book figure based on cost.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th. September, 1949 and in connection therewith we have received certificates from the responsible officers to the effect:

(a) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was laid down cost based on weighted average costs for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Ledger values as of the 30th. September were brought into agreement with the physical inventory through a credit to Railway Operating Expenses of $329,000.

Other Deferred Assets consist principally of Contracts Receivable in connection with Land Sales and Sundry Deferred Accounts Collectible.

Other Unadjusted Debits consist of Capital charges accumulated on the rebuilding of passenger cars which were uncompleted at the year end, the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Liabilities

Other Deferred Liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec.

Reserves and Other Unadjusted Credits

Accrued Depreciation of Canadian Lines Equipment amounts to $126,932,000. During the year the full ledger value of Equipment retired, less salvage, was charged to this Reserve.

Other Unadjusted Credits include the estimated proportion of prepaid Revenues on freight in transit; excess of actual Revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the Balance Sheet accounts of the System are converted generally as follows:

(a) United States Currency
—at the dollar par of exchange.

(b) Sterling Currency
—at the former par of $\$4.86\frac{2}{3}$ to the pound.

(c) French Currency
—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 300 francs to the dollar for Working Capital accounts.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & Co.

The CHAIRMAN: Shall the report carry?

Mr. FRASER: Mr. Chairman, are you dealing with Mr. Carter's questions? Are you going to deal with the questions asked by Mr. Carter?

The CHAIRMAN: We will table those.

Shall the auditor's report carry?

Mr. FULTON: I think it has been the custom in the past to have the auditor's report read so it will appear on the record.

The CHAIRMAN: Shall I dispense?

Mr. FULTON: Is there no representative of the auditor's firm here?

The CHAIRMAN: I thought we had gone into the receipts and disbursements so minutely that the committee members would be content to have the report considered as read.

Mr. FULTON: It does not give us an opportunity to question the auditors.

The CHAIRMAN: Mr. Gordon will make a general statement and then we will decide as to what extent we will read it.

Mr. GORDON: I just want to make reference to the questions from Mr. Carter. I looked at them during the luncheon hour and I find them pretty comprehensive and I cannot undertake to have the replies before the committee rises. I have sent his questions on to Montreal. We are working on them and we will do the best we can to get the answers in time, but as I say, they are quite extensive and it may take some time before we can get the replies.

The CHAIRMAN: I am just wondering if we can incorporate them into our record. If we receive the answers before our report is tabled we can do so.

Thank you very much, Mr. Gordon. Is that satisfactory, Mr. Carter, as long as they are incorporated in the record and you have the answer?

Mr. CARTER: I take it for granted they will be incorporated in the record.

(*See Appendix "A"*).

The CHAIRMAN: Mr. Gordon has given us the assurance that he will have them here as soon as possible. I can assure you that as far as the chair is concerned, I would certainly co-operate to that extent.

Mr. CARTER: Thank you very much.

The CHAIRMAN: As to the auditor's report, is it the wish of the committee that this should be read in total?

Some Hon. MEMBERS: No, no.

Mr. FULTON: It has always been done in the past.

The CHAIRMAN: We have spent so much time and your searching questions went into so much detail, Mr. Fulton, I do not like to burden the committee with this. Will you indicate what parts you would like to have read?

Mr. FULTON: Was Mr. Gordon's statement confined to Mr. Carter's question?

The CHAIRMAN: Just to Mr. Carter's question.

Mr. FULTON: I would like to have the opportunity to ask the auditors at least whether there are any changes in this year's report. I would like to ask Mr. Matthews or Mr. Turville whether there are any alterations in the set-up of the accounts which your firm audited and which you particularly noted in this report or would like to bring to the attention of the committee?

Mr. TURVILLE (George A. Touche & Co.): There have been no changes in the manner in which the accounts have been prepared or presented as compared with 1948.

Mr. FULTON: You said in 1948, and I believe that you repeat it here, that there are a number of recommendations which you had previously made that are now before the royal commission and upon which you do not comment here?

Mr. TURVILLE: Our reason for not doing that is that we made certain recommendations in the past, particularly in 1947 and 1946.

Mr. FULTON: Many of those are now before the royal commission?

Mr. TURVILLE: They are being considered by that commission so that we thought it would not be particularly interesting to the members of the committee to have a repetition of the recommendations.

Mr. FULTON: May I ask you whether all of your recommendations are before the royal commission?

Mr. TURVILLE: I am not in a position to answer that definitely although I do know the directions which have been given to the royal commission. I have not attended meetings of the commission and I do not know whether all of the points we have recommended in the past are being considered.

Mr. FULTON: But they are within the scope of the commission's reference?

Mr. TURVILLE: Yes.

Mr. BROWNE: May I ask a question regarding page 2 where you say: "It should be pointed out, however, that no additions have been made to the property investments relative to the Newfoundland district prior to 1st April, 1949."

Mr. TURVILLE: That is correct.

Mr. BROWNE: Why do you say that?

Mr. TURVILLE: The dominion government took over the Newfoundland railway on the 1st of April 1949 and then entrusted it to the Canadian National Railways. The Canadian National at the moment is only concerned with additions and betterments since the 1st of April.

The CHAIRMAN: Are there any further questions?

Mr. FULTON: I have one other question. I am interested in the matter of the actual value of the assets of the Canadian National Railways. Mr. Cooper discussed this when he was being examined. In your accounting practice do you ever make a survey of the actual valuations?

Mr. TURVILLE: If I understand your question it is whether we, as auditors, go into the valuation of fixed assets and so on. We do not, but we have made special reference, as you have no doubt noticed in the report on the balance sheet, to the effect that we have accepted the valuations about which Mr. Cooper spoke as being of historic interest only.

Mr. FULTON: I understand that it is not part of normal accounting or auditing practice to make that investigation?

Mr. TURVILLE: Not with respect to the actual valuation of fixed assets. That is usually done by an engineer or an appraisal company.

Mr. FULTON: I appreciate that, but you do not normally call for such investigation?

Mr. TURVILLE: Not unless we get special instructions to do so.

Mr. FULTON: In auditing, and setting out returns and reports, is it usual to draw attention to or take into account possible changes in value that may have resulted through changes of price levels?

Mr. TURVILLE: It is not the general practice to take into account varying price changes in respect of fixed assets. It is another matter when we talk about current assets and then naturally effect is given to it. I refer there to taking inventory of supplies or stores.

Mr. HATFIELD: Why should insurance be credited to income?

Mr. TURVILLE: Mr. Hatfield, I thought that question would probably be asked. I think that you and the members of this committee will remember that it has always been a practice of the C.N.R. to take income arising through these

various funds into the income account. That procedure is usual, or shall I say condoned, although it is not a good word—it is agreed on by the Interstate Commerce Commission. The accounts of the Canadian National Railways, speaking generally, are prepared in the light of Interstate Commerce Commission regulations.

Mr. HATFIELD: Is this for fire losses in the United States?

Mr. TURVILLE: It must be done in the United States.

Mr. MATTHEWS: I might just comment on that.

The CHAIRMAN: Perhaps I could interrupt. I think the answer was quite complete; the answer is that this is standard practice with the Interstate Commerce Commission.

Mr. MATTHEWS: The directors of the Canadian National Railways set a ceiling figure for the amount of the insurance fund.

Mr. HATFIELD: Is it not customary to carry the insurance in the capital account?

Mr. MATTHEWS: The amount of the fund was established at approximately $12,000,000 and over a period of years it was built up out of earnings; but having reached that point the amount became a credit. The record of that insurance fund has been very good.

The CHAIRMAN: Are there any further questions?
Shall the auditor's report on the Canadian National Railways System carry?

Carried.

Next we have the auditor's report on the Canadian National (West Indies) Steamships Limited. Shall I dispense with the reading of the report?

Agreed.

10th March, 1950.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA

Sir:—

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1949, acting under your authority, and we now report, through you, to Parliament.

GENERAL SCOPE OF AUDIT

In brief, our audit of the Steamships' accounts for the year 1949 included:

(*a*) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders-in-Council and Acts of Parliament;

(*b*) Audit tests in the offices of the Steamships limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the Steamships. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of Cash Receipts and Ex-

penditures, Securities Held, Material Stores and Accounts Receivable of all types. The Company is further protected by Fidelity Bond Insurance carried with outside Underwriters;

(*d*) Audit of the Consolidated Income and Profit and Loss Accounts and the Consolidated Balance Sheet and certification thereof.

Consolidated Income Account

Provision for depreciation charged against income covers all vessels at the uniform rate of 5 per cent per annum.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the Accounting Department.

Consolidated Balance Sheet

Assets

Investment in Vessels is carried on the general basis of cost.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada and the Canadian National Railway System (Guaranteed by the Government of Canada) together with cash and sundry current assets. The total year-end market value of the securities held in these funds was in excess of the book figure based on cost.

The Replacement Fund increased $492,000 during the year as a result of depreciation accruals charged to Income Account and paid into the fund.

The Insurance Fund increased during the year by $284,000, of which $108,000 has been set aside in the Fund to augment the Reserve for unadjusted losses. The insurance risks on all ships are carried in the Fund.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

Discount on Capital Stock represents an intangible book value set up at the time of incorporation to offset the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' Bonds.

Liabilities

Unadjusted Credits are mainly comprised of uncompleted voyage suspense items and a reserve against amounts in dispute.

Reserves

The Insurance Reserve amounts to $2,049,000 including the estimated amount of $123,000 set aside to meet the larger unadjusted loss claims.

Profit and Loss

In view of the economic trends affecting the operations of the five small non-refrigerated vessels, the management has thought it advisable to increase accrued depreciation by $738,000 by a charge to Profit and Loss of the same amount.

In considering the accumulated deficit appearing on the Balance Sheet, it should be borne in mind that it has been the practice of the Government to charge interest on advances for Deficits from the inception of the Company.

The amount of such interest paid by the Company amounts to $3,641,000. However for the year 1949, the Deficit has been assumed by the Government of Canada and accordingly has not been treated as an Advance.

Where foreign currencies are involved the Balance Sheet Accounts of the Steamships are converted generally as follows:—

(*a*) U.S. Currency—at the dollar par of exchange;

(*b*) Other Foreign Currencies—at the official rates.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,

George A. Touche & Co.

The CHAIRMAN: Shall the report carry?

Carried.

I must apologize to the committee for omitting three House votes which I should have called this morning. The first is vote 493—Maritime Freight Rates Act.

No. of Vote	Service	Details on Page No.	1950-51	1949-50	Compared with Estimates of 1949-50	
					Increase	Decrease
			$	$	$	$
	A—DEPARTMENT					
	RAILWAY SERVICE					
493	Maritime Freight Rates Act—To hereby authorize and provide for the payment from time to time during the fiscal year 1950-51 to the Canadian National Railway Company of the difference (estimated by the Canadian National Railway Company and certified by the Auditors of the said Company to the Minister of Transport as and when required by the said Minister) occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (upon the same basis as set out in Section 9 of the said Act with respect to companies therein referred to) on all traffic moved during the calendar year 1950 under the tariffs approved on the Eastern Lines (as referred to in Section 2 of the said Act) of the Canadian National Railways.....	.....	5,869,000	5,503,000	366,000	

Carried.

Hon. Mr. CHEVRIER: The increase you will notice is $366,000.

The CHAIRMAN: Vote No. 494, again the Maritime Freight Rates Act—railways other than the Canadian National.

No. of Vote	Service	Details on Page No.	1950-51	1949-50	Compared with Estimates of 1949-50	
					Increase	Decrease
			$	$	$	$
494	Amount required to provide for payment from time to time during the fiscal year 1950-51 of the difference (estimated by the Board of Transport Commissioners for Canada and certified by the said Board to the Minister of Transport, as and when required by the said Minister) occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (referred to in section 9 of the said Act) on all traffic moved during the calendar year 1950 under the tariffs approved by the following companies: Canada and Gulf Terminal Railway; Canadian Pacific Railway, including: Fredericton and Grand Lake Coal and Railway Company and New Brunswick Coal and Railway Company; Cumberland Railway and Coal Company;					

Hon. Mr. CHEVRIER: The increase is $50,000.
The CHAIRMAN: Shall the item carry?
Carried.

Vote No. 558—regarding Prince Edward Car Ferry and Terminals.

No. of Vote	Service	Details on Page No.	1950-51	1949-50	Compared with Estimates of 1949-50	
					Increase	Decrease
			$	$	$	$
	DEFICITS					
	Transport					
558	Amount required to provide for the payment during the fiscal year 1950-51 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1950		1,159,000	1,159,000		

Mr. McLURE: They always show that as a deficit although it should be a surplus.

Mr. MUTCH: Reduce it to $1.

The CHAIRMAN: Shall we reduce it to one luncheon?

Shall the item carry?

Carried.

Mr. FULTON: May I have consent to revert to the auditor's report on the West Indies Steamships. It is stated under profit and loss that "in view of the economic trends affecting the operations of the five small non-refrigerated vessels, the management has thought it advisable to increase accrued depreciation by $738,000 by a charge to profit and loss of the same amount."

I would ask Mr. Turville what that means.

Mr. TURVILLE: It has been the considered opinion of the management, and here I am talking for the management and they will correct me if I am wrong, that in view of the condition of the shipping industry and the possible trends they consider it wise, and we support them and think it advisable, to bring down to a more realistic level the value at which those ships are carried on the balance sheet. In so doing they have made this provision of $738,000 as an addition to depreciation reserve.

Mr. BROWNE: That is a round figure.

Mr. TURVILLE: Yes.

Mr. FULTON: Do I understand from what you say that because anticipated earnings from shipping are so much lower they consider it advisable in effect to reduce the capital value of the ships?

Mr. TURVILLE: To bring them to a more realistic value.

Mr. MUTCH: In terms of what they can earn?

Mr. TURVILLE: Yes.

Mr. FULTON: That brings me back to the question I asked before in regard to the actual value of fixed assets. If the earning power of fixed assets is greatly increased, why does not the corresponding adjustment take place?

Mr. TURVILLE: Speaking as an accountant or an auditor I would say that it would not be conservative to increase the value of fixed assets because they were earning a lot of money. However, if the reverse was taking place, as we consider it may in this particular company, we think it is sound practice to try and anticipate the event.

The CHAIRMAN: You would also run into some difficulty with the Department of National Revenue if you started advancing the fixed assets?

Mr. TURVILLE: Yes.

Mr. MUTCH: This is simply an accelerated depreciation in the light of changing conditions?

Mr. TURVILLE: No, Mr. Mutch, I would not call it an accelerated depreciation because an accelerated depreciation usually applies where an industry is over-operative—when it is over-working itself—and therefore they depreciate the assets more quickly than they would in normal trading.

Mr. MUTCH: This is only a bookkeeping change?

Mr. TURVILLE: Yes, it does not affect the income account.

Mr. FULTON: No, but when you are considering capitalization in respect to the funded debt of a concern, if you are taking this action when the indicated earnings or prospects are disadvantageous, why would you not also take into account the increased value of the assets?

Mr. TURVILLE: I do not agree that this affects the funded debt. The funded debt remains as it was.

Mr. FULTON: But when you are discussing capitalization and the proportion of interest-bearing debt with respect to capitalization, it seems to me that it is logical to say that, if you write down or take into consideration increased amounts for poor prospects or conditions, similarly when you are considering the over-all capital condition you should take into account the increased value of the assets?

Mr. TURVILLE: You say, because the company has decided that it is proper to depreciate by an additional amount the value at which these vessels are carried, that it is an indication that the funded debt is not secure, or is not good, or has been depleted?

Mr. FULTON: That is the question I would like to ask.

Mr. TURVILLE: No, it does not mean that at all. In this particular case it is guaranteed by the dominion government.

Mr. BROWNE: You have shown that accumulated deficit on page 8 of this report, and you also have it under liabilities? You have it in both sides of the account.

Mr. TURVILLE: It is just the method of preparing a balance sheet.

Mr. BROWNE: The $738,000 would be in the $4,000,000 odd?

Mr. TURVILLE: Yes.

Mr. BROWNE: It is just a cross-entry?

Mr. TURVILLE: Yes, just a book entry for the additional depreciation for reserve.

Mr. FULTON: In the last paragraph I notice for the year 1949, after payment of interest on bonds and government advances, there was a deficit of $460,497; and it says, "which is payable by the government and is so recorded in the balance sheet"—

Mr. TURVILLE: Yes, that is why it is mentioned that way.

Mr. FULTON: I wonder if the minister would like to say something with regard to that? Does that mean that the government assumes this deficit in the same way as it does with respect to the Canadian National Railways system?

Hon. Mr. CHEVRIER: I think I should say that the government leaves the matter to the auditors. It is not a matter for the government to decide whether or not that is a proper way to do it. I think if the auditors of the Canadian National Steamships so recommend that is what we do. Pardon me, it has just been pointed out to me that we vote the deficit in the House.

Mr. FULTON: You vote the deficit in the House?

Hon. Mr. CHEVRIER: Yes just in the same way as it is voted for the railways.

Mr. BROWN: What vote would that be in?

Hon. Mr. CHEVRIER: It is in the vote for the Canadian National Steamships.

Mr. FULTON: And am I right in assuming that the situation is essentially similar to that which was explained to us with respect to the Canadian National Railways, that you vote that deficit in the same way?

Mr. TURVILLE: In exactly the same way as with the railways.

Mr. FULTON: Then, when there is a deficit, it is provided for in the estimates?

Mr. TURVILLE: That is right. There was no deficit in last year's budget.

Hon. Mr. CHEVRIER: No, that is why it was brought in as a special vote in the further supplementary estimates which were brought down just the other day; they usually come down before the end of March.

The CHAIRMAN: Well, gentlemen, having concluded our work with respect to this branch of our reference I can tell you that I would not like the opportunity to pass of expressing our appreciation to Mr. Gordon, Mr. Dingle, Mr. Cooper—

Mr. TURVILLE: May I interrupt you a second, Mr. Chairman? I would very much like Mr. Gordon to take this seat while this speech is being made.

Hon. Mr. CHEVRIER: Hear, hear.

The CHAIRMAN: Thank you, Mr. Turville.

I would not like the opportunity to pass without expressing our appreciation to Mr. Gordon, Mr. Dingle, Mr. Cooper and all the officers and officials who have appeared before us, and who have been so co-operative and so helpful in regard to our inquiry. This also goes for our officers. And I should like to add how deeply I appreciate the co-operation of members of the committee. This is more or less a new task for me, and it is very very helpful to have the co-operation which has been extended.

In regard to the T.C.A., the officials have been requested to be present on Monday. The suggestion has been made, as we are rather crowded in these quarters, that perhaps we should meet in a larger committee room. I should be very glad if members will express their views in that regard and let us know what their wishes are. I should remind you, however, that in the larger room the work of the committee would be much more difficult because it is difficult to hear what is going on.

Mr. GORDON: Before the committee rises, Mr. Chairman, I would like to express on behalf of our officials and myself how much I appreciate the considerate manner in which this committee has treated all the witnesses who have appeared on behalf of the Canadian National Railways. For myself personally I appreciate particularly the kindly references that have been made to me in my new position. I do not suppose members of the committee realize how much of a nervous strain it is for any witness to appear before a parliamentary committee, no matter how hard-boiled his reputation might make him out to be; and I can say that coming before you even after a pretty intensive period of preparation I did so with considerable apprehension. However the manner in which you have treated me, both in regard to questions and the consideration at all times accorded me, has turned the experience into one of positive enjoyment; I enjoyed it immensely. Thank you very much.

The CHAIRMAN: Thank you, Mr. Gordon.

—The committee adjourned to meet again on Monday, April 3, 1950, at 11 a.m.

APPENDIX A

OTTAWA, March 29, 1950.

Mr. Hughes Cleaver, M.P.,
Chairman, Special Committee on
Railways & Steamships,
House of Commons,
Ottawa.

Dear Mr. Cleaver,—

—Re: C.N.R. Coal Purchases—

In a Return tabled in the House on March 8th by the Minister of Transport in reply to enquiry I had made concerning quantity of coal purchased by the Canadian National Railways in the years 1947, 1948 and 1949, I asked among other questions the following:—

"What are the names of coal producers (a) Canadian (b) American". The reply given was "For competitive reasons it is not in the general interest to provide the names of individual suppliers".

On the same day on which the Return was made, the Estimates of the Department of Transport were being considered and I again raised this question. The Minister was good enough to suggest that I could bring this matter before the Committee.

I would appreciate if you would be good enough to ask the Honourable Minister or the President of the Canadian National Railways to state the names, with addresses, of coal producers and quantities supplied in each case.

Yours very truly,

Gordon B. Isnor,
Member for Halifax.

THE FOLLOWING CANADIAN PRODUCERS PROVIDED LOCOMOTIVE COAL FOR USE ON THE CANADIAN NATIONAL RAILWAYS DURING THE YEAR 1949.

Dominion Coal Company
Acadia Coal Company
Cumberland Railway & Coal Company
Bras d'Or Coal Company
Indian Cove Coal Company
Inverness Coal Mine
Intercolonial Coal Company
Maritime Coal Railway & Power Company
A. D. King
Miramichi Lumber Company
Brazeau Collieries
Cadomin Coal Company
Luscar Coals Limited
Mountain Park Coals Limited
Coal Valley Mining Company
Sterling Collieries
Vancouver Island Coals Limited

APPENDIX B

Mr. Chairman:

This may be a case of doing the right thing at the wrong time, or the wrong thing at the right time, but whichever it is, I wish to thank you, Mr. Chairman and this Committee, for affording me the opportunity to do it, and if I transgress any of the traditions developed by past Committees, I trust I may be forgiven, first on account of my zeal to serve the people who sent me here, and secondly on account of being a new member with much to learn about procedure.

I should like to make it clear to everyone here that I have no desire whatever to obstruct or delay the work of this Committee, or to pose questions that may be embarrassing to answer. At the same time, however, I do feel that a special duty and responsibility devolves upon me to represent directly to the top level management of the Canadian National Railways, as well as to the Minister of Transport, some of the general complaints that I and my colleagues have received from various parts of Newfoundland, and from my own riding in particular, with respect to the service given by the Canadian National Railways.

No single factor affects the economic and social life of my province more than the services of the Canadian National Railways. We are almost completely dependent upon it for transportation of passengers, freight and mail, and it also has a powerful influence upon our cost of living. The advantages that would be derived from the Canadian National Railways system was one of the most powerful arguments in gaining support for confederation among our people, particularly the working classes. We were led to expect that cheaper freight rates, due to the application of the Maritime freight regulations, would materially reduce our cost of living, and at the same time our transportation system would be considerably improved, both with respect to speed and comfort. We have been disappointed on both these counts. I don't want to give anyone the impression that we expect miracles to be performed overnight, but confederation took place almost a year ago and it is reasonable to assume that some plans are under consideration with a view to speeding up and improving our transportation service. We have not been given very much definite information concerning this matter, and the questions which I propose to table at this time are designed solely for the purpose of finding out just how much thought is being given at the top level to the special transportation problems that confront us in Newfoundland, and what plans are in process of development to meet our special requirements.

In my own riding there are some 45,000 people living in 200 settlements scattered along the coastline of about 700 or 800 miles, who are entirely dependent upon the Canadian National Railways steamship and telegraph services for communication. The main service along this coast consists of one boat carrying mail, freight and passengers, which starts from a railway terminal at Argentia on the eastern end, and proceeds westward to make communications again with the Newfoundland Railway line at Port aux Basques in the west and with the mainland at North Sydney. This is a regular ten day schedule each way, and longer when weather conditions are unfavorable. Recently an attempt was made to shorten the trip to a weekly schedule by running a second boat from Argentia as far as Pushthrough, about half way along the coast. There was general disappointment when it was impossible to extend this second ship also to Port aux Basques, but I have been informed by the local management that this is impossible unless they are provided with extra ships. When these ships now employed in the coastal service mentioned, were being operated by the Newfoundland Government, they were permitted to carry passengers far in excess of the complement for which they were registered. If the regulations under The Canada Shipping Act are enforced on these ships, then additional

ships must be required to maintain the present service without increasing the speed at all, otherwise a ship will be filled when leaving a terminal and it will not be possible to take on board those passengers who are waiting at intermediate points. It is most essential, Mr. Chairman, to reduce our cost of living that this service be speeded up. As it is now, the local merchant must order his supplies a month in advance and must keep a month's stock on hand. Consequently, he is unable to take advantage of price fluctuations which a faster service would enable him to do. Another matter of great concern is that of the passenger fares charged on the coastal boat. As soon as the Canadian National Railways took over the management of the railway at the beginning of confederation, railway fares were cut almost in two, but no similar reduction took place on the coastal boat. This resulted in a discrimination between one section of our working people, the fishermen, as compared with the workers who live on land. It does not seem fair to us that a primary producer, who produces a large portion of our provincial wealth, should be penalized for having to live in the only region where this wealth can be produced. The arguments given are that board and lodging are provided on the ship and included in the fare. If the service were speeded up, then this expense would be lessened and it should be possible to pass this saving along to the fisherman traveller in the form of a reduced fare. The coastal service forms an integral part of the Canadian National Railways service in Newfoundland, which is in reality a public utility, and which we are told is operating at a deficit, and I cannot see why one section of the people should be granted the advantage of this deficit and the other section deprived of it. Some months ago, I understand that the railway employees received a large sum of money paid to them as a back bonus or deferred payment, consequent to the taking over of the railway management by Canadian National Railways. I am informed that these bonuses were not paid to ships' crews, sailors, officers, stewards and stewardesses employed in the coastal service. It is difficult to understand why this discrimination was made, as these people, although they worked on ships, were employees of the Newfoundland Government railway before confederation, and they are now employees of the Canadian National Railways, the same as those who work on the trains. One must assume, therefore, that they have exactly the same claim for consideration as railway employees and if this injustice has not already been remedied, I should like to plead with the President of the Canadian National Railways that he take immediate steps to have it corrected. I am somewhat concerned too, over the status of the captains and masters of our vessels in the coastal service. Formerly they were civil servants, but there is now some uncertainty regarding their status as employees of the Canadian National Railways. It must be remembered that the ship is the captain's home, and in accordance with the traditions of the sea, captains were permitted once in a while to entertain guests on board ship in return for invitations extended to them on shore. I understand that under Canadian National Railways management they can do this now only at their own expense. There is not a finer breed of men anywhere in the world than our Newfoundland captains. They are courteous and obliging, they are doing their job quietly and efficiently, they never let you down and they never abuse privileges, and we are naturally anxious that they retain all the privileges that they enjoyed prior to confederation.

I should like to refer once again to the need for decent terminal facilities at Lewisburg. This port is in use every year without exception from two to eight weeks, and surely it is not too much to request that a decent waiting room be erected there, with a cafeteria and washrooms for the comfort of passengers when they are forced to disembark from the ship, and that a decent bus service, or some other means of transportation, be provided to take them to the train.

at Sydney. Perhaps this is not the responsibility of the Canadian National Railways, but if not it is somebody's responsibility and I intend to pursue this matter until some definite action is taken.

Before leaving the subject of shipping, I should like to say one word with reference to the dry-dock at St. John's. If there is one place in Newfoundland where the advantages of confederation are counterbalanced by disadvantages, then that place is St. John's. It is therefore vital that any natural asset that St. John's may enjoy should be developed to the fullest extent in the interest and welfare of the people who live there. St. John's possesses one of the finest natural harbors in the world, and we should like to see the dry-dock there improved and expanded to provide additional employment by taking care of those disabled ships which now have to pass our harbor to be repaired in some other dock.

With respect to the railway service itself, there is a general complaint that express parcels and second class mail, such as newspapers, parcel post, etc., are transported by freight train, in some cases by a slow freight. This is borne out by the dates on our St. John's newspapers available in our Reading Room. On the 20th of March the latest paper available was dated March 9th. Merchants along the railway line complain that they never know when to expect deliveries routed by express, and perishable goods are often spoiled because of the slowness in delivery. This again enters into our cost of living and works a hardship on our people, as described in connection with the coastal service. Before leaving the railway service, I should like also to bring to the attention of Canadian National Railways management the need for additional hotel accommodation, both at St. John's and at Port aux Basques, and we are naturally anxious to know what plans are being developed to meet this need.

I turn now to the Canadian National telegraph system. I understand that in some provinces where communities are isolated, as in Newfoundland, they are connected with a system of telephone and telegraph lines, which are administered by the Department of Transport, while the lines that are more or less remunerative are operated by Canadian National Telegraphs. Nobody has been able to explain to me yet why this was not done in the case of Newfoundland, as most of our telegraph lines come within that category, and there is urgent need of additional lines and telephones as a public utility to offset the disadvantages of isolation. Of the 200 communities in my riding, only about 30 are connected by road, and the rest are connected only by sea. If a doctor is needed or it is necessary to send a telegram, they have to launch a boat and row to the nearest settlement, and very often weather conditions prevent them from doing this for days at a time. Similarly, when the fisherman arrives in from the banks, he has no way of communicating to his family that he is well, or inquiring about their welfare. I have numerous petitions from communities in my riding requesting a telephone or telegraph connection, and in some cases so great is the need that they have offered to cut the poles and maintain the lines themselves, without remuneration. I have had several discussions with officials of Canadian National Telegraphs concerning this matter, but have never been able to get a definite commitment and if Canadian National Telegraphs are not prepared to provide these facilities, I don't see why they ever took them over. It would seem more regular and more proper to have left these under the administration of the Department of Transport, as I understand is done in other provinces.

With respect to the telegraph operators, it should be understood that before confederation they were civil servants and enjoyed certain privileges, such as:

(*a*) Pension rights,

(*b*) Annual leave with pay,

(*c*) Pay during illness for a specified period, and

(*d*) Relief operators were supplied when necessary for annual leave, etc., by the Newfoundland Government, without any cost whatever to the operator being relieved.

It was understood that these would be protected under confederation since the terms of union were supposed to guarantee that no civil servant would find himself placed at a disadvantage due to confederation. Since confederation, however, they seem to have lost their civil service status altogether. There is some doubt and uncertainty with respect to their pension rights, and the basis on which it will be calculated if granted. They have definitely been deprived of pay during sickness, and relief operators are no longer supplied free of charge. If an operator wants to take a holiday he must first of all find someone to relieve him, pay, during sickness and leave, his travelling expenses back and forth, pay his board and lodging, as well as his wages. With prices prevailing in Newfoundland, the result is that they are prevented from taking annual leave altogether, because they cannot afford it.

In making these observations, Mr. Chairman, I wish it to be clearly understood that I do not imply any criticism whatever of the Manager of the Canadian National Railways at St. John's in Newfoundland, or of any of his officials. They are doing a wonderful job in the face of stupendous difficulties, but they seem to be placed in the position of being forced to make bricks without straw.

Either the top management of the Canadian National Railways are not sufficiently conversant with the nature of the problems and difficulties and the special requirements that are needed to effect an improvement, or else they are not sufficiently sympathetic. We all know that re-organization and improvement take time, but a year has already passed and the conditions described above have not been alleviated, and it is necessary to start at once in order to achieve improvement in two or three years time. It is for the express purpose of bringing to the attention of the Minister of Transport and the top management of Canadian National Railways the special needs and requirements of our Newfoundland Province, as well as to ascertain what progress has already been made in meeting these requirements, that I now table the attached questions.

I should like once again to express my thanks for this opportunity and I apologize for trespassing so much on your time and patience.

Thank you.

NEWFOUNDLAND RAILWAY

1. (*a*) What proportion of $5·8 million revenue is derived from passenger fares?

(*b*) How many passengers were carried?

2. If possible, would C.N.R. furnish a breakdown of revenue and expenditure for each C.N.R. coastal boat?

3. Has C.N.R. (Nfld.) requested additional ships for coastal service? If so, how many and for which part of coastal operations?

4. Are arrangements being made to provide the ships requested or required?

5. What plans are under consideration to improve the coastal service generally and the S.W. Coast service in particular?

6. Since C.N.R. coastal service is an integral part of Nfld. communication system, and since coastal regions are entirely dependent upon C.N.R. ships for passenger, freight and mail service, why were passenger fares on boats not reduced to a parity with reduction in train fares?

7. Is any consideration being given to the possible reduction of steamship fares?

8. Do regulations of the Board of Transport Commissioners and Canadian Shipping Act now apply to Nfld. generally and to coastal boats operated by C.N.R.?

9. Is C.N.R. aware of the fact that rigid enforcement of these regulations will necessitate additional ships to maintain the same standard of service given by Nfld. Government before Confederation when coastal boats were permitted to carry passengers in excess of the number for which they were registered?

10. Is any provision being made to provide for this contingency?

11. Have bonuses and deferred payments been made to crews including stewards and stewardesses on C.N.R. coastal boats the same as was paid to railway employees? If not, what is the reason for the delay? Will these payments be made in the future and how soon?

12. Do the Captains of C.N.R. coastal boats enjoy civil servant status, as when employed by Nfld. Govt. or has their status been changed? And to what extent?

13. Do Captains and Masters of C.N.R. boats enjoy their former privileges of entertaining guests on board ships at Government expense?

14. Is it C.N.R. practice to notify the Captain and Master, first, when members of the ship's crew are transferred from one ship to another, i.e., is the transfer made through the Captain or communicated direct from C.N. office to member of crew?

15. Is it proposed to expand the drydock facilities at St. John's? If so, when and to what extent?

16. Is CN.R. under any responsibility to provide terminal facilities at Louisburg? If not, upon whom does this responsibility rest?

17. What class of trains are used by C.N.R. to transport express parcels, second class mail, newspapers and parcels post?

18. Has C.N.R. received any representations re layoff of employees at Port aux Basques? What action has been taken or is proposed to be taken in this matter?

19. What is the present position with respect to the application of the Maritime freight rates to Newfoundland?

20. Have express rates increased since Confederation and by how much?

21. (*a*) Has any consideration been given to the elimination of Notre Dame Junction by including Lewisporte on the main line?

(*b*) With what result?

NOTE.—Lewisporte is an important rail head and shipping centre for Notre Dame Bay.

RADIO—TELEPHONE—TELEGRAPHS—ETC.

1. Does C.N.R. plan to operate the radio telephone circuits installed by Nfld. Government at the larger centres along the South Coast from Ramea to Grand Bank?

2. If not, will these circuits be operated by Department of Transport and when will they be put in operation?

3. Why did C.N.T. take over all telegraph and telephone lines in Newfoundland when in other provinces similar lines between isolated settlements are operated by the Department of Transport?

4. What plans have been formulated or in process of formulation by C.N.T. to expand and improve telegraph and telephone facilities in Newfoundland?

5. If no such plans are contemplated or under consideration will the Department of Transport take over the administration of those telephone and

telegraph lines which have insufficient traffic to put them on paying basis but which, in view of their isolated location, nevertheless constitute an essential public utility as the only means of outside communication?

6. On what basis are C.N.T. telegraph offices classified?

7. What is the present status of those C.N.T. employees who were Newfoundland civil servants at the time of Confederation and who are now employed in the different classes of C.N.T. offices in Newfoundland?

8. Since the terms of Union are supposed to safeguard the status, rights and privileges of former civil servants, so that no civil servant would suffer a disadvantage because of Confederation, what is the present position of the employees referred to in No. 7 above with respect to those privileges enjoyed as civil servants of the Newfoundland Government, i.e.:

(*a*) Status
(*b*) Pension rights
(*c*) Sick leave with pay
(*d*) Annual leave with pay
(*e*) Wages. board and travelling expenses of relief operators (which were supplied free by Newfoundland Government.)

9. On what basis will pensions of employees referred to in No. 7 and No. 8 above be calculated?

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

MONDAY, APRIL 3, 1950

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines;
Commander C. P. Edwards, Deputy Minister for Air, Department of Transport;
Air Vice-Marshal A. T. Cowley, Director of Air Services, Department of Transport;
Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

ORDERS OF REFERENCE

FRIDAY, 31st March, 1950.

Ordered,—That the name of Mr. Drew be substituted for that of Mr. Browne (St. John's West), on the said Committee.

Attest.

MONDAY, 3rd April, 1950.

Ordered,—That the name of Mr. Howe be substituted for that of Mr. Picard on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

MONDAY, April 3, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cavers, Drew, Follwell, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald *(Edmonton East)*, McCulloch, Mutch, Pouliot.

In attendance: Rt. Hon. C. D. Howe, Minister of Trade and Commerce; Mr. G. R. McGregor, President, Trans-Canada Air Lines; Commander C. P. Edwards, Deputy Minister for Air, Department of Transport; Air Vice-Marshal A. T. Cowley, Director of Air Services, Department of Transport; W. S. Harvey, General Auditor, Trans-Canada Air Lines.

Mr. McGregor was called, read the annual report of Trans-Canada Air Lines for the year 1949 and was questioned thereon.

Mr. Drew moved that the witness be authorized by this Committee to answer questions in regard to the salaries of officials of Trans-Canada Air Lines.

After discussion, it was agreed that consideration of the said motion be deferred until the afternoon sitting of the Committee.

Mr. Drew moved that the witness be authorized to give the Committee details of the contracts for the carriage of newspapers.

After discussion, it was agreed that consideration of the said motion be deferred until the afternoon sitting of the Committee.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Bourget, Carter, Cavers, Chevrier, Cleaver, Drew, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, Howe, James, Knight, Macdonald *(Edmonton East)*, McCulloch, Mutch.

Consideration was resumed of Mr. Drew's motion that the witness be authorized by this Committee to answer questions in regard to the salaries of officials of Trans-Canada Air Lines.

After discussion, and the question having been put on the said motion, it was negatived.

Consideration was then resumed of Mr. Drew's motion that the witness be authorized to give the Committee details of the contracts for the carriage of newspapers.

After discussion, by leave of the Committee, the said motion was withdrawn.

Mr. George moved that the Committee sit at 8 o'clock this day.

And the question having been put on the said motion, it was agreed to.

Mr. McGregor tabled a breakdown of operating revenues and expenses of Trans-Canada Air Lines for the years 1948 and 1949, which is printed as *Appendix A* to this day's minutes of proceedings and evidence.

Examination of Mr. McGregor was continued.

At 6 o'clock p.m. the Committee adjourned until 8 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Bourget, Carter, Cavers, Cleaver, Drew, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, Howe, James, Knight, Macdonald *(Edmonton East)*, McCulloch, McLure, Mutch, Pouliot.

The Committee resumed consideration of the annual report of Trans-Canada Air Lines for the year 1949.

Examination of Mr. McGregor was continued.

At 10.50 o'clock p.m., the Committee adjourned until Tuesday, April 4, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, April 3, 1950.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. We have before us today for consideration the annual report of Trans-Canada Air Lines and the auditor's report.

We have in attendance on the committee the Right Honourable C. D. Howe, Minister of Trade and Commerce; Mr. G. R. McGregor, President, Trans-Canada Air Lines; Air Vice Marshal A. T. Cowley, Chief of Air Service; Commander C. P. Edwards, Deputy Minister of Transport (Air); and Mr. W. S. Harvey, General Auditor, T.C.A. I believe the customary practice is to ask the president of Trans-Canada Air Lines to either read the report or to make a statement. What is your pleasure, gentlemen?

Mr. MCGREGOR: I will do whichever the committee prefer. If there has not been an opportunity to read the report perhaps I should do so now.

The CHAIRMAN: The report is a very long one, and unless the members wish it read in total, shall we dispense?

Mr. DREW: I think it is customary to read it and put it on the record.

Mr. G. R. MCGREGOR: (President, Trans-Canada Air Lines): The report is dated at Montreal—

TRANS-CANADA AIR LINES

MONTREAL, March 7, 1950.

To the Right Honourable,
the Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1949.

In 1949 Canada was provided with a higher standard and greater volume of air service than ever before. For Trans-Canada Air Lines it was a period of intensive operations and organization. It was a year in which the concentrated effort of a well trained and experienced employee body set many new records in air transportation.

The financial results for the year reflect the effects of heavy seasonal fluctuations in traffic and the rising costs prevalent in the industry.

The number of passengers carried on the entire T.C.A. system increased by 21% over last year's figures and the ton mile volume of air cargo and air express exceeded the previous year's by 50%. The greatly increased amount of work done by the airline in 1949 was accomplished without alteration in the size of the fleet and with a negligible increase in staff.

Emphasis was placed on a training program for ground personnel which brought about marked improvement in the quality of airline service provided the travelling public. Improved reservations procedures and teletype communica-

tions simplified and speeded up the allotment of passenger accommodation. A central space control office, considered in the industry to be the most efficient in North America, was opened in Toronto.

Perhaps the outstanding accomplishment of the year was the attainment of an extremely high level of "on time" performance. More than 100 flights were planned daily and during several months more than 90% of these arrived within 30 minutes of schedule. In 1949, 84% of all flights departed on time, peak performance being attained in August when 91% of the 6,380 departures in that month were made on time. 97% of all scheduled flight mileage was completed.

There were no major changes in the Company's route structure, but main-line North Star service was extended to more communities in Canada, and Barbados was included as a traffic stop on the route to Bermuda and the Island of Trinidad. Stephenville became a stop on the route between Sydney and St. John's, thus providing additional service to Newfoundland.

Tariffs designed to make airline transportation available to more people and at the same time stimulate traffic during the off-season period were instituted. A family fare plan was introduced which, during certain periods of the week, provided exceedingly low cost air transportation for family groups. A special rate for commercial travellers was also part of this program.

A bi-lateral agreement negotiated between Canada and the United States in June provided for operations by a Canadian airline between Montreal and New York City and into Florida. These routes would have been valuable additions to T.C.A.'s service pattern had it been possible to implement them in 1949. At the year end the New York-Montreal licence application was still delayed by U.S. litigation and the Florida licence was still before the U.S. Civil Aeronautics Board. It is hoped that operations over these routes will, in subsequent years, provide the Company with a greater north-south traffic potential, thus alleviating the low traffic periods on the east-west routes now being encountered during the winter months.

T.C.A. continued the general carriage of first-class mail by air in 1949. This resulted in a volume of traffic almost half as large again as that of the previous year. It is scarcely possible to overstate the importance of this air carriage of mail in terms of time and money saved by Canadian business. The compensation paid to the Company by the Post Office Department remained throughout the year at the figure which had been tentatively established at the time first-class "all up" mail was inaugurated.

Mr. JAMES: What does that term mean, "all up"?

Mr. MCGREGOR: "All up" is the term applied to any first-class mail carrying no surcharge postage which is flown by air.

The CHAIRMAN: I wonder if members would be good enough to make a note of their questions and allow the president of T.C.A. to read his report without interruptions. Carry on, Mr. McGregor.

Mr. MCGREGOR: Thank you. Economies were effected by some internal re-organization. In November, the number of heavy maintenance check centres was reduced from 3 to 2. This did not influence the frequency of maintenance checks but produced economies through the consolidation of equipment and staff. Completion of the new International Aviation Building at Montreal enabled the Company to centralize its headquarters at this location. This move made for greater efficiency and closer co-operation between all departments and greatly reduced the amount of time and money previously spent on staff travel.

DETAIL

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

Financial Review

The following is a concise tabulated of 1949 operating results compared with those of 1948:

	1949	1948	Increase Amount	Increase Per Cent
Operating Revenues	$26,523,969	$20,866,936	$5,657,033	27
Operating Expenses Excluding Depreciation	24,605,301	19,249,971	5,355,330	28
Surplus of Revenues Over Operating Expenses Before Depreciation and Interest	$ 1,918,668	$ 1,616,965		
Depreciation	2,867,427	2,374,085	493,342	21
Operating *Loss* After Depreciation	*$ 948,759*	*$ 757,120*		
Interest on Capital Invested	470,685	425,902	44,783	10
Deficit	*$ 1,419,444*	*$ 8,183,022*		

Passenger revenue totalled $19,460,395, increasing by $4,590,817 or 31%. Mail revenue amounted to $5,400,000, an increase of $751,225 or 16%. Commodity revenues rose by $241,628 or 32%. Revenues from Sales and Services increased by $35,840 or 10%. Other revenues increased by $37,524 or 17%. Passenger revenue contributed 73% of the total, mail revenue 20% and cargo revenue 4%.

Payroll chargeable to operating expenses rose by $2,384,584 in 1949 under the impact of the rising cost of living. Higher price levels were responsible for additional expense in the purchase of the airline's materials and supplies.

The use of the North Star fleet during the full year as compared with its six months of operation in 1948 was responsible for much higher charges for maintenance and for fuel consumption.

Similarly, operating expenses in 1949 carried North Star depreciation charges for the full twelve months on the whole fleet, with the result that these uncontrollable charges rose by $493,342 in domestic operations.

Other expense increases amounting to $496,790 were associated with the handling of the much greater volume of passenger and cargo traffic and the intensified sales campaign.

In considering these financial results, it should be borne in mind that Canadian airlines are placed at a severe disadvantage by the weight of customs duty and sales tax which they must pay on equipment and materials imported from the United States. On the average, T.C.A. spends 30% more for such items than do its United States conterparts.

It is, perhaps, worth while to note that in 1949 T.C.A. returned to the Governement of Canada and its agencies in the form of customs duties, sales taxes, interest charges, property rentals and landing fees, approximately $3,000,000.

OPERATIONS AND TRAFFIC REVIEW

Public use of T.C.A.'s domestic services reached record levels in 1949. There was sustained growth of passenger, mail and commodity traffic, due largely to improved operating performance.

	1949	1948	Per cent Increase
Revenue Miles Flown	16,364,733	15,270,649	7
Revenue Passengers Carried	648,574	532,555	22
Mail Ton Miles	3,403,810	2,294,088	48

	1949	1948	Per cent Increase
Aircargo Ton Miles	1,053,996	704,831	50
Air Express Ton Miles	884,112	708,151	25
Revenue Passenger Miles	310,699,767	249,575,544	24
Available Seat Miles	459,842,123	367,455,955	25
Available Ton Miles	63,449,171	48,800,587	30
Revenue Ton Miles	35,843,949	28,195,275	27

Service Development

In 1949 T.C.A. emphasized the further improvement of transportation services already established. It was the Company's aim to ensure that with a strong network of national air routes the quality of airline performance should be of the highest standard.

T.C.A. made comparatively few route extensions during the year, but there was a development of importance on May 1 when a third daily transcontinental North Star service began between Montreal and Vancouver. This additional flight was routed through Edmonton and Saskatoon, bringing service with four-engine aircraft to those communities for the first time. The North Stars replaced DC-3s previously used on the route between Edmonton, Saskatoon and Winnipeg. In effect, T.C.A.'s transcontinental North Star operation now divides into two main lines, together taking service to a wide area in Western Canada.

Passenger Traffic

Improved service standards, certain favourable fare considerations and a very active sales campaign combined in 1949 to attract passengers to the airline in unprecedented numbers.

In spite of rising prices, there was no increase in the cost of air transportation in Canada. T.C.A. took advantage of the elimination of the 15% transportation tax in April to increase revenues without penalty to the travelling public. At the same time, the Company introduced special fare reductions and discounts which brought about an overall decrease in the cost of air travel to Canadians from 1948 fares.

The quality of T.C.A. passenger service was raised by the introduction of pre-cooked frozen foods. T.C.A. has pioneered this new form of transport catering in Canada with resultant improvement in meal service and economies to the airline through the elimination of waste.

A basic problem of the airline continued to be the heavy seasonal fluctuations in demand for air transportation. Since a very high proportion of expense remains fixed throughout the year, it is not possible to reduce operating expenses commensurately with the fall, winter and spring reduction of work loads. The energies of T.C.A. were and will continue to be devoted to the alleviation of this unsatisfactory condition.

Mail Traffic

The mail ton mileage was 48% greater in 1949 than in the previous year, but "all up" mail was carried during only six months of 1948. The average monthly volume of mail was considerably larger in the closing months of 1949 than was the case in 1948.

Although the interim financial arrangement calling for the monthly payment of $450,000 by the Post Office for this service was to expire on March 31, 1949, negotiations with that Department for a new and permanent basis of mail pay, related to the much greater scale of transport work now being done, had not been concluded at the year's end.

Cargo Traffic

The development of commodity transport, which received impetus in 1948 with the inauguration of an air cargo service, proceeded actively throughout 1949. Special attention was given to the shipment of perishables by air.

There was no increase of express charges, while new commodity rates effected reductions in the air cargo tariff.

Property and Equipment

There was no change in the size of the T.C.A. fleet in 1949. It consisted of 20 North Stars and 27 Douglas DC-3s. The division of the former between domestic and overseas operations was roughly equal during the year. Some adjustments were made to meet seasonal traffic conditions.

The last of the Lockheed Lodestars were sold.

The Company increased the seating capacity of three DC-3 aircraft from 21 to 28 passengers and put these into service on the short Pacific Coast route between Vancouver, Victoria and Seattle.

The flight performance of the Company's North Star fleet was very satisfactory. The operating record of these aircraft, achieving as they did the best schedule performance in the airline's history, speaks for itself. The Canadian-built North Star has made its way in the competitive manufacturers' market and is now flying on many of the major air routes of the world.

There were few important changes in ground installations in 1949, as the airline continued to keep watch on its capital expenditures.

In February, T.C.A. removed its staff from Penticton in consequence of the exclusive use of North Star aircraft across the Rockies.

Routes

At December 31, 1949, Trans-Canada Air Lines was providing service for pessenger, mail and commodity traffic over nation-wide routes totalling 8,085 miles. This was an increase of 173 miles or 2% over 1948. The route map on pages 12 and 13 shows the comprehensive nature of the Company's operations.

Airway Facilities

The airline and the Department of Transport continued in 1949 to work in close co-operation in the development of Canada's airports and airways. The harmony which prevails in Canada between the operating airlines and the department of government responsible for these matters has produced a good basic structure of aeronautical facilities and one that is improving as development funds become available.

Important runway construction took place at Calgary, the Lakehead and Toronto, improving the airline's ability to provide scheduled service.

Another aid to service reliability was the installation of instrument landing equipment at more Canadian airports. This program has now reached a point where it can substantially reduce air transport's dependence upon weather. With the aid of I.L.S. a T.C.A. pilot can guide his aircraft down a slanting radio beam to the runway under unfavourable weather conditions.

T.C.A. completed the installation of very high frequency ground radio units at all its stations. This ensures static-free communication at all times between the Company's pilots and the ground staff.

DETAIL

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED

Financial Review

There follows a tabulation of the year's financial results:

	1949	1948*	Increase or Decrease Amount	Per Cent
Operating Revenues	$10,222,387	$10,861,110	$638,723	6
Operating Expenses Excluding Depreciation	11,602,386	11,126,437	475,949	4
Deficit of Revenues to Operating Expenses Before Depreciation and Interest	*$ 1,379,999*	*$ 265,327*		
Depreciation	1,227,369	1,244,407	17,038	1
Operating *Loss* After Depreciation	*$ 2,607,368*	*$ 1,509,734*		
Interest on Capital Invested	290,781	240,484	50,297	21
Deficit	*$ 2,898,149*	*$ 1,750,218*		

*The Company's operations to Bermuda and to the Caribbean did not begin until May 1 and December 2, 1948 respectively.

Passenger traffic on scheduled services contributed $7,095,687 in revenue, increasing by $324,040 or 5 per cent. Mail revenue totalled $1,178,653, an increase of $68,922 or 6 per cent. Cargo revenues rose sharply to $792,243, an increase of $278,026 or 54 percent. Revenues from Sales and Services decreased by $56,127 or 20 percent. Revenue from non-scheduled transport services declined by 58 per cent from $2,085,463 in 1948. Passenger revenue contributed 69 per cent of the total, mail revenue 12 per cent and cargo revenue 8 per cent.

The overseas services suffered from the same factors as domestic operations; payroll chargeable to operating expenses increased by $215,341 and there was a considerable increase in the price of materials and supplies.

The rapid growth of passenger traffic which did a good deal to compensate for the increased cost of domestic flying, was not present to the same degree on overseas routes and the Caribbean and Bermuda services remained in the development stage insofar as traffic is concerned. Energetic sales promotion of these new southern operations has shown promising results but during the early portion of 1949 they suffered the revenue penalties of such fresh enterprises.

North Atlantic revenues were weakened by the termination in March of the large scale immigrant transport that TCA had conducted under contract with the Dominion and Ontario Governments. In 1949, there was $1,210,447 less passenger revenue from chartered flights than in 1948.

The overseas transport services continued to stimulate Canada's international commerce.

Operations and Traffic Review

Comparison of TCA's combined North Atlantic, Bermuda and Caribbean flying in 1949 and 1948 is as follows:

	1949	1948	Per Cent Increase or Decrease
Revenue Miles Flown	4,158,523	4,671,120	11
Revenue Passengers Carried	36,512	32,821	11
Mail Ton Miles	404,903	369,534	10
Commodity Ton Miles	1,577,987	941,270	68
Revenue Passenger Miles	95,711,824	100,536,167	5
Available Seat Miles	149,858,970	148,485,150	1
Available Ton Miles	20,759,697	18,757,933	11
Revenue Ton Miles	13,071,361	12,916,969	1

Service Development

On the North Atlantic route between Canada and the British Isles, TCA maintained an operational frequency of two round trips daily during the summer season, this being reduced considerably during the spring and winter months. In

all, the airline made 996 scheduled and unscheduled trans-Atlantic crossings, somewhat fewer than in 1948 when there were 175 westbound charter flights for immigrant transport.

In December, Stephenville Airport in Newfoundland became available as a planned alternate to Gander on international operations, provision for this having been made in Canada's new air transport agreement with the United States.

A revised routing pattern was applied to Caribbean operations on June 1, when Bermuda flights were extended to Trinidad and service was withdrawn between the latter island and Jamaica. This had the effect of offering improved service to Trinidad by reducing the flight time from Canada by over 3 hours. As TCA does not have inter-island rights between Jamaica and Trinidad there was no loss of revenue potential.

On December 2, service was begun to Barbados on the Bermuda-Trinidad route.

Passenger Traffic

Westbound traffic on the North Atlantic was again greater than in the opposite direction, although eastbound travel was up slightly from 1948.

Extreme seasonal fluctuation in North Atlantic air traffic was again evident and TCA, acting in common with other operators, endeavoured to combat this with 60-day winter excursion fares based on the normal one-way fare and a third.

Currency devaluation obliged the airline in September to increase its international fares to the sterling area by approximately 10 per cent and those quoted in sterling from the sterling area to Canada by approximately 20 per cent.

The economic problems arising from the currency situation almost put a halt to air travel originating in Bermuda and the British Caribbean for Canadian destinations, although TCA did carry a good volume of traffic on its through service between those islands and the United Kingdom. During 1949 a total of 11,611 persons travelled on Bermuda and Caribbean flights.

The new pre-cooked frozen meals were introduced also on the overseas services and met with favourable passenger response.

Mail Traffic

There was some increase in the volume of North Atlantic air mail carried by T.C.A., but the southern services produced very little such traffic.

Commodity Traffic

T.C.A.'s overseas commodity traffic was very much heavier in 1949. In April, the previous air express and air freight services were united in a single air cargo service that developed steadily on the North Atlantic until, by the winter months, it was producing a sizeable proportion of total revenue. Westbound traffic was particulary heavy, reflecting the drive of British export business.

The same was not, unfortunately, true of the Bermuda and Caribbean services. The present dislocation of Canadian-West Indian trade reduced air cargo loads to a very low level.

Currency devaluation also affected T.C.A.'s North Atlantic cargo rates. In September, these were raised by 10 per cent for shipments from Canada to the sterling area and by 20 per cent in sterling from the sterling area to Canada.

Property and Equipment

The assignment of North Star aircraft to the overseas services varied from 11 early in the year to 9 in the closing months. As was the case on domestic routes, these aircraft performed well, comparing favourably with other types in general international use.

T.C.A. converted to military specifications and returned to the Royal Canadian Air Force the five unpressurized North Star M1 aircraft that had been loaned by the Government for earlier use on the North Atlantic service.

In September, the Company moved its London Traffic Office to larger accommodation at 27 Pall Mall.

Routes

T.C.A.'s overseas routes now total 8,303 miles, reaching to England, Scotland, Ireland, Bermuda, The Bahamas, Jamaica, Barbados and Trinidad.

GENERAL

Organization

In August, Mr. Geo. Herring, who for twelve years had rendered valuable service to the airline, resigned from the Board of Directors. He was succeeded by Mr. R. A. C. Henry, previously Chairman of the Canadian Air Transport Board.

Personnel

There was little change in the size of T.C.A.'s staff, employees numbering 5,137 at year end, as compared with 5,084 at December 31, 1948. This was in marked contrast with the 21 per cent increase in system passenger traffic, 43 per cent in mail traffic and 50 per cent in commodity traffic. Reflected in those figures is the higher efficiency resulting from growing experience of staff.

Financial—Reserves

In 1949 the Company repaid in full the loan of $1,500,000 advanced by the Canadian National Railways to meet capital expenditures.

The Company's self-insurance fund increased by $545,908 during the year and now totals $3,659,708. In August, there was a discontinuance of hull, passenger and public liability accruals for North American services, the fund having reached the desired level of $3,000,000.

Subsequent to T.C.A.'s fulfilment of its obligations to the Government in connection with the loan of the initial fleet of North Star aircraft, the residue from the original reserve, together with certain allowances received from manufacturers, was set aside to provide for the cost of future major aircraft overhauls. This amounted to $523,426 at December 31, 1949, and, considering the anticipated maintenance program, is sufficient for the nucleus of the reserve to which further accruals may be made.

International Air Agreements

Canada's negotiation of revised bilateral air transport agreements with the United Kingdom and the United States respectively, opened the way to further growth and strengthening of the nation's international air services. These new undertakings have particular significance for T.C.A. on the North Atlantic and in the Caribbean, providing as they do for the possibility of several additional traffic stops.

The opening of service to Barbados and the scheduling of a traffic stop at Stephenville, Newfoundland, were the first T.C.A. implementations of the terms of the agreements.

The Air Transport Prospect

T.C.A. will in 1950 continue the active stimulation of air travel and transportation. The reliability and general quality of the Company's transport service will again rise with the help of better airports and modern navigation aids. This should result in higher revenues.

Financially, 1949 was a difficult year but, assuming no serious deterioration of general economic conditions, the operating results of 1950 should show improvement. Concentration of technical effort and the adoption of improved procedures are already producing reductions of maintenance and overhaul costs, and this will continue.

The problem of seasonal traffic fluctuations is basic and will continue to dominate the Company's planning. Promotional efforts will seek to reduce these fluctuations to a minimum.

It is to be hoped that 1950 will see the realization of a Montreal-New York service and that authorization will also be obtained for the inclusion of Tampa, Florida, in the route to the Caribbean.

Management will be in close contact with all trends in aircraft manufacture that offer promise of superior air transport at less cost.

T.C.A. will continue to serve the public with the highest possible standard of rapid transport, minimizing Canadian distances, opening new channels of domestic and international commerce and steadily broadening the travel horizon.

Appreciation

In mainline air service the past decade has seen a creative effort of the first importance to the nation, its transport future and its capacity for defence. To the men and women of T.C.A., whose skill and loyalty have done much to make this possible, the Board of Directors again extend their sincere appreciation for work well and conscientiously done.

For the Directors,

G. R. McGREGOR,
President.

The CHAIRMAN: Shall the consolidated balance sheet go on the record without being read?

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1949

ASSETS

CURRENT ASSETS:		
Cash	$ 1,774,981.39	
Working Fund Advances	10,962.00	
Temporary Cash Investment	1,005,812.50	
Special Deposits	21,263.42	
Accounts Receivable	2,050,416.83	
Traffic Balances Receivable	725,563.39	
Balances Receivable from Agents	456,313.65	
Government of Canada—balance of deficit	603,283.16	
Material and Supplies	2,777,158.59	
Interest Receivable	8,385.42	
Other Current Assets	33,442.89	$ 9,467,583.24
DEFERRED CHARGES:		
Prepayments	$ 39,842.83	
Other Deferred Charges	41,714.44	81,557.27
INSURANCE FUND		3,659,708.43
INVESTMENTS IN JOINT ASSOCIATIONS		12,575.77
CAPITAL ASSETS:		
Property and Equipment	$ 30,983,295.38	
Less Accrued Depreciation	*9,865,130.68*	21,118,164.70
		$ 34,339,589.41

LIABILITIES

CURRENT LIABILITIES:		
Accrued Accounts Payable	$ 369,538.64	
Accrued Accounts Payable	1,593,013.66	
Traffic Balances Payable	926,998.44	
Air Travel Plan Deposits	700,825.00	
Salaries and Wages	519,201.11	
Other Current Liabilities	988,746.76	$ 5,098,323.61
RESERVES:		
Insurance	$ 3,659,708.43	
Overhaul	523,426.21	
Research and Development	58,131.16	4,241,265.80
CAPITAL STOCK:		
Common Stock—Fully paid		25,000,000.00
PROFIT AND LOSS:		
Deficit—Year 1949	*$ 4,317,593.16*	
Charged to Government of Canada	4,317,593.16	
		$ 34,339,589.41

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines and its Subsidiary Company for the year ended the 31st December, 1949. We certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1949, and that the relative Income Accounts for the year ended the 31st December, 1949, are correctly stated. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

7th March, 1950.

INCOME ACCOUNTS

North American Services			Atlantic Services	
Year 1949	Year 1948		Year 1949	Year 1948
		Operating Revenues:		
$19,460,394.52	$14,869,577.63	Passenger	$ 7,095,687.04	$ 6,771,646.61
5,400,000.00	4,648,775.41	Mail	1,178,653.41	1,109,731.51
1,005,803.36	764,175.18	Express and Cargo	792,243.28	514,217.00
155,809.07	124,742.89	Excess Baggage	55,017.83	40,877.66
106,257.92	99,801.10	Charter and Other	879,190.82	2,146,916.00
395,704.38	359,864.12	Incidental Services—Net	221,594.24	277,720.80
$26,523,969.25	$20,866,936.33	Total	$10,222,386.62	$10,861,110.35
		Operating Expenses—Excluding Depreciation:		
$ 6,334,459.95	$ 5,596,608.14	Flight Operations	$ 3,022,061.39	$ 3,278,511.71
4,583,226.35	2,694,508.91	Flight Equipment Maintenance	2,113,024.54	1,924,371.88
4,158,908.72	3,623,019.48	Ground Operations	1,848,764.77	1,693,462.00
3,260,681.07	2,566,751.24	Ground and Indirect Maintenance	1,796,806.08	1,552,445.37
1,508,178.15	1,346,680.46	Passenger Service	603,875.22	619,462.49
2,769,949.30	2,043,684.09	Traffic and Sales	1,184,296.65	1,201,804.30
586,719.39	416,194.28	Advertising and Publicity	250,842.09	244,746.38
1,504,368.17	974,635.76	General and Administrative	667,785.93	596,960.40
101,189.53	*12,111.68*	Miscellaneous Income—Net	114,929.20	14,672.39
$24,605,301.57	$19,249,970.68	Total	$11,602,385.87	$11,126,437.01
$ 1,918,667.68	$ 1,616,965.65	Surplus or *Deficit* of Revenues over Operating Expenses before Depreciation and Interest	*$ 1,379,999.25*	*$ 265,326.66*
2,867,426.81	2,374,075.64	Depreciation	1,227,369.02	1,244,407.10
$ 948,759.13	*$ 757,119.99*	Operating *Loss*	$ 2,607,368.27	$ 1,509,733.76
470,684.77	425,902.17	Interest on Capital Invested	290,780.99	240,484.46
$ 1,419,443.90	*$ 1,183,022.16*	*Deficit*	*$ 2,898,149.26*	*$ 1,750,218.22*

Agreed.

Mr. McGregor: I would like to direct the committee's attention to the traffic chart which is presented horizontally on the back page of this report. I think it clearly demonstrates the problem of seasonal fluctuations by years. The black lines show the operating revenues by months for the years 1945 to 1949. The hatched in brown area represents operating expenses; the solid brown being the summer months and the hatched brown being the winter months.

Mr. Fulton: Shall we take it up page by page, Mr. Chairman?

The Chairman: I think that would be the most satisfactory way to do it. Have you any general comments which you would like to make having read your report, Mr. McGregor?

Mr. McGregor: I think they will arise during the questioning, Mr. Chairman.

The Chairman: Very well.

Mr. Fulton: It is stated on page 2 that Mr. Hobbs is secretary. I think Mr. Gordon told us the other day that Mr. Hobbs was to be the new vice-president in charge of personnel of the Canadian National Railways. Is that the same man?

Mr. McGregor: He is the same man. But I think the change to which Mr. Gordon referred took place since the end of the year. This report shows the situation as at December 31, 1949.

Mr. Fulton: Will Mr. Hobbs be able to continue as secretary?

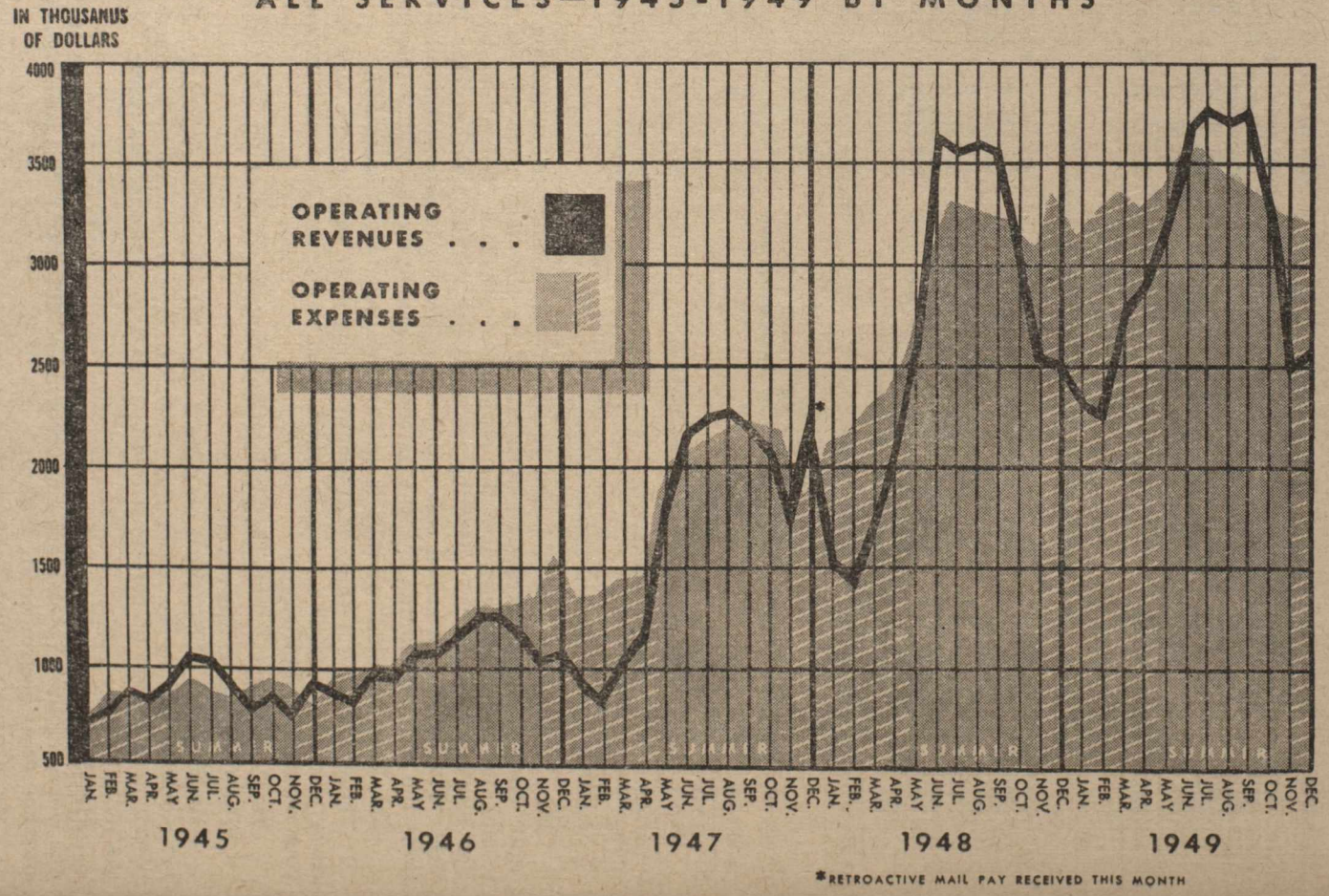
Mr. McGregor: No. Mr. Grant has already been appointed.

Mr. Fulton: What was he before?

Mr. McGregor: He was the assistant secretary.

TCA OPERATING REVENUES AND EXPENSES

ALL SERVICES—1945-1949 BY MONTHS



*RETROACTIVE MAIL PAY RECEIVED THIS MONTH

Right Hon. Mr. HOWE: These three gentlemen, Mr. Hobbs, Mr. Cooper, and Mr. Cowie are also officers of the Canadian National Railways, and part of their salaries is paid by Trans-Canada Air Lines for assuming the same duties for Trans-Canada Air Lines.

Mr. FULTON: Is Mr. Grant an official of the Canadian National Railways?

Mr. MCGREGOR: Yes.

Mr. FULTON: Is he secretary?

Mr. MCGREGOR: I believe he is.

Mr. FULTON: What proportion of the salaries are paid by T.C.A. and by the Canadian National Railways respectively?

Mr. MCGREGOR: I cannot say definitely as to Mr. Cooper as I do not know the salaries of C.N.R. officials. In the case of the other two gentlemen, their remuneration with respect to work which they perform for T.C.A. is included in the annual fixed service charges which T.C.A. pays to the Canadian National Railways.

The CHAIRMAN: Are there any further questions in regard to page 2? Well, page 3?

Mr. DREW: I do not want to interfere at this point with the questions being asked, but it does seem to me that this is a subject which should not be limited to airtight compartments, and that general questions are, obviously, much more productive of results than individual questions in relation to a particular page, because the pages relate backwards and forwards to each other all the way through.

Mr. MUTCH: With respect to the problem of general questions, we have experimented with this problem over a number of years and the result, I think, has always been that if we depart from an orderly method of doing it, we find that we go over everything two or three times. There is, somewhere within the scope of the report, page by page, an opportunity to discuss anything that we can conceive of. And without wishing to restrict anyone, we tried, at least last week, but we came back to the page by page discussion because we found that way that we knew when we were finished with something. However, it is in the hands of the committee. But I do suggest that we profit by our past experience and proceed in an orderly fashion. We might take a longer time on one page.

The CHAIRMAN: I think that both views as expressed could be met by our considering the report page by page. As soon as any one subject is touched upon on a given page under consideration, then the members would be free to exhaust that subject if they wished to do so, but they would not be required to unless they wished.

Mr. MUTCH: That has been the practice.

The CHAIRMAN: I would think that that would, perhaps, meet both views. Are there any questions with respect to page 3?

Mr. DREW: If that is the ruling, I do not want to labour the point because it can be dealt with one way or another. But I would point out that so far as orderly procedure is concerned, it would be very much more orderly procedure for the persons who have an extended series of questions to ask to follow them through in an orderly sequence in relation to a broad problem rather than to attempt to intersperse questions in regard to each situation. I think this procedure would produce a much more orderly form of questioning than trying, for instance, to deal with a group of names which is simply a statement of the names of officials, because, if you want to do so, there is not a single question which could not be considered or asked of the airways on page 2. But if we are

going to proceed page by page, then I would like to ask some questions with regard to page 2, but which I think might better be asked in connection with some following pages.

Mr. MUTCH: Our experience is against your conviction, Mr. Drew.

The CHAIRMAN: I am new to this committee just as you are, Mr. Drew, so I would hesitate to make any change in the experience of the past. My suggestion is, for example, that if you deal with page 3 you can take a subject which, in addition to its being referred to on page 3 will be found on other pages in the report. Then at that time that subject would be in order for discussion. Shall we start off and see how we get on?

Mr. DREW: Is it your idea that we proceed on the basis of dealing with the report page by page?

The CHAIRMAN: Yes. We shall deal with the report page by page with the idea that as soon as a given subject is reached on page 3 the members will then be permitted to refer to any other page in the report as to that subject. I think that would meet the wishes of everyone.

Mr. DREW: Well, if that is the case, I would, perhaps, like to ask certain questions which I had intended to defer.

On page 2 there is given the Board of Directors of Trans-Canada Air Lines. The report shows that four of the seven directors are elected by the shareholders, and that three of the directors are appointed by order in council. Of the four who are elected by the shareholders, are they appointed by the Canadian National Railways?

Mr. MCGREGOR: That is correct.

Mr. DREW: And the three who are appointed by order in council are appointed by the government?

Mr. MCGREGOR: That is correct.

Mr. DREW: And the reason, as I understand it, for the appointment of officials in this way is that Trans-Canada Air Lines is a one hundred per cent subsidiary of the Canadian National Railways?

Mr. MCGREGOR: Its paper is fully owned by the Canadian National.

Mr. DREW: Its stock is fully owned by the Canadian National Railways, and for that reason the Canadian National Railways has a majority of the Board of Directors under their direct appointment?

Mr. MCGREGOR: That is right.

Mr. DREW: How many of the Board of Directors elected by the Canadian National Railways are also directors of the Canadian National Railways?

Mr. MCGREGOR: All of them.

Mr. DREW: Are any of the directors appointed by order in council directors of the Canadian National Railways?

Mr. MCGREGOR: No.

Mr. DREW: So that the first four are Canadian National directors. Do any of them hold official positions other than that of being directors of Canadian National Railways?

Mr. MCGREGOR: Yes, one of them does.

Mr. DREW: Who is that?

Mr. MCGREGOR: The president, Mr. Gordon.

Mr. DREW: And do any of them hold any official position with the Trans-Canada Air Lines other than that of directors?

Mr. MCGREGOR: No.

Mr. DREW: Then, in the case of the officials shown lower on the page, you are shown as president, and I understand you have no official connection with the Canadian National Railways.

Mr. MCGREGOR: That is right.

Mr. DREW: Mr. English is shown as vice-president of operations. Is he also vice-president of operations of the Canadian National Railways?

Mr. MCGREGOR: No.

Mr. DREW: Does he hold any position with Canadian National Railways?

Mr. MCGREGOR: He has no position with Canadian National Railways.

Mr. DREW: But he did last year, did he not?

Mr. MCGREGOR: No.

Right Hon. Mr. HOWE: He did before he came to Trans-Canada Air Lines, but not since he came to Trans-Canada Air Lines. That was about twelve years ago.

Mr. DREW: And Mr. A. C. McKim, does he hold any official position with Canadian National Railways?

Mr. MCGREGOR: No, none.

Mr. DREW: You say that Mr. Grant is replacing Mr. Hobbs as secretary?

Mr. MCGREGOR: That is correct.

Mr. DREW: And Mr. Hobbs, while secretary of Trans-Canada Air Lines, was secretary of Canadian National Railways?

Mr. MCGREGOR: That is correct.

Mr. DREW: And Mr. Cooper?

Mr. MCGREGOR: He is comptroller of both companies.

Mr. DREW: And the treasurer is C. D. Cowie?

Mr. MCGREGOR: The treasurer of both companies.

Mr. DREW: Now, in regard to these officials, have they offices with both companies—I am talking now about the physical office accommodation?

Mr. MCGREGOR: No, the offices of the three officials listed horizontally below the officers of T.C.A. are entirely in the headquarters of the Canadian National Railways.

Mr. DREW: So that the comptroller, the secretary and the treasurer of Trans Canada Air Lines are actually carrying on their business from the offices of the Canadian National Railways.

Mr. MCGREGOR: That is correct.

Mr. DREW: I notice that in this list of officers there is no one shown as vice-president or other official in charge of purchasing. Have you a purchasing department in T.C.A.?

Mr. MCGREGOR: No, the Canadian National Railways purchasing department functions in that capacity for T.C.A.

Mr. DREW: So all your purchases of any kind are made through the purchasing department of the Canadian National Railways.

Mr. MCGREGOR: No, stationery purchases are all made directly by the company itself, that is, by T.C.A.

Mr. DREW: What do you describe as stationery?

Mr. MCGREGOR: Forms and envelopes, letterheads, everything associated with stationery, pencils erasers and so on.

Mr. DREW: Is there anything that would be purchased directly instead of through the purchasing department of the Canadian National Railways.

Mr. MCGREGOR: Not that I can think of.

Mr. DREW: Well, then, we may take it that the purchase of all airport equipment that is owned by the T.C.A. as distinguished from the Department of Transport would be purchased by the purchasing department of the Canadian National Railways.

Mr. MCGREGOR: I think that is correct.

Mr. DREW: As well as all the automotive equipment, trucks and buses and things of that kind.

Mr. MCGREGOR: Yes.

Mr. DREW: And aircraft as well?

Mr. MCGREGOR: Aircraft purchase has not taken place in T.C.A. for some years. I believe the last time it was done by direct negotiations with the manufacturer.

Right Hon. Mr. HOWE: By Trans Canada Air Lines with the manufacturer.

Mr. DREW: From time to time your purchasing department would handle the progress reports, would it not?

Mr. MCGREGOR: Well, as I say, Mr. Drew, there has been no purchase order placed for aircraft by T.C.A. for the last three and a half years. At that time it was done by direct negotiation between the manufacturer and T.C.A.

Mr. DREW: Have no expenditures been made by T.C.A. either on aircraft or conversion of aircraft during the past year?

Mr. MCGREGOR: No, all conversion and modification work has been done by the airlines and the purchase price for the last order of aircraft was completed with the delivery of the last aircraft of that order.

Mr. DREW: In the case, for instance, of the payment of the conversion figure that is shown in the auditor's report, how was that authorized? Was that authorized by the purchasing department?

Mr. MCGREGOR: No sir, that was work done by the airline on the aircraft itself prior to the return of that aircraft. You are referring to the DC-4 M1's.

Mr. DREW: That is right.

Mr. MCGREGOR: That work is done entirely within the company's own shops.

Mr. DREW: And where would the details of that appear in the statement?

Mr. MCGREGOR: In the report?

Mr. DREW: Yes.

Mr. MCGREGOR: The sum is lumped in the annual report. Details can be furnished from our accounting records.

Mr. DREW: I would like to have those details.

Mr. MCGREGOR: Then I shall get them.

The CHAIRMAN: May I make a note of this: details of the conversion for which above payment was made as shown in the auditor's report.

Mr. MCGREGOR: I think we may be in for a little misunderstanding. There was no payment made. It was an expense of the airlines. I think if we provided the details that you request as between material and labour expenditures on these aircraft you will have the information you want.

Mr. DREW: I am referring, of course, to page 3 of the auditor's report which states that the conversion program was completed on the 30th of November, 1949. That is the program that I am referring to. Would you furnish the details which make up the total that was paid under that arrangement, whatever it was.

Mr. MCGREGOR: I think I can give it to you now, Mr. Drew: The conversion cost was $181,093.76. If you wish a breakdown between material and labour for that I will see that it is available either this afternoon or tomorrow morning.

Mr. DREW: If you will.

The CHAIRMAN: That question, then, is answered subject to breakdown as between material and labour.

Mr. DREW: In regard to page 2, what are the salaries of officers shown here on page 2?

Right Hon. Mr. HOWE: Mr. Chairman, it has never been the practice of this committee to give information on salaries. We have had that up every year in connection with the officers of the Canadian National Railways, and I am simply stating a fact. We are, of course, in the hands of the committee, and if the committee insists, they will have the information—but it has not been the practice to give it heretofore.

Mr. DREW: Quite apart from what the practice may have been in the past, I think that it renders the functions of this committee wholly meaningless unless this committee is in a position to ascertain the various cost factors in regard to the overall operations. We are dealing now with a report which shows a deficit in excess of $4 million, and in addition to such constructive suggestions that the committee may be able to make growing out of this inquiry in regard to the general operation practices or otherwise, it seems to me that one of the things the committee must be able to do, if it is to have any effectiveness at all, is to be able to say how those figures are made up. After all, this Trans-Canada Air Lines is a wholly-owned subsidiary of the Canadian National Railways.

The CHAIRMAN: Would you care to table a motion so that the present discussion would be in order?

Mr. DREW: I would move that the witness be authorized by this committee to answer questions in regard to the salaries of the officers of the Trans-Canada Air Lines.

Mr. MCGREGOR: May I speak to the point for a moment.

The CHAIRMAN: May I just interrupt you a moment? I understand this is a complete departure from established practice in this committee, and if the members are agreeable I would suggest that the motion would stand tabled so that all members of the committee will have an opportunity of considering the matter carefully before I bring the motion up for attention at the opening of the afternoon sitting. In the meantime you can think the matter over carefully. We are fortunate, Mr. Drew, in having a number of members on the committee now who have served for several years, and I would suggest that the motion stand until the opening of the sitting this afternoon. In the meantime, please think it over carefully and come prepared to debate the motion.

Mr. DREW: Mr. Chairman, I, for one, am entirely in accord with the suggestion that this matter stand; but I think it should be possible to place before the other members of the committee for their consideration views which I suggest would support the thought that this information should be made available.

The CHAIRMAN: There will be full debate, Mr. Drew.

Mr. DREW: I was suggesting it at the moment so that the members of the committee may devote their thoughts in the meantime to the motion.

The CHAIRMAN: It is either a matter of dealing with the motion now or dealing with it at four o'clock this afternoon. We will find out the wishes of the committee. All those in favour of dealing with the motion now will please indicate.

Mr. DREW: I just want to make it clear that I was suggesting that the views be expressed now as to why this matter should or should not be debated. If the discussion is held now the members would have an opportunity between now and the resumed session to make up their minds.

The CHAIRMAN: Yes. I understand you perfectly in that regard, and I do not assume you will have any additional arguments to the arguments which have already been advanced from year to year when this same question has come up and it will be only increasing the time we will spend on the subject if we have a debate now and a debate after four o'clock. I seize your point, Mr. Drew, that you think it might be helpful if you have an opportunity now of expressing your views so that the members could consider your views along with the postponed motion, but I would like the opinion of the committee on that.

Mr. DREW: I was not expressing that as my view. I was assuming that other members of the committee are just as anxious to get the information.

Mr. FULTON: There is one comment that should be made in regard to the statement you made before. You said that it has been the practice of the committee in past years not to give that information. I think it should be pointed out that Mr. Chevrier in the House the other day did give the information as to the salary of the president of the Canadian National Railways.

Right Hon. Mr. HOWE: That is because the salary is fixed by the government.

The CHAIRMAN: I was speaking of the practice of this committee. All those in favour of the debate now will please signify. Those in favour. Those opposed.

We will have the debate at four o'clock.

Mr. DREW: I must admit your counting must have been imaginary because I saw three hands raised in both cases.

The CHAIRMAN: Well, we will take it over again. All those in favour of having the debate now please signify.

Three.

All those opposed please signify.

Ten.

We will have the debate at four o'clock.

Mr. FRASER: Mr. Chairman, while we are on this subject, I would like to ask if any proportion of the bonus that was given to Mr. Vaughan came out of the funds of the T.C.A.

Mr. MCGREGOR: The answer is no.

The CHAIRMAN: You were questioning the witness, Mr. Drew, and I do not want to interrupt you.

Mr. DREW: Without dealing with the amounts in question I will proceed at least with the question of percentages. Do the board of directors receive any compensation direct from the T.C.A?

Mr. MCGREGOR: No.

Mr. DREW: Not at all?

Mr. MCGREGOR: No.

Mr. DREW: Are any expense allowances?

Mr. MCGREGOR: No.

Mr. DREW: This is a very fortunate organization. In your own case, of course, you are entirely engaged by the T.C.A. and you say that is also true of Mr. English and Mr. McKim.

Mr. MCGREGOR: That is right.

Mr. DREW: In the case of Mr. Cooper, comptroller, I was not quite clear of the percentage of his salary that is paid by T.C.A. and what percentage is paid by the Canadian National Railways?

Mr. MCGREGOR: Not knowing his salary, Mr. Drew, I am afraid I cannot give it.

Mr. DREW: How do you know what allocation of salary should go to Mr. Cooper from T.C.A. if you do not know what he receives from the other company?

Mr. MCGREGOR: A value has been placed on the services he performs for T.C.A.

Mr. DREW: So that if you place a satisfactory valuation on that service you are not concerned with the sum total that he gets out of public revenues?

Mr. MCGREGOR: That is correct.

Mr. DREW: What about Mr. Hobbs? What percentage of his salary is paid by T.C.A.?

Mr. MCGREGOR: Mr. Hobbs now gets nothing directly from T.C.A. for the services that he renders to T.C.A., they are covered by a lump sum payment that is made for services performed for the T.C.A. generally by the Canadian National Railways.

Mr. DREW: What about Mr. Cooper and Mr. Cowie?

Mr. MCGREGOR: The same thing applies, in the case of Mr. Cowie.

Mr. DREW: Are there any other officers of Trans-Canada Air Lines who hold official positions of any kind with the Canadian National Railways?

Mr. MCGREGOR: Not official positions, there are certain services performed by other officers of the Canadian National Railways; for instance, there is the medical officer.

Mr. DREW: Who is the senior medical officer?

Mr. MCGREGOR: Dr. Ken Dowd.

Mr. DREW: What about legal services?

Mr. MCGREGOR: Mr. MacMillan.

Mr. DREW: Yes, what about architects?

Mr. MCGREGOR: No, the company has its own architectural services, and its own advertising and public relations services as of or from the first of 1949.

Mr. DREW: It takes care of its own advertising and public relations?

Mr. MCGREGOR: Yes; in the case of architects, beginning in 1948.

Mr. DREW: Are there any other services which you receive from the Canadian National Railways on a collective basis?

Mr. MCGREGOR: We receive services from the Canadian National Express department, but they are paid for under a special agreement by which a percentage of the revenue derived from that is retained by the railway company.

Mr. DREW: Then, as I understand it, Mr. McGregor, taking both the board of directors and the officers of the company as shown on page 2 of this report, the only ones who receive salary or other payments from Trans-Canada Air Lines yourself, Mr. English, Mr. McKim, and Mr. Cooper to some limited percentage of which you are not aware because of your lack of knowledge of the salary in that particular case?

Mr. MCGREGOR: That is correct.

Mr. DREW: And there is, I understand, a lump sum payment from Trans-Canada Air Lines to the railway for these services?

Mr. MCGREGOR: Yes, but that is only for officers; the ones we have been discussing.

Mr. DREW: Yes, I understand that, and I understand that the total of that is varied from year to year.

Mr. MCGREGOR: I believe it was $50,000 last year—no, I would like to correct that, it was $40,000 last year.

Mr. DREW: Would it not be $45,000 last year?

Mr. McGREGOR: It was $50,000 in 1948, $40,000 in 1949; that reduction was due to the elimination of the services T.C.A. has set up in its own organization.

Mr. DREW: And that is the total payment by Trans-Canada Air Lines to the Canadian National Railways in respect of the executive services of the officers shown on page 2, other than the exceptions I have made?

Mr. McGREGOR: Other than the ones I have mentioned.

Mr. DREW: And that also includes special legal services, medical services, and other services of that nature which are rendered Trans-Canada Air Lines?

Mr. McGREGOR: That is correct.

Mr. DREW: Are there any other payments of any kind?

Mr. McGREGOR: There are other payments but not of an executive nature.

Mr. DREW: What other payments?

Mr. McGREGOR: We pay for teletype services and so on as supplied by the Canadian National Railways, the same as anyone else.

Mr. DREW: That would be in connection with air communications services?

Mr. McGREGOR: Yes, that is correct.

The CHAIRMAN: You asked a question about that amount of $50,000. If you will refer to page 241 of the proceedings of last year you will find that $50,000 is the correct figure.

Mr. DREW: Mr. McGregor just said $50,000.

Mr. McGREGOR: It was reduced when we took over publicity and other services.

Mr. DREW: It is actually $50,000 for 1949?

Mr. McGREGOR: No, it is $40,000 for 1949.

Mr. MUTCH: The item referred to by the chairman as being in last year's proceedings I believe you will find referred to an amount of $50,000 which was the figure for 1948, and in 1949 it was $40,000.

Right Hon. Mr. HOWE: Yes.

The CHAIRMAN: I think we were referring to 1948 operations.

Mr. McGREGOR: I corrected that and said that it was $50,000 in 1948, and $40,000 in 1949.

Mr. DREW: So the figure for 1949 is $40,000; that is correct?

Mr. McGREGOR: Yes.

Mr. DREW: I notice, and you have explained, that Mr. Hobbs has retired from his position as secretary of Trans-Canada Air Lines and has taken over an appointment on the Canadian National Railways. Are there any other officials who are not included here whose positions have changed in the meantime or are about to change?

Mr. McGREGOR: No.

Mr. DREW: Now, in the report of the committee of last year I find these questions and answers—this is at page 242—this question covered the payments to Canadian National Railways. You said:

> "Mr. McGREGOR: In addition to that we pay between $35,000 and $40,000 of clerical and other types of salaries to C.N.R. employees employed by the C.N.R. and on the C.N.R. payroll who devote their time entirely to the work of the T.C.A."

What does that mean?

Mr. McGREGOR: I can give you the details of that. That total of $44,450.34 is divided, medical department $5,527; financial and treasury, $5.702; purchasing—Winnipeg, $20,025; purchasing—Montreal, $13,196—to the nearest dollar.

Mr. DREW: And that would be the breakdown of that $44,000?

Mr. MCGREGOR: Yes, but it is not the administrative remuneration such as you were talking about.

Mr. DREW: I realize that, but that is what we have been just discussing?

Mr. MCGREGOR: Yes.

Mr. DREW: This is payment for other services, and it is additional to those services furnished by the men whom you mentioned there a few minutes ago?

Mr. MCGREGOR: Yes, but these are clerical staff doing full-time work for the T.C.A. although they are on the staff of the Canadian National Railways.

Mr. DREW: And are in the pay of the Canadian National Railways?

Mr. MCGREGOR: That is correct.

Mr. DREW: Then, with respect to the other services about which you spoke a moment ago which might be regarded as communications services, they are still in addition to that?

Mr. MCGREGOR: Yes.

Mr. DREW: Are they paid a fixed sum on a contract basis, or are they paid on a basis of services rendered?

Mr. MCGREGOR: Services rendered, mileage of circuits, number of teletype machines and so on.

Mr. DREW: Have you the figures for that?

Mr. MCGREGOR: Yes. Teletype charges—now, I believe these are all supplied by the Canadian National Railways but these are the teletype charges to Trans-Canada Air Lines; it might include payment to others—for the year, $287,271.

Mr. DREW: Are these teletype services all in connection with operations?

Mr. MCGREGOR: Operations and traffic, there is practically a double network across the country.

Mr. DREW: Those are all the questions I had on page 2.

The CHAIRMAN: Shall page 2 carry?

Carried.

Page 3.

Mr. FULTON: I wonder if Mr. McGregor would give us the total of the extensions of main line North Star services east and west, particularly in the west.

Mr. MCGREGOR: You mean the services between Saskatoon and Edmonton?

Mr. FULTON: I understand the other services are supplied by D.C.-3's.

Mr. MCGREGOR: That is correct.

Mr. FULTON: Then did you previously have a North Star service direct from Edmonton to Winnipeg without stopping at Saskatoon?

Mr. MCGREGOR: No.

Mr. FULTON: What is your situation there, has it changed from the former service?

Mr. MCGREGOR: Yes, formerly we had D.C.-3's flying between Edmonton and Calgary where they connected with the main line; and, in addition to that, there was a service in operation between Winnipeg, Saskatoon and Edmonton.

Mr. FULTON: And have they now changed that service by using North Stars instead of D.C.-3's?

Mr. MCGREGOR: No, Edmonton now has a non-stop service between that point and Vancouver.

Mr. FULTON: I am referring to the section to which you referred, between Edmonton, Saskatoon and Winnipeg. I understand that whereas they were previously served by D.C.-3's they are now served by North Stars; is that a new service?

Mr. MCGREGOR: That is partially correct. It is now one leg in one of the three transcontinental services. We used to have a D.C.-3 service on the route between Edmonton and Winnipeg with a stop at Saskatoon, and we are now using North Stars on the whole route. We also have a service direct from Edmonton to Vancouver, and that ties in with the run between Toronto and Vancouver which we are now operating.

Mr. FRASER: And what about your services to the south, what are you running there now?

Mr. MCGREGOR: We have started the Montreal to New York run, and inaugurated the stop at Tampa recently.

The CHAIRMAN: Are there any other questions on page 3?

Mr. DREW: Yes. In the fourth paragraph on page 3 there is a statement showing the number of passengers carried. It says that the number of passengers carried on the entire T.C.A. system increased by 21 per cent over last year's figures. Have you with you, Mr. McGregor, a breakdown of the number of passengers carried both domestic and Atlantic, under separate heads, week by week throughout the year?

Mr. MCGREGOR: Not week by week, I could give it to you month by month.

Mr. DREW: Lets have it month by month.

Mr. MCGREGOR: I will have that statement prepared and ready after luncheon.

Mr. DREW: You could do it week by week?

Mr. MCGREGOR: No.

Mr. DREW: You cannot get it week by week?

Mr. MCGREGOR: We could do it but it would be an exceedingly long accounting procedure to establish.

Mr. DREW: Well, in that case, if that is so, then no one would know the week by week figures; it would only be month by month and the week by week figures would not be available to anyone.

Mr. MCGREGOR: As I say, it is studied day by day, but to go back over the year's records week by week would be a very lengthy process.

The CHAIRMAN: You already have the figures compiled on a basis of month by month?

Mr. MCGREGOR: That is correct.

Mr. DREW: Yes, but I am simply asking what is available to the officials of Trans-Canada Air Lines.

Mr. MCGREGOR: Daily records.

Mr. DREW: If they have a day-to-day report it is a very simple matter of arithmetic to prepare a statement week by week.

Mr. MCGREGOR: Yes, but it is a very lenghty one, there were 685,000 passengers carried.

Mr. DREW: But you have a total of fifty-two weeks in the year each one of seven days; I should think your accountants could do that in a very few hours.

Right Hon. Mr. HOWE: You would have to go back over the entire list. Officers of the airline study the situation from day to day and figures are

prepared from week to week, except that for the end of the month the week includes more than the seven-day figure, so one would have to work out an entirely new set of figures.

Mr. McGregor: If there is any point that you have in mind, if you would care to give us say the months in which you are interested, we would be very glad to get the figures. I am afraid the compilation otherwise might extend longer than the sittings of this committee.

Mr. Drew: I notice that you point out a very heavy seasonal fluctuation which apparently takes a turn each year at the end of February, the chart would seem to indicate.

Mr. McGregor: Actually, it begins to go sharply up in April.

Mr. Drew: I would like to understand this chart. The first line in the chart, the horizontal line in the graph, shows—this is on page 23 and it is related to this statement on page 3—

Mr. McGregor: Yes.

Mr. Drew: The first line marks January, the second February and so on.

Mr. McGregor: That is correct.

Mr. Drew: And you will notice that the graph line takes a sharp ascent right on the line marked February.

Mr McGregor: Yes, it moves upward in that particular year.

Mr. Drew: Yes, and in all the figures, you will notice further on that it goes sharply downward.

Mr. McGregor: Which one are you looking at?

Mr. Drew: I am referring to 1949.

The Chairman: The heavy blackline.

Mr. Drew: The heavy black line, the revenue line.

The Chairman: Yes.

Mr. Drew: And it is shown at exactly the same point in 1946, 1947, 1948 and 1949; although, of course, the steepness of the ascent line varies in various years.

Mr. McGregor: The line descends during February and continues during March in both years. The large climb begins in the month after the dark line —before the line you see the situation for the month of January.

The Chairman: Mr. Drew's question is whether that line in all of the three years reaches its lowest point at the end of February?

Mr. McGregor: That is correct.

Mr. Drew: And starts then to ascend to a peak in both 1948 and 1949 at the end of July?

Mr. McGregor: June or September.

The Chairman: June is the highest point?

Mr. McGregor: I think June and September were almost neck and neck in 1949.

Mr. Drew: As I follow the July line up, and I understand that is the last of the month according to what you have just said, the peak would be at that point—at the end of July, in 1949?

The Chairman: June is the peak.

Mr. Drew: In 1948, yes.

Mr. McGregor: Yes, and very nearly so in 1949. June and September are just about on a par.

Mr. DREW: With the fluctuations, it is obvious that the period in the summer in the highest, and I notice the line does ascent in both cases from February through to June, July and August.

Mr. MCGREGOR: That is correct.

Mr. DREW: The line starts to descend in both cases at the end of September?

Mr. MCGREGOR: Yes.

Mr. DREW: And that has been the pattern for the last two years. Have you got these figures month by month broken down into different lines that are being operated?

Mr. MCGREGOR: Yes, as between the domestic and the international lines.

Mr. DREW: Not only that, but in relation to the different international lines as well.

Mr. MCGERGOR: Yes, we have that, by regions.

Mr. DREW: Would you let us have those figures? They relate to the items on page 3 and I think it would be a convenient place to have them on the record.

Mr. FULTON: I would like to ask a question here.

The CHAIRMAN: Would you wait a minute until the information Mr. Drew asks for is put on the record?

Mr. FULTON: I wish to get more figures along exactly the same lines. That is why I wish to ask for them now. I would like to know if we could have a breakdown of the United Kingdom, Bermuda, and Caribbean services, showing revenue and expenditures for each of the services separately, for 1948 and 1949. I would also like figures showing passenger, mail, and cargo revenues, also separately for each services for 1948 and 1949. I take it that the figures can be supplied and I would like you to indicate, if it is possible, expenditures in connection with passenger, mail, and cargo receipts.

Mr. MCGREGOR: It is not possible to break down expenditures in the same way that you break down revenue. Expenses can be provided in detail but you cannot assess a certain proportion of the total expenditure to operating aircraft as between mail and passenger.

Mr. FULTON: No, I can see that.

The CHAIRMAN: Revenue can be broken down but not expenditure?

Mr. MCGREGOR: Expenses can be broken down but they cannot be related to various revenue items.

The CHAIRMAN: What were the three lines which Mr. Fulton asked for?

Mr. FULTON: The United Kingdom, Bermuda, and the Caribbean lines. I would like a breakdown by way of passengers, mail, and cargo, and a breakdown of expenditure under the various headings for 1948 and 1949.

Mr. MCGREGOR: 1948 will only reflect a partial service.

Mr FULTON: Yes, for the length of time the services were being operated.

Mr. MCGREGOR: Do you want that information now, Mr. Fulton?

Mr. FULTON: There is one other thing. Would you show the number of passengers carried on each of the services for the two years, 1948 and 1949?

The CHAIRMAN: Are there any further questions on page 3?

Mr. DREW: Are you not going to give that information now?

Mr. MCGREGOR: I can give the information asked for by Mr. Fulton now or I can provide it later, whichever you prefer.

Right Hon. Mr. HOWE: Perhaps you should provide it later.

Mr. MCGREGOR: If I give it now it will have to be read out whereas I could give it in typewritten form this afternoon.

Mr. DREW: If you are preparing a statement then to avoid misunderstanding, you will find the record indicates that my question related to each of the external

lines, as well as the domestic lines, and inasmuch as you are going to prepare over-all figures with regard to those routes, I think it might be convenient to extend them to cover all of the routes not only in regard to passengers carried, operating revenue, and expenses, but also the details Mr. Fulton has mentioned in connection with the three particular services.

Mr. McGREGOR: As I understand it Mr. Drew, you want the various domestic routes segregated?

The CHAIRMAN: No, only the international routes segregated.

Mr. DREW: No, I was really referring to the segregation of the external routes and of course I do want the figures month by month for the domestic routes but I was quite satisfied to take that as a bulk figure.

Mr. McGREGOR: Would it be an answer to give you the expense figures as far as the domestic routes are concerned as a bulk figure, because an aircraft may fly in on one service and go out on another service. Such general charges as those for service, maintenance, overhaul, and so on, cannot be segregated as between one route and another. I can give you the whole domestic service as distinct from the international service by months, and we can give you the revenue derived from the international services divided as between Atlantic and Caribbean.

Mr. DREW: For the external lines?

Mr. McGREGOR: Yes, as Mr. Fulton has asked.

The CHAIRMAN: One tabling will do for both services.

Mr. FRASER: With respect to the fourth paragraph and the number of passengers carried, the figure shown is for revenue paying passengers. Would you have the number of non-revenue paying passengers? Do you keep track of non-revenue passengers?

Mr. McGREGOR: In any case they are only allowed to travel if there is space. Those people are only our own employees—with the exception of the occasional person from the Air Transport Board, etc.

Mr. FULTON: How many passes have you now? Have you the total figure?

Mr. McGREGOR: I think we can get that, yes. There are two types of passes. You are referring to the non-contingent pass where a man is entitled to travel as he would if he were a paying passenger.

Mr. FULTON: What is the other type?

Mr. McGREGOR: There is what we call the contingent pass, which allows an employee to travel if there is space available, and on company business only.

Mr. FRASER: What about members of parliament? Does the government pay for them?

Mr. McGREGOR: I do not know who pays for them but certainly someone does.

Mr. FRASER: Their travel is paid for?

Mr. McGREGOR: Yes.

Mr. MUTCH: Mostly we pay it.

Mr. FRASER: No, I refer to travel at Easter; mind you members should have a pass—I quite agree with that.

Mr. MUTCH: It is a matter of a vote in the House.

Mr. FRASER: It is a vote in the House?

Mr. MUTCH: Yes, once a year.

Mr. FRASER: That is what I wanted to get at.

Mr. DREW: In the last paragraph on page 3, you refer to special plans to encourage traffic. I notice that you have this fare plan. That does provide,

as you say, low cost air transportation to family groups. What has been the extent of that special service to the public?

Mr. McGregor: It was started last autumn and reception has been very good. It is naturally impossible to say that none of the people who travelled under the plan would not have travelled without it but the amount of family group travel which has resulted is very much greater than was our experience before that incentive fare was introduced.

Mr. Fraser: What is the number that must be in a family before it can come within the plan?

Mr. McGregor: Two.

Mr. Fraser: Two. What is the rate?

Mr. McGregor: Half fare after the first full fare—half fare for each additional member of the group.

Mr. Fraser: And do you still continue the plan you had before where a person could buy $500 worth of scrip or whatever it was?

Mr. McGregor: No, there was an air travel plan that had a discount. The discount was discontinued about three years ago.

Mr. Fraser: Yes, I know, I had a card three years ago.

Mr. Knight: What is the rate which is applied for commercial travellers? Is it a season rate?

Mr. McGregor: They get a percentage discount during the winter months with the object of flattening out this alpine curve that we have.

Mr. Drew: During the last winter there have been special fares extended by all trans-Atlantic and I believe all trans-oceanic routes generally, with the idea of encouraging traffic in the off season period?

Mr. McGregor: That is correct.

Mr. Drew: What has been the effect of that?

Mr. McGregor: Travel, in relation to that of last summer, has been better this last winter due undoubtedly to these incentive fares that have been introduced. Again it is difficult to say exactly what proportion of the total travel is attributable to the reduced fares, but we do know, from the peaking of traffic over these periods which we have just completed, that a great many more people travelled simply because they could do so at reduced fares.

Mr. Fulton: Does that apply to the Atlantic as well as to the domestic service?

Mr. McGregor: That applies to the north Atlantic route. I am speaking to Mr. Drew's point—this rather drastic reduction.

Mr. Drew: Does that apply to the north Atlantic or to all trans-oceanic routes?

Mr. McGregor: No, just to the north Atlantic. The season peak in the case of the southern routes is in exactly the other phase position. I think something will be done in the summer months to encourage the north-south operations.

Mr. Knight: In your opinion does the increased amount of travel make up for the decreased amount of fare?

Mr. McGregor: You suffer the penalty of decreased fare but you do get travel which you would not otherwise get, and your expenses are relatively constant.

Mr. Knight: How do they balance out?

Mr. McGregor: The net result is good.

Mr. Mutch: Your expenses would be constant.

Mr. FRASER: You would have a good pay load instead of half a load?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Are there any further questions on page 3?

Mr. FRASER: In connection with the north Atlantic route and the typhoid situation in Scotland, do people have to be checked before they leave the United Kingdom?

Mr. MCGREGOR: Yes, there has always been the restriction that they must have their passports and medical certificates.

Mr. FRASER: Yes, but it is definite for typhoid?

Mr. MCGREGOR: Yes.

Mr. GILLIS: I notice you have completely centralized the headquarters administration staff in Montreal?

Mr. MCGREGOR: Yes.

Mr. GILLIS: You did move a lot of people from Winnipeg?

Mr. MCGREGOR: We moved 159 of them on October 1, 1949.

Mr. GILLIS: Was the decision to concentrate in Montreal influenced by your tie-up with the C.N.R.?

Mr. MCGREGOR: No, it was a point in its favour though because of the interchange of business that went on between the two head offices.

Mr. DREW: Actually, without in any way putting an answer into your mouth, I should say that when so many of your officials were actually occupying offices in the C.N.R. headquarters, it would be a very definite and determining factor?

Mr. MCGREGOR: It was not the determining factor, but as I say, it was a point in its favour.

The CHAIRMAN: That point was very thoroughly gone into a year ago and I hope we will not go into it again.

Mr. MUTCH: That point I might say was, and is still disputed.

Mr. DREW: You will recall that it was during the last year that inquiries were made in the House in connection with the headquarters being moved from Winnipeg.

Mr. MUTCH: I think it was well talked over by the time the committee adjourned last year.

The CHAIRMAN: If the members will read the reports of last year's hearings they will find all of the pros and cons.

Mr. DREW: I have done that and that is why I am asking the question.

Mr. GILLIS: I just wanted to clarify it for my own satisfaction. I have heard so much about it.

The CHAIRMAN: Is page 3 carried?

Carried.

Page 4.

Mr. FRASER: On page 4 you mention an agreement that was drawn up to operate a route between Montreal and New York. That is not yet in operation?

Mr. MCGREGOR: Yes, that service went into operation on Saturday—April 1.

Mr. FULTON: You refer, in the first paragraph, to the fact that the operations of these routes, referring to the north-south routes, will, in subsequent years, provide the company with a greater north-south traffic potential, thus alleviating the low traffic periods on the east-west routes now being encountered during the winter months. Is it intended to remove aircraft from the domestic

service—that is the east-west domestic service—in the low density periods, and to operate them on the north-south routes? Or do you contemplate providing or purchasing additional aircraft to use on those north-south routes—keeping as many as possible on the east-west routes in Canada?

Mr. McGregor: No aircraft will be purchased for southern services. The intention is to use the aircraft and crews made available due to reduction in travel on the east-west routes, which includes both the north Atlantic and the domestic. Those aircraft, which would normally be used to an inefficiently low degree would be satisfactorily utilized on the southern routes, because the traffic fluctuation peaks are in exactly out-of-phase relationship to the east-west routes.

Mr. Fulton: Would that, in turn, entail a reduction on the daily flights east-west, including the north Atlantic?

Mr. McGregor: Yes, there has normally always been such reductions. This is the first winter when we have carried the previous summer's transcontinental frequency through the winter.

Mr. Fulton: Do you contemplate only reducing the north Atlantic frequencies, or do you contemplate reducing the east-west Canadian frequencies?

Mr. McGregor: We contemplate reducing the east-west Canadian frequencies next fall.

Mr. Fulton: You are going to add one further transcontinental flight this spring?

Mr. McGregor: On May 12.

Mr. Fulton: You plan to have but three next winter?

Mr. McGregor: That is our intention.

Mr. Fulton: And you will utilize those aircraft on the north-south run?

Mr. McGregor: On the north-south run, yes.

Mr. Fulton: What is the picture of the north Atlantic situation?

Mr. McGregor: The north Atlantic will also follow its usual reduction in service.

Mr. Fulton: Can you give us the figures?

Mr. McGregor: The report shows that we flew as high as two a day during the summer traffic, and as low as five a week during the winter.

Mr. Fulton: Will you be reducing it during this coming winter?

Mr. McGregor: That will depend on the traffic. It is very difficult to predict the traffic on that route.

Mr. Fulton: Your plans with respect to the north-south routes do not involve in number any increase of aircraft and crews?

Mr. McGregor: Not in the number of aircraft, that is right.

Mr. Fulton: But what about crews?

Mr. McGregor: No.

Mr. Fulton: Mail contracts are referred to in the second paragraph on page 4.

Last year in the committee, at page 305 of the Report of Proceedings and Evidence it was indicated—and I shall read now from the Annual Report of last year which was read into the record at page 305:

> No new mail contract was negotiated in 1948, the Post Office paying T.C.A. at a fixed monthly rate of $450,000 during the initial and experimental period of first class mail transport. This arrangement will continue until March 31, 1949.....

And then it was indicated that negotiations were to be carried on with the government for an increase in the rate and we were given the understanding that

you hoped that those negotiations would result in increased rates for 1949 or 1950.

Mr. McGREGOR: That is correct.

Mr. FULTON: And what is the position now in that regard?

Mr. McGREGOR: The position is that the negotiations have taken place and there is no increase in the rate.

Mr. FULTON: Has a new contract been arrived at?

Mr. McGREGOR: No. It was authorized that there be an extension of the temporary rate while negotiations continued.

Mr. FULTON: You say that the negotiations are continuing?

Mr. McGREGOR: Yes.

Mr. FULTON: But for 1950 the present monthly rate of $450,000 continues?

Mr. McGREGOR: That is correct.

Mr. FULTON: What is your forecast with regard to the negotiations? Just what does T.C.A. ask for?

Mr. McGREGOR: T.C.A. asked for an increase in the remuneration paid, and for it to remain on a fixed basis. But, if the basis of payment is to go to a unit basis of so much per ton mile, we have suggested that we should receive additional remuneration. I may say that these suggestions have not been given a welcome reception by the post office.

Mr. FULTON: What specific requests have you made?

Mr. McGREGOR: We suggested a figure of $520,000 per month, if it was to remain on a fixed lump sum basis.

Mr. FULTON: And what about the negotiations? Have you finished your representations, or are you expecting a decision?

Mr. McGREGOR: No. The negotiations are continuing. The last representations were made by myself and the vice-president of traffic to the post office at a meeting in the Postmaster General's office attended by the deputy and two or three others. At that time the meeting closed on the decision that both the company and the post office would carry out further studies as to the principle of giving the T.C.A. additional work without proportional but with some increase in remuneration.

Mr. FULTON: Which would the company prefer, the fixed monthly basis of $520,000 or the unit basis?

Mr. McGREGOR: We would prefer to have the fixed monthly basis, because it would allow for financial planning to be done on a predetermined basis; whereas, on the unit basis of work performed monthly, revenue fluctuates quite a bit.

Mr. FULTON: In your arriving at that figure, are you asking for an amount which would, in your opinion, cover the complete cost to TCA for carrying this mail, or are you ready to give that service at less than cost?

Mr. McGREGOR: No, we are not ready to give any service at less than cost if we can possibly help it.

Mr. FULTON: So your opinion is that $520,000 covers the cost of the mail service which you are asked to give?

Mr. McGREGOR: That figure was arrived at on the basis of the amount of additional mail we were being required to carry under the all-up arrangement, over and above that which had been forecast, that is, two and a half times that of the old surcharge volume. The figures are now running in the order of two and three-quarters times that amount.

Mr. FULTON: Are those service flights confined to your main line travel, or do you carry mail on all flights?

Mr. McGREGOR: All flights are given mail, and all flights have a mail commitment. That means that the air mail is protected up to a certain amount and we must hold ourselves in readiness to carry that amount of mail on each flight.

Mr. FULTON: Take for example the Vancouver to Calgary run. That would be local airmail and it would be carried under the arrangement between Vancouver and Calgary, and Calgary and Regina?

Mr. McGREGOR: And Medicine Hat and Swift Current and so on.

Mr. CARTER: May I ask a question? Does the T.C.A. ever find that they have to leave passengers behind in order to carry mail?

Mr. McGREGOR: Not very often, no. It was the case during the time we had shorter runways. It was nearly always the case on the Atlantic run where the distances are great and the fuel loads are high, and where the total available lift of the aircraft would be apportioned as between passengers, mail and cargo. It existed at Toronto due to the runway length, but it disappeared in 1949 with the completion of the runway extension at that point.

Mr. CARTER: That was the only limiting factor, the length of the runway?

Right Hon. Mr. HOWE: As far as domestic lines go, yes.

Mr. FULTON: Does mail take priority over passengers?

Mr. McGREGOR: No. The commitment for mail carried on any one flight is fixed by agreement with the officials of the post office, and it varies by flights. I know that on the evening flights out of Toronto, the limit is 1,500 lbs. as a condition of that flight. We might find it necessary to de-plane a passenger, but we must hold ourselves in readiness for that fifteen hundred pounds of mail under this specific commitment.

Mr. FULTON: Have you specific commitments for the United Kingdom service?

Mr. McGREGOR: No.

Mr. FULTON: What is the basis of your arrangement there?

Mr. McGREGOR: The amount of mail varies greatly, for example when you compare Christmas time with other times. But because there are other services such as the B.O.A.C., the post office do not insist that we maintain a fixed commitment.

Mr. GILLIS: Does Canadian Pacific Air Lines hold mail contracts with the government?

Right Hon. Mr. HOWE: Yes.

Mr. GILLIS: How do the Canadian Pacific Air Lines' arrangements compare with those of Trans-Canada Air Lines?

Right Hon. Mr. HOWE: Canadian Pacific Air Lines get a lot more money for carrying the mail than we do.

Mr. GILLIS: Why? Why the discrimination?

Right Hon. Mr. HOWE: For instance, a lot of mail is carried by Canadian Pacific Air Lines which cannot be carried by any other means.

Mr. DREW: Is that the only reason they get it?

Right Hon. Mr. HOWE: Perhaps they are better negotiators.

Mr. GILLIS: Could we have the details of the mail contracts with Canadian Pacific Air Lines?

Right Hon. Mr. HOWE: I would suggest that you subpoena Mr. Turnbull for that information. I do not know it myself, and I would not like to ask for it.

Mr. MUTCH: I wonder if it would come within the terms of our references

Mr. McGREGOR: The character of the Canadian Pacific Air Lines routes is very different to Trans-Canada Air Lines. Most of them are a lateral service to the main east-west route and are into bush territory where, perhaps, dog teams would be the only alternative; and the volumes are lower. I understand they are paid varying amounts for the route mileage flown, and I think it is probably correct to say that their unit remuneration would be higher than ours on regular main lines.

Mr. DREW: Is not the situation this: that, in addition to the answers you have given, Mr. McGregor, the mail rates paid to the Canadian Pacific Air Lines in relation to the weight of airmail are computed having recognition of the fact that there are not alternative services available that offer reasonably speedy facilities; and that, in your case, so far as domestic routes are concerned, it is an alternative between rail and air. I understand that your rates are computed on the basis that alternative provisions are offered, and you carry the mail in cases when it would be speedier than ordinary rail delivery. Is that correct?

Mr. McGREGOR: That is correct.

Mr. DREW: I understand that in the case of those areas which are served by over-night trains and conditions of that kind, the train service is used rather than the airmail?

Mr. McGREGOR: Certainly, there is a great deal of mail forwarded by train over many of the routes which we parallel.

Mr. DREW: You would carry it from its point of shortest haul. How much mail would be carried by the air lines other than between the regular letters carried bearing airmail stamps between, let us say, Ottawa and Toronto?

Mr. McGREGOR: I am afraid I do not know the answer to that.

Right Hon. Mr. HOWE: It is entirely up to the post office. They can put on as much or as little as they like.

Mr. McGREGOR: On the longer routes between, let us say, Toronto and Winnipeg, we probably carry a very high percentage of the first class mail, subject to the condition that it is restricted to one ounce and carries first class postage.

Mr. DREW: But in that case you have the difference between a couple of hours on the one hand and a day and a half on the other.

Mr. McGREGOR: Yes.

Mr. DREW: In the case of the shorter haul situation, let us say, between Ottawa and Toronto or between Montreal and Toronto, where there is a very quick service by air, and where there is also a very quick over-night service by rail, would there be any airmail carried on either the Montreal-Toronto route or the Ottawa-Toronto route other than mail which carries the airmail stamp.

Mr. McGREGOR: Yes, there is mail carried. I know there are large quantities of mail which move also over those routes, and we do carry first class mail over the routes you mentioned, and on others.

Mr. DREW: Who would have the figures which would show the total carried over those routes?

Mr. McGREGOR: Our own figures will. I do not know what the alternative route carriage is.

Mr. DREW: Could you let us have figure showing the amounts carried by air as well as that paid for by airmail stamps?

Right Hon. Mr. HOWE: No. He does not know what is in the pouch.

Mr. DREW: The letter that carries an airmail stamp is handled separately? I am not speaking about the T.C.A., I am talking about the post office. A letter that has a seven cent stamp on it is handled separately from the regular mail?

Mr. McGREGOR: No, not by T.C.A.

Mr. DREW: Do you mean to say the people pay seven cents for nothing?

Mr. McGREGOR: Not quite.

Right Hon. Mr. HOWE: People pay seven cents to make sure the letter goes by air. The post office pays so much a month to the T.C.A. to carry airmail and the post office include anything they like up to the weight we are committed to carry but what is put on the aeroplane is entirely up to the post office. Mr. McGregor has nothing to do with that.

Mr. McGREGOR: A letter bearing surcharge postage must be sent airmail, and in addition a large percentage of ordinary first class postage mail is sent along with it.

Mr. FULTON: Then you just get a closed bag?

Mr. GEORGE: They make up their weight in this way; they put in the airmail first and to make up the weight contracted for they put in additional first class mail.

Mr. MUTCH: With this in addition, Mr. Chairman, that even on the short runs, depending on the time of pick-ups, if you get a faster delivery, say in Toronto and Montreal as a result of sending it by air at a given time, by air it goes. But if the same delivery can be effected by sending it by overnight train mail there would be no point in sending it airmail.

The CHAIRMAN: That decision would be a post office decision.

Mr. DREW: While the amount by which it would vary may be relatively small it is a straight business proposition. It cannot be for the post office to decide how much carrying capacity there is left for mail in an aircraft bound for Toronto, as that must be known some hours ahead because otherwise they would not know how much air mail to send out to the airport, and might be told there is no space for it. Then it would have to be sent all the way back to the post office for despatch by train. There must be some allocation of mail space and that must be done on some definite basis.

Right Hon. Mr. HOWE: It is done by agreement with the post office. Over the years so much space and weight on planes is reserved for post office use.

Mr. DREW: What is the allocation for airmail between Ottawa and Toronto on the regular flights?

Mr. McGREGOR: It varies by flights. I mentioned 1,500 pounds as one figure that I happen to know out of Toronto.

Mr. DREW: Will you get this information?

The CHAIRMAN: Mr. George made the correct suggestion that all the preferred mail is put in the bag and then the balance of the weight is made up from the ordinary mail.

Mr. McGREGOR: Yes.

Mr. DREW: This is not a dialectic exercise. There is a very practical point involved. That mail which has an airmail stamp on it is entitled to go by airmail in any event. If it is not handled in separate bags, how does anyone know whether it goes by airmail or not?

Right Hon. Mr. HOWE: If you received an airmail letter that went by rail you'd know it.

Mr. DREW: This is a simple business proposition.

Right Hon. Mr. HOWE: Yes, but it is not Mr. McGregor's business. That is the post office business.

Mr. DREW: Mr. McGregor and I are getting on very well. I think Mr. McGregor said there is a certain allocation of airmail by weight regardless of whether it is prioriy or regular mail carrying the ordinary stamp. What I am

getting at, Mr. McGregor, is this. Unless the letters that carry an airmail stamp are handled separately from the general mail how can anyone say whether they do or do not go by air as distinguished from the general bulk of mail?

Mr. McGregor: I think it is a post office question, as Mr. Howe said. We get a number of locked mail bags delivered to the airfield up to the commitment that we are required to carry on that flight. Now, we presume that the post office handles it like this: first of all they fill a number of bags with surcharged mail and then fill the balance of the bags with ordinary mail up to the weight of our commitment to be carried on that flight. But there is no differentiation as far as we are concerned between surcharged mail and ordinary mail.

Mr. Drew: So as far as you are concerned all you simply do is to take mail, without any indication as to what class it is, up to the committed weight, and then after you reach that weight the remaining bags would be sent back to the post office?

Mr. McGregor: The post office delivers mail not in excess of our commitment on any one flight so we do not have to leave mailbags behind.

Mr. Drew: I think from what you said you cannot have a situation where you might reach a certain amount and then have to leave some mail behind.

Mr. McGregor: We reach the amount but we are not given more. There is no case in which the post office has given us mail beyond our commitment.

Mr. Drew: In addition to commitments for mail have you special rates for newspapers?

Mr. McGregor: Yes.

Mr. Drew: Is that by contract with the newspaper companies themselves or is it a mail rate arranged with the post office?

Mr. McGregor: No, the post office does not come into it and it does not travel as air mail, it travels as air express by arrangement with the publishers involved.

Mr. Drew: How many publishers have contracts of that kind?

Mr. McGregor: I believe six or seven.

Mr. Drew: Could you give us the details of the contract in regard to the newspapers handled in that way?

Mr. McGregor: I could go into that detail, yes.

Mr. Drew: Are there any cases to your knowledge where passenger services are affected—the number of passengers you could carry—by the carriage of newspapers?

Mr. McGregor: No, no case that I know of.

The Chairman: That comes under your cargo item.

Mr. McGregor: Yes, and the carriage of newspapers is mostly over the short runs.

Mr. Drew: Then you can give us that information?

Mr. McGregor: I can give you the information for specific flights.

Mr. Drew: And the names of newspapers that have contracts with you and the terms of the contracts that you have?

Right Hon. Mr. Howe: I wonder if this is wise? This is giving away the private business of the airlines and of the press, and I wonder if this is the proper thing to do?

Mr. Drew: I think the press would welcome this information.

Right Hon. Mr. Howe: This is highly competitive trade. That type of cargo used to be and is carried between Windsor and Toronto by the American Air

Lines. I do not know what their rates are and I do not know why we should give them our rates.

Mr. HATFIELD: Mr. Chairman, I would like to ask if you accept first class mail regardless of whether you have a service to where it is directed or not.

Mr. MCGREGOR: I am afraid I am not clear on the question.

Mr. HATFIELD: I would like to know if you accept first class mail regardless of whether you have service to where it is directed or not. That is, have you any checks with the post office department as to whether you are carrying mail that should be sent by train. We receive a lot of air mail letters that are two days behind train mail. Does that make it clear to you?

Mr. MCGREGOR: If the post office gave us a bag of mail that was to be put off at Toronto and destined for Sarnia, and it is within our commitment on that flight, it will go by airmail as far as Toronto where it will be deplaned as ordered by the post office, and then go back to the custody of the post office department.

Mr. HATFIELD: Yes, but are you not handling mail by air that would go quicker by train mail.

Right Hon. Mr. HOWE: That is post office business. We have nothing to do with that.

Mr. HATFIELD: You are carrying a lot of mail that should not be carried by air at all and as a result it is delayed one or two days in going by air.

Mr. MUTCH: That is a post office matter.

Mr. HATFIELD: For instance, a letter going from here to my residence can go to Moncton by air; then it would be put on a train and it would be delayed two days reaching my post office.

Right Hon. Mr. HOWE: That is a matter entirely for the post office.

Mr. HATFIELD: They should be checked up.

Right Hon. Mr. HOWE: Mr. McGregor only transports the mail bags; he does not know what letters are inside.

Mr. HATFIELD: There should be some check up with the post office on that.

The CHAIRMAN: Any further questions on page 4?

Mr. DREW: Yes, I was asking a question in regard to the subject of contracts for carriage of newspapers. Now, we know what the rates are for letters, for special airmail letters, we know what the rates are for air cargo in explicit detail and I suggest that there can be no conceivable reason why this committee should not have all the facts in connection with the carriage of newspapers.

Mr. MCGREGOR: If the committee desires, the information will be forthcoming, but I think that puts the company in a rather unhappy situation where there are competitive air services.

Mr. DREW: There may be competitive air service, yet we cannot divorce ourselves from the fact that this T.C.A. is the one hundred per cent subsidiary of the Canadian National Railways, and is, through that very fact, owned by the people of Canada. We are here as representatives of the people of Canada and we cannot possibly deal with these subjects unless we know all the facts.

Right Hon. Mr. HOWE: As a representative of the people of Canada who is particularly responsible for the success of this airline, I object to that information being given out.

Mr. DREW: I move that the witness be authorized by this committee to give details as to the contracts with the various publishers for carriage of the newspapers by this company.

Mr. FULTON: I understand that the T.C.A. has rights over and above any other air lines. I do not see how the question of competition enters into it.

Right Hon. Mr. HOWE: There is an American Air Lines service from Toronto to Windsor, and they handle this type of traffic.

Mr. DREW: Do they land in the Windsor airport?

Right Hon. Mr. HOWE: Windsor or Detroit, I am not sure, but they carried those Toronto papers into Windsor for a long time and the business has since been handled by the T.C.A. I would not like to tell American airlines what T.C.A. have to bid to get that business back.

Mr. FULTON: I do not see why the information asked for is not forthcoming. It is a matter of a general nature.

Right Hon. Mr. HOWE: My theory is that you are not entitled to it. It is definitely a matter of internal management and the management of that company has been entrusted to the Board of Directors of Trans-Canada Air Lines.

Mr. FULTON: The contracts that are made certainly affect the revenue position of the airlines, and we might suggest that some preference should be given to the carriage of Canadian newspapers, given by the government or by parliament—

Right Hon. Mr. HOWE: You are not entitled to say that, my friend. That is a matter for the internal management of the airlines.

Mr. FULTON: Could we not recommend a variation of the rates?

Right Hon. Mr. HOWE: You could not recommend a rate variation.

Mr. FULTON: We could certainly recommend a variation.

Right Hon. Mr. HOWE: I do not wish to press this; I will leave it to the committee.

Mr. DREW: What has just been said by the minister is that this is not information which this committee is entitled to know and I think it is time that this committee should decide that it is entitled to every detail of the business of this air service if it is to form any intelligent conclusions. It is a public enterprise owned by the people of Canada and not a single detail of this business should be withheld.

Right Hon. Mr. HOWE: That is not the view of parliament, and this has been stated on many occasions.

Mr. DREW: I am stating a proposition in support of this motion that this is simply a device by which the most improper contracts could be made in favour of any particular organization, and if you are really desirous of arranging for the carriage of newspapers there is no reason why you cannot provide a newspaper carriage rate. This is a situation that should not be tolerated whatever has been done in the past.

The CHAIRMAN: We have reached the hour of adjournment. Your motion is tabled, Mr. Drew. Your first motion will have precedence.

We will meet again at 4:00 o'clock.

The committee adjourned until 4:00 o'clock p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, we have a quorum, and while we are waiting for the minister perhaps we can deal with Mr. Drew's motion. It is moved by Mr. Drew that witnesses be authorized to answer questions in regard to salaries of officials of Trans-Canada Air Lines.

Mr. DREW: In presenting this resolution, Mr. Chairman, I do not suggest that we should proceed from the standpoint of what has been done in the past. We are trying to approach this problem of a deficit of over $4,000,000 in operation. It seems to me that the first concern of this committee should be to examine every factor entering into the combined cost of this operation which might in some way have contributed to that deficit. I cannot imagine how it is possible for the members of this committee to form any impression as to whether appropriate steps are being taken to carry on the necessary economies in relation to this and other costs, unless the committee have the information which will make it possible for them to reach a decision as to the propriety of every payment that is made.

There is, of course, another feature in this particular case which is of considerable importance. In this case some of the officials are also officials of the Canadian National Railways, and certainly it would seem that the members of this committee and of the House of Commons should have the right to know what is being paid for part-time work, and what proportion that bears to the full salaries of the officials concerned. It certainly has to do with any proper method of auditing of payments made; and I am sure that all of us will agree that the firm of auditors who audit the books of this company are entitled to the complete confidence of every member of this committee. It must be remembered that their audit is only conducted from the point of view of a direct analysis of the figures and the accuracy of the figures shown within the accounting practice as laid down. It is not for the auditors to do this work, to say whether the men who are paid for one service or another are to get a certain amount; or, I will put it this way: that in a particular instance the official should be devoting the whole of his time or only a part of his time to the particular task.

I think in a survey of this kind not only in this case but in every other case we are left with only a part of the picture, and without the ability really to form a judgment, if it can be said in any case that there are answers which should not be given.

I cannot for one moment imagine what principle supports the idea that the salaries paid to men who are employed by the Government of Canada, either directly or indirectly, should not be disclosed. No matter how senior a civil servant may be, no matter how important his work may be, his salary is disclosed. While these men are not civil servants they are working for the people of Canada through a public body of this kind; and failure to disclose these salaries on the one hand leaves the way open for abuses to creep in which I believe this committee should not let pass unchallenged; and, on the other hand, leaves us in the position where we simply do not know what the arrangements are.

I strongly urge as a matter of general principle, and particularly in a case of this kind, that the information should be given upon which the members of the committee can intelligently express their judgment as to whether the course that is being followed is correct and in the public interest.

The CHAIRMAN: Are there any others?

Mr. GILLIS: Mr. Chairman, Mr. Drew has two motions before the committee. I propose to discuss both of them at the same time. With one of them I agree with Mr. Drew and on the other I disagree.

The CHAIRMAN: I think it would perhaps be better if we take this one first.

Mr. GILLIS: All right, Mr. Chairman. On this particular motion I agree with Mr. Drew. I do not think there is any valid reason why we should withhold the information he is looking for. As he pointed out we know what the salaries of cabinet ministers are; they are fully advertised. This is also true of our higher bracket civil servants. The salary of the president of the Canadian National Railways was given to us in the House a few days ago; and in this

particular case, in view of the fact that there is a deficit of $4,000,000, I think myself that if the press carries a story from this committee to the general public that you are withholding that kind of information it has a bad psychological effect; it creates the impression outside that you are hiding something. I am sufficiently interested in the T.C.A., and sufficiently proud of it also—I think it is the best service in the world of its kind from the standpoint of efficiency, courtesy and so forth; and I am also reasonably sure the salary ranges of the service are below those comparable services on this continent. I do not think we should withhold that information. I think you will find if the salaries are tabled that we are paying our people much less than 5 paid officials of C.P.A., or similar lines in the United States. I think, personally, that we should table that information and get on with the business; and clear up in the minds of the public that we are trying to hide anything. I believe that this motion should carry and we should get that information. The impression is created in my opinion, if we withhold information that T.C.A.'s salaries are away up, and all that sort of thing. To my mind, I am reasonably sure that that is not the case, and if we have that information about salaries which this committee is looking for, it may justify this committee in recommending that they be increased. In any event, I do not think salaries have a great deal to do with this deficit. I think the report speaks for itself, and that the reason for the deficit is very clear. I agree with Mr. Drew that we should pass this motion and give this information to the public.

Mr. GEORGE: I would like to ask Mr. Gillis if he has reversed his opinion—the one which he had on the Canadian National Railways—which as I recall was the opposite to that which he has expressed today with respect to the T.C.A.

Mr. GILLIS: We had that information on the C.N.R.

Mr. GEORGE: We only had the president's salary.

Mr. GILLIS: I think you can get any of the others you want.

(The Committee rose during a division in the House.)

(Following the division the Committee resumed).

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Gillis, were you through?

Mr. GILLIS: Yes, I am finished.

Mr. GEORGE: Mr. Chairman, I was pointing out the fact that Mr. Gillis has reversed his stand in this connection as compared with the one he took regarding the Canadian National Railways. When salary was discussed for the C.N.R., as I remember it, the figure was given for the president only, and Mr. Howe points out that it is paid by the government and that is the reason for the disclosure.

Right Hon. Mr. HOWE: That is right.

Mr. GEORGE: Salaries of none of the others were disclosed; the motion was voted down. I cannot see why we should do one thing last week and reverse our stand this week.

Mr. GILLIS: I would like to say this, as Mr. George has brought me into it, that we are discussing two completely different matters. The Canadian National Railways have pretty wide ramifications. They start their operations at the beginning of the year with a fixed deficit of $45,000,000 although they showed an operating profit of $22,000,000. This time we are discussing T.C.A.—a relatively new operation—which has an operating deficit of $4,000,000. The number of salaries Mr. Drew is asking for, in comparison to the string you would have for C.N.R., is quite limited. I have not reversed my opinion; I try to take these things on their merits and do the best I can for the service. I am particularly

interested in Trans-Canada Air Lines; I am proud of it; and I do not want anything to happen in this committee or anywhere else that will create in the public mind any suspicion regarding the operation of that service. It is a new service and it is doing a good job. We wish to retain public confidence in it.

I was not particularly interested in the C.N.R.—I will talk about it in the proper place and that is the House of Commons—but I think it is something that needs overhauling. However, if we withhold the information Mr. Drew is looking for it can be played up by sections of the press which are hostile and which do not believe in that kind of ownership, and it will create in the public mind the impression that there is something wrong. I am sure there is nothing wrong, and that is why I would like to see the information Mr. Drew asked for put on the record.

Right Hon. Mr. HOWE: Perhaps I should call attention to the fact that precedence for this stand goes back to the Railways and Shipping Committee of 1931. At that time a demand was made for salaries of all officers of the C.N.R. You will remember that was a time when there was a good deal of discussion about cutting down expenses of the C.N.R. and, I think, it resulted in the removal of Sir Henry Thornton. This matter of publishing salaries was discussed by a sub-committee which reported to the main committee. I have before me the findings of the main committee. They were that the salary of the president, being a matter of approval by the governor in council should be published but that all other salaries should not be published. I can read the citation, if you like. It was a committee made up of Dr. R. J. Manion, the Hon. J. D. Chaplin, the Hon. Robert Rogers, and the Hon. W. D. Euler—a very strong committee of private members.

I have been attending these meetings for the last fifteen years and every committee has decided against publishing the salaries of officials. The reason for it is that it sets up jealousies within the system. One man does not know another man's salary. I happen to know that the president of the line is getting considerably less than the president of C.P.A. I also know that one vice president is getting considerably more than another vice president, and I know there are a good many differentiations down through the list. It is humiliating for these people to have the public know how much money they are receiving and it certainly will not benefit the operation to have the facts made public. Therefore, I hope that the committee will decide against giving this information.

Mr. FULTON: I think we have a somewhat different set of facts here. The other day we were dealing with the question of the Canadian National Railways and there is no connection here with Mr. Gordon's comment. I would point out there is no reversal of our stand. We asked for the information but the Minister of Transport cited the ruling and said he would appeal to the committee if the matter was forced. It was obvious that we would lose and I know that I felt if we had forced it to a vote that it would not carry and, therefore, did not press for the information. Here we have a different set of facts. We have a number of officers or officials of both concerns—both the C.N.R. and Trans-Canada Air Lines. I can well imagine that it might be, if we were to get the information, that we would find one man or more than one man was being paid one salary when in fact he was doing two jobs. It might well be that the committee, if it were given the information, might feel either that the operation should be separated and one man given one job, or else that the salary should be increased to a point where the individual in question would be adequately recompensed for doing two jobs. It seems to me it raises a serious point and we cannot make a decision because we do not know the facts.

I regret that I have not another precedent before me, but I believe that there is a precedent dated April 19th, 1921, when a demand was first made for the salary of the president of the railway and I believe at that time the request

was carried. Mr. Meighen, after an all-night sitting, agreed that he would send a wire to find out exactly what the salary was—

Right Hon. Mr. HOWE: Of the president?

Mr. FULTON: Yes. I do not see why there should be any difference between the president and the other officials. Here we are dealing with men doing jobs for two different companies. If we got the information we might feel they were seriously underpaid. We do not know what the situation is until we get the information.

The CHAIRMAN: Are you ready for the question?

Mr. FRASER: No, not just yet. I really feel that the committee should know the salaries. I do not know of any company operating in Canada which has a shareholder's meeting and where, if the salaries of the officials are asked for, they are not given.

Right Hon. Mr. HOWE: That information is never given.

Mr. FRASER: Oh, yes, it is.

Right Hon. Mr. HOWE: Never.

Mr. FRASER: Oh yes, it is. There are some companies which, even in their annual report, list the officials and their salaries.

Right Hon. Mr. HOWE: I wish you should show me one report.

Mr. FRASER: Well, the Borden Company is one. I only saw their report this morning. It gives the salaries of them all, as well as the stock that they hold, and everything else.

Right Hon. Mr. HOWE: The stock that the officials hold, maybe, but certainly not their salaries.

Mr. FRASER: Oh, yes, the salaries; all the salaries; and there are other companies too. I think this committee is in the same position as an annual meeting, and I feel that we should have these salaries, especially with the T.C.A. in the hole that it is, this year.

Mr. JAMES: The T.C.A. is in competition with other air lines and if the T.C.A. should disclose the salaries of all their top officials, would not the people of the other air lines be in this position that they would say: "Oh, that boy must be pretty good. Maybe we could offer him a few hundred dollars more and perhaps take him away from T.C.A."

Mr. KNIGHT: Before the vote is taken, I would like to make my position clear. I think that the principles involved in these two motions are somewhat different. I am not too convinced about the minister's argument with respect to precedent because it is one of the faults of precedents that, as time goes on, they become more firmly entrenched. I occasionally think that some of these precedents ought to be broken. That is just a general remark. If I thought that the disclosure of these figures in regard to the salaries would prejudice the T.C.A., I would not support this motion. However, I still have to be convinced. I do not see how the salaries could in any way prejudice the company, that is to say, in respect to its having competitors.

In respect to the other case, whether there should be details given of contracts where competitors are concerned, then certainly those matters should be withheld. I do not think highly of the Right Honourable Mr. Howe's argument that we are members of the public and that this is our air line. We have our experts in whom we have placed our confidence, and I do not think they should be asked to disclose the details of all these contracts simply because we happen to be the owners of the airline. I believe we should have confidence in those experts to carry on their business. But to me the salary question is different, and I am not convinced that this information would prejudice the T.C.A.

The CHAIRMAN: Well, Mr. Knight, if you are not convinced, I think you should remember that in 1931 apparently the committee at that time were not convinced and they went to the trouble of appointing a subcommittee. That was during Mr. Bennett's administration. The subcommittee was composed of representatives of all political parties, and that subcommittee brought in a unaminous report against tabling the salaries of the officials.

If anyone in this committee seriously thinks that we should change the established precedent, then the obvious thing to do would be to move to appoint a subcommittee from this committee to review the problem and to determine whether changing conditions should bring about a change of the existing practice.

Mr. KNIGHT: I should think the matter might be decided by this committee. I do not see why there should be a subcommittee. I think the Right Honourable Mr. Howe had a good point in his suggestion that it might promote a feeling of jealousy among the officials in regard to differences in their salaries. But suppose all these officials already know what those salaries are.

Mr. MCGREGOR: I wonder if they do know. The vice-president in charge of operations does not know what the vice-president in charge of traffic gets, or vice versa. And I hope that neither of them know what I get for a salary.

Mr. KNIGHT: Do you mean they do not know officially?

Mr. MCGREGOR: No. They definitely do not know officially.

The CHAIRMAN: Are you ready for the question, gentleman? All those in favour of the motion: the motion being that the salaries of the officials should be disclosed?

Mr. KNIGHT: You mean T.C.A. officials quite apart from Canadian National Railway officials?

The CHAIRMAN: Yes. All those in favour, please signify? (Six)

All those opposed will please signify? (Six)

I declare the motion lost.

Now, the next motion is one which was moved by Mr. Drew that the witness be authorized to give to the committee the details of contracts for the carriage of newspapers.

Right Hon. Mr. HOWE: I have been looking at the matter since adjournment and I find that these newspapers are carried on a tariff. The arrangements may call for the carriage of certain quantities for certain flights. They have nothing to do with the earnings or the price or anything else, so I do not think there would be any harm in giving the committee the tariff of charges.

Mr. DREW: As well as the arrangements that are made as to the amounts which are to be carried on particular flights?

Right Hon. Mr. HOWE: I do not know whether there is any such provision.

Mr. MCGREGOR: I cannot give the specific amounts because there are no such arrangements. The arrangements are that for specific flights we may expect the usual amount of newspapers on each day except the weekends, depending on the publication in the newspapers.

The commodity rate is 60 per cent of the regular air express rate; and, for example, between Toronto and Ottawa it works out at 7·2 cents per pound.

The newspapers with which we have this working agreement are: The Toronto Telegram to Ottawa and Montreal. The Toronto Star to Ottawa, Fort William and Montreal. The Toronto Globe and Mail to Ottawa and main points Winnipeg west. The Montreal La Presse to Ottawa; The Montreal La Patrie to Ottawa; The Montreal Le Devoir to Ottawa; and finally the Montreal Star to Ottawa.

There is no specific monetary arrangement in favour of any one paper.

Mr. MUTCH: The tariff is public?

Mr. MCGREGOR: Yes.

Mr. DREW: I was relating my question to the information you gave us earlier about the carriage of mail. It seems to me that following through from that there would likely be some arrangement as to the availability of certain weight carriage space for a particular publication at a particular time. Is there any arrangement of that kind?

Mr. MCGREGOR: I do not know whether you would call it an arrangement or not, Mr. Drew. It is an understood fact that a paper that is published at four o'clock will normally arrive at the airport with a load for Ottawa about that time and the load does not vary by more than a pound or so. We make arrangements to carry the volume they usually bring.

Mr. DREW: And then would it be open to any of these several newspapers who make arrangements of that kind to increase or decrease the amount they deliver in that way?

Mr. MCGREGOR: Absolutely. Regarding a load of that kind we always do our best to accommodate them.

Mr. DREW: Well, how would that relate to the carriage of mail which has a fixed weight in relation to a particular trip? How would you determine how much would be carried on a given trip?

Mr. MCGREGOR: Of the newspapers?

Mr. DREW: Yes.

Mr. MCGREGOR: Well, as I say, the newspaper load varies very little between one day and another. In fact, I do not know whether it varies at all. One thousand copies of a certain publication, say, goes on a certain flight and perhaps over a period of time there might be some growth in that, but the few pounds that might be involved do not constitute any particular problem.

Right Hon. Mr. HOWE: But you do not guarantee to carry it?

Mr. MCGREGOR: No, but there are these working arrangements in effect. The situation is that in any domestic flights that I can think of there is no weight-space problem as a general rule. During the four months in the summertime there may be a shortage of space but generally the aircraft is quite capable of handling the business offered to it.

Mr. MUTCH: It is carried as express?

Mr. MCGREGOR: Yes.

Mr. MUTCH: At a published rate?

Mr. MCGREGOR: Yes, sixty per cent of the regular express rates.

Mr. MUTCH: If anyone wants to ship newspapers at the same rate they simply deliver them to you?

Mr. MCGREGOR: That is right.

Mr. GILLIS: Would you like me to draw the committee's attention to something? This morning Mr. Drew placed a motion before this committee asking for the details of that particular arrangement. The minister was adamant, at that time, that the information would not be revealed. Now, the minister is only a member of this committee and without referring to the motion at all it has been decided by him what the committee is going to do. You, Mr. Chairman, have permitted a discussion on this very subject on which there is a motion before the committee.

Right Hon. Mr. HOWE: The minister is here as a member of the committee and as minister of the department concerned.

Mr. GILLIS: The Chairman should have considered the motion as to whether the committee was desirous of having this information. We have not decided whether we want that done or not.

Mr. MUTCH: The motion is before the committee now.

Mr. GILLIS: You are doing the very thing that this motion was supposed to decide.

The CHAIRMAN: Do you want me to call the motion when it is not necessary.

Mr. GILLIS: Definitely, something should have been done with it. It was tabled and should have been decided upon by the committee and not by one member. Mr. Drew should withdraw the motion now that he has got the information.

Mr. FULTON: Just before it is decided may I ask whether you have in effect arrangements between Toronto and Windsor, the ones the minister was so worried about this morning.

Mr. MCGREGOR: No. Toronto to Fort William is the only one of that nature that is recorded.

Mr. FULTON: Did you formerly have one between Toronto and Windsor?

Mr. MCGREGOR: I believe there was, that it was the case some years ago.

Mr. FULTON: That would be in 1948?

Mr. MCGREGOR: Yes.

The CHAIRMAN: If I may, Mr. Gillis—I will only take a minute, and I wish you would put me right if I am wrong. My recollection is that on Mr. Drew's motion in regard to the production of salaries I suggested that I would like to get the opinion of the committee as to whether it should be dealt with immediately or dealt with at the opening of the afternoon sitting. As you will recall, the committee decided that point. Then Mr. Drew made another motion with regard to the production of information as to contracts. The discussion on that motion continued right down until the time of adjournment, and at the time of adjournment I indicated that at the opening of the afternoon sitting of the committee the first motion would be the one to have precedence, and that the second motion would be dealt with immediately. Now, that is exactly what happened.

Mr. GILLIS: That is not what happened, Mr. Chairman.

The CHAIRMAN: Yes, the first motion was called.

Mr. GILLIS: Yes, that is right. I am not quarrelling with that. But on the second motion—

The CHAIRMAN: Then on the second motion when it was called the minister made a statement.

Mr. GILLIS: The minister had no right to make that statement.

The CHAIRMAN: Oh, yes.

Mr. GILLIS: The minister should not have done that. The minister refused to give that information this morning when that second motion was made, and that motion should have been part of the business of this committee at this afternoon's sitting for a decision.

The CHAIRMAN: It was the business of the committee to discuss the motion before it was put, and that is exactly what has happened. Now, we have had a discussion and you want the question put.

Mr. GILLIS: He gave the information without waiting for the motion to be put. You just slipped up as chairman, that's all.

The CHAIRMAN: Well, all right.

Mr. GILLIS: Now, will you put the motion?

Right Hon. Mr. HOWE: Having been the chief objector before, I thought if I stated my removal of that objection the committee could proceed.

The CHAIRMAN: I am not quite sure, Mr. Gillis, as to the point you now raise. I did put Mr. Drew's first motion and it was disposed of. Now every member of the committee is having an opportunity to discuss the other one.

Mr. GILLIS: Yes, but you have already allowed the minister to do for them what every member of this committee has a right to decide.

The CHAIRMAN: That is the privilege of members of the committee.

Mr. GILLIS: But the motion was not put.

The CHAIRMAN: I thought the statement made by the minister cleared that point up.

Mr. GILLIS: I think you are trying to get along too fast.

The CHAIRMAN: As I understand it now, Mr. Drew has got the information he wants and that in substance he withdraws his motion. Is that right?

Mr. DREW: No, not entirely; but subject to one other question.

The CHAIRMAN: Yes.

Mr. DREW: The question I would like to ask is as to whether the 60 per cent of the regular express rate would compare in any way that you can explain with ordinary mail rates.

Mr. MCGREGOR: It is lower.

Mr. DREW: Lower than ordinary mail?

Mr. MCGREGOR: Yes.

Mr. DREW: The reason I asked that question is this: When appearing before the Senate committee on March 29 Mr. Turnbull, the Deputy Postmaster General, who had been talking about the carrying of newspapers, said this in answer to a question, according to the Canadian Press dispatch:

> We are not in any position—certainly not at these prices—to give the publishers the benefit of a luxury service.

I am wondering how that fits in if the rate is lower than the ordinary mail rate.

Mr. MCGREGOR: The express rate, Mr. Drew, is a rate from point to point whereas mail includes the pick-up from the mailboxes and delivery to a specific address. I do not think the two things are really comparable.

Mr. DREW: I appreciate the distinction. I am not talking about the pick-up and delivery service, I am talking about the aircraft used for this newspaper service. I appreciate that the newspapers are picked up and taken off in bulk and dispatched through the various channels; so I can only say that we have been in some uncertainty as to what the Deputy Postmaster General had in mind when he made that statement before the Senate committee.

The CHAIRMAN: Before we go on with the report there is one other matter I think many members of the committee would like to have disposed of now, and that is whether or not we should sit tonight. In looking over the proceedings of last year I find that there was a rather lengthy discussion in regard to a special T.C.A. problem which took most of the time and that the report itself and the financial statement and the audit report were cleared at about the time that would transpire in one committee meeting. I know that every member of this committee is anxious that these high ranking officials of T.C.A. should get back to their work as soon as possible, and I think we should decide now as to whether or not we are going to sit tonight. I have had representations both ways on the subject; some members want to sit tonight to get the matter cleared away before Easter and others say that they were not warned of any meeting tonight and they had some social engagements they would like to keep. Personally, I have usually found in committee work

that most people respond to good treatment. If we want to clear this report before Easter I feel that perhaps we might be apt to accomplish it if we would warn members of a committee meeting tomorrow night. As I say, many of the members have expressed to me their willingness to sit either night, but I am in the hands of the committee.

Mr. FRASER: Do you think you will be able to get through all of the report?

The CHAIRMAN: I think we should clear this up tomorrow night without any difficulty, Mr. Fraser.

Mr. FRASER: I think a great deal depends on when you are going to hold your sittings as there are so many members going away on Wednesday night.

The CHAIRMAN: You see, by sitting tomorrow night, that would give us two extra sittings and surely in five sittings we could clear the business that was cleared in one sitting last year. I had hoped that we would not need to have any night sittings, and that we would not have to sit on Wednesday.

Mr. FULTON: Last year when we met first we were considering the question of removal of the head officers from Winnipeg to Montreal. In the consideration of that matter a good deal of evidence and discussion covered many of the points in the annual report so that not a great deal of additional time was required to finish dealing with it; so I do not think we should segregate the two entirely.

The CHAIRMAN: No.

Mr. FULTON: I think the annual report took three or four meetings.

The CHAIRMAN: Three.

Mr. GILLIS: I do not know but that it would be better to sit tonight and not tomorrow night.

Mr. DREW: I will tell you one of the reasons I have for not wanting to sit tonight. The Guelph Biltmores are meeting Porcupine Combines in the playoffs here at the Auditorium this evening, and due to the fact that the playoff is taking place here I would very much like to be present.

The CHAIRMAN: I think it would be worth something to have Mr. Drew's co-operation in clearing this up, and if that can be secured by not sitting tonight and sitting tomorrow night instead I am all for it.

Mr. DREW: I am not raising my individual convenience. I am sure that there are others who, not knowing that we might sit tonight, would find it most inconvenient to be present on account of previous engagements. I do not see any urgency about having this matter put through before the Easter adjournment.

Right Hon. Mr. HOWE: I think it was understood that we were going to get this report through before we adjourned. We do not like to have to bring the officers here with their records twice. Is it understood that we will sit on Wednesday if we do not get finished before?

Mr. DREW: I do not think there should be any condition of that kind attached. I do not know how we can anticipate now what business might come up. After all, Wednesday is the day the House is adjourning. It is not conceivable to me that the committee would sit after the House has adjourned on Wednesday, so it is necessarily a short day in any event.

Mr. FULTON: The budget debate resumes tomorrow and I do not think it is fair to ask members to be out of the House when that debate is going on.

Mr. DREW: I do not think there should be any conditions. I am not going to press the matter beyond this, that we are dealing with an operation which is an extremely important one to the Canadian people and there are a number of extremely important questions to be raised which have not yet been touched

on; but I do not think that any member of this committee should commit himself to stating that this business will be determined at a certain point. I recognize the very important work being done by the officials of this company and it is possible that their time can be allocated in such a way that there will be no waste of time. But I do not think any condition should be imposed that we should finish the work before us by the time the House closes on Wednesday.

The CHAIRMAN: Are you ready for the motion? I have to be very particular in my proceedings now that Mr. Gillis is checking me up.

Mr. GILLIS: You haven't put Mr. Drew's second motion, so far as I know.

The CHAIRMAN: Mr. Drew has withdrawn it.

Mr. GILLIS: You don't want to get the idea, Mr. Chairman, that you are the only one who runs this committee. That is the point I wanted to make. This committee has the right to decide the way in which things are to be done; and as far as I am concerned you are not going to side-step that responsibility by the minister giving the details of a particular contract or arrangement. This committee, through its members, has the right to decide.

The CHAIRMAN: But that second motion of Mr. Drew's was withdrawn, Mr. Gillis, following the information being supplied.

Mr. GILLIS: But that doesn't make any difference, Mr. Chairman; the committee didn't get a chance to decide the issue.

The CHAIRMAN: Let me read the motion.

Mr. GILLIS: As far as I am concerned, Mr. Chairman, I am prepared to sit here tonight and clear this business up.

The CHAIRMAN: Are you ready for the motion as to whether we sit tonight or not?

Mr. DREW: Mr. Chairman, before you put the motion let us review the considerations involved. This committee met at 11 o'clock this morning. The committee can easily meet again earlier than that tomorrow and proceed to deal with matters in the extra time available. No matter what the weight of convenience of the majority may be there are certain members who have made arrangements for tonight without the expectation that there would be a sitting tonight. I do not think that the convenience of any single member should be given special consideration but I think that is a general consideration that should be borne in mind and perhaps it has some effect on the basis of co-operation that is likely to be extended by different members in meeting the requirements of the officers of the company. I suggest that we could easily meet earlier tomorrow morning and that we should not go ahead and sit tonight when there are some members with previous engagements for the evening. What about sitting at 10 o'clock tomorrow morning?

The CHAIRMAN: Is that all right with the members?

Right Hon. Mr. HOWE: The proposal is that we do not sit tonight but that we sit at 10 o'clock tomorrow?

Mr. MUTCH: And tomorrow night.

The CHAIRMAN: Yes.

Mr. GILLIS: If the committee decides to sit at 10 o'clock tomorrow morning, I am afraid that as far as I am concerned I must oppose it. I have a lot of office work to do and I find that when I get down here at 8:30 in the morning I am busy right up till 11 o'clock looking after business in my office, and even then when I come down here and put in this time I still have to put aside a lot of previous arrangements. Ten o'clock tomorrow morning would be really difficult for me. Even if Mr. Drew cannot be present I think we should go ahead and deal with as much of the report as we can. He will be able to ask any question which he may like to if we reserve the opportunity for him so to do;

but I think we should stick here tonight and get this thing through as far as we can; there are a lot of routine matters which we should be able to dispose of. I cannot be here at 10 o'clock in the morning, that is definite, and I want to be here. Why is it necessary for us to be through before Easter?

The CHAIRMAN: It is a matter of bringing the operating officials back here again with the consequent serious interruption in their work. I would like to meet the wishes of the committee; but I am sorry Mr. Gillis is opposed to the suggestion made. I thought the proposal that we should meet at 10 o'clock was a reasonable one.

Mr. GILLIS: Well, Mr. Chairman, we have Mr. Drew who wants to go to the hockey match tonight, and I have got business in the morning, a definite appointment in the morning at 10 o'clock in relation to my work.

Mr. DREW: Mr. Chairman, I want it clearly understood that I am not asking that this committee do not sit tonight because I happen to have an arrangement to go to a hockey match. My only reason for bringing the point up was that I have some direct interest in it. I was merely giving that as an illustration of the kind of engagement I feel sure many of the other members have. I do not want my own convenience in this matter to be considered at all.

Mr. GEORGE: We appreciate Mr. Drew's position; also, there are many of us who in order to get home want to leave on the 4:30 train Wednesday afternoon whether we finish or not. I would move that we sit tonight.

Mr. GILLIS: I would second that motion.

Mr. DREW: I might say, Mr. Chairman, before you put the motion, there is not the slightest chance of your finishing this committee's work before Wednesday night. I can assure you there is not the slightest chance of getting through Wednesday night. We are dealing with a very large organization and I have a great deal of information I would like to obtain from the officials.

Mr. FULTON: I would remind the members again that the budget debate is being held.

Right Hon. Mr. HOWE: Are you speaking on the budget? We will excuse anybody who is speaking on the budget.

Mr. FULTON: You are taking the position that some of us do not know what is going to happen to that debate.

Mr. DREW: Mr. Chairman, I do not wish to take up too much time on this but I would like to put forward this view. I recognize the tremendous amount of work that the officials of this company are doing. Also, I believe that we should recognize that we have a very important task in front of us. I do not think the fact that a certain subject has been dealt with in a limited time on earlier occasions should be taken as a standard to judge the length of time we should take on this occasion. Last year there was a substantial deficit and you will remember also that the minister, speaking very hopefully, indicated that he would not be satisfied to continue a company that was having heavy deficits. Now we have a deficit of over $4,000,000 this year, and that presents us with the necessity of devoting fairly careful examination to this matter, and to calling upon the officials who can give the information and who are before us, so that we can come to some conclusions in regard to the matter.

Right Hon. Mr. HOWE: We have called the roll of them here—all the way from Vancouver to Halifax. Are you going to send them back and call them in again and again?

Mr. DREW: I was going to suggest that as far as this is concerned you could take some of the officials that are farther away and deal with them if you

feel that it is inconvenient for them to remain. As far as the others are concerned they could be available later. I do not see how you can possibly finish this before Easter.

Mr. GILLIS: Why can we not sit tonight and deal with the details—get them out of the way—and Mr. Drew can reserve whatever questions he has until tomorrow morning when we will allow him to have a field day. There are a lot of things that we could discuss tonight.

The CHAIRMAN: Yes. But on the other hand, Mr. Gillis, you got pretty hot under the collar when the suggestion was made that we meet at 10 o'clock tomorrow morning. My experience on these committees has been that you get more co-operation if you try to meet the convenience of minorities. You feel that it is not right to sit at 10 o'clock tomorrow morning but there are those who do not want to sit tonight. I am trying to weigh the advantages and disadvantages. My own opinion would be, although I am going to let the committee settle this matter, that we should meet at 11 o'clock tomorrow morning and that we should not sit tonight. However, I am going to ask the committee to vote. We can lose an hour so quickly through people getting into bad humour.

Mr. JAMES: I suggest, for the benefit of future meetings, that we have a pre-meeting discussion before the officials get here and we might iron out some of these difficulties. We are keeping the officials here while we talk about this and that.

The CHAIRMAN: Is there anyone else who wishes to speak on the matter? If not, I shall put Mr. George's motion which is that the committee meets at 8 o'clock this evening. That is the only motion which I have before me.

Mr. DREW: You will not facilitate proceedings by carrying that motion.

The CHAIRMAN: All those in favour?

Motion carried.

We sit tonight. Now, are there any further questions on page 4?

Mr. FULTON: Yes. Mr. McGregor, you said you were asking for $520,000?

Mr. KNIGHT: Where is that?

The CHAIRMAN: On page 4.

Mr. FULTON: You said you were asking for $520,000 for your mail contract for all-up mail service. You are still being compelled to continue at $450,000 a month. Are you losing $70,000 a month at present.

Mr. MCGREGOR: You mean on the carriage of mail? No, I have not the foggiest idea whether we are making or losing on the carriage of mail specifically, because it is part of the composite cargo of each flight.

Mr. FULTON: How do you arrive at $520,000 figure?

Mr. MCGREGOR: I explained that was our calculation of the differential between $450,000 and $520,000, as it related to the amount of mail we were carrying, as compared with the forecast of what all-up mail would produce in volume.

Mr. FULTON: You are simply taking $450,000 as an agreed figure and, because you are carrying more than you were carrying when that figure was set, you have requested an increase?

Mr. MCGREGOR: That was the basis for the request.

Mr. FULTON: In arriving at the $450,000 figure was there any cost factor included when you made the estimate?

Mr. MCGREGOR: That was a calculation based on the terms of the contract which had existed before all-up mail was introduced.

Mr. FULTON: The question is was it a figure which, in your opinion, would meet the cost of carrying the estimated volume of mail?

Mr. MCGREGOR: Yes.

Mr. FULTON: Then, if you are asking for $520,000—an additional $70,000—because you are now carrying more than what was estimated, is it not fair to assume that it is costing you more than was anticipated?

Mr. MCGREGOR: Yes, I think it is fair to assume that it is costing us more to carry this additional mail because we are now carrying two and three-quarter times the volume of the old surcharge mail; whereas the $450,000 per month was considered to be proper remuneration for only two and a half times the volume of the old surcharge mail. You must see the difficulty in determining the additional out-of-pocket expense to which the company is put by carrying additional all-up mail. When Newfoundland came into confederation it became eligible for first class all-up mail. How much the company is out-of-pocket by virtue of that mail is beyond calculation.

Mr. FULTON: You cannot break down the cost factor and say that it costs you so much a day? The point I am trying to make is that, according to your best estimate, $450,000 would have covered the cost of the anticipated volume of that mail on an all-up basis when the arrangement was first made. Therefore, if you find that there is such an increase in volume that you must ask for an additional $70,000 per month on the basis of your initial calculation, then it seems to me it follows, that in so far as these costs can be calculated, it is costing you more, and you must be losing $70,000 or something in the neighbourhood of $70,000 per month?

Mr. MCGREGOR: I think your assumption goes just one step too far. A lot of your statement was perfectly correct. The establishment of mail pay was never based on cost due to the difficulty of segregating the cost of the transportation of any single class of a composite cargo. There was an agreement between the company and the post office which provided for a descending scale—not on a fixed amount per month but on a per pound mile rate.

Mr. FULTON: You are not now receiving any compensation for the difference between two and a half times and two and three-quarter times the volume of the old surcharge mail?

Mr. MCGREGOR: That is correct.

Mr. FULTON: You are giving a greatly increased service in point of view of volume. Can you give us any idea in pounds or tons per year what the extra is, over and above what you anticipated?

Mr. MCGREGOR: Yes, I think it can be done by arithmetic. We have the ton miles in the report and if you regard that figure as two and three-quarter times the old volume, and then take it back to the old volume and multiply by two and a half, the difference is the number of ton miles over and above what was estimated.

Mr. FULTON: Did not someone in the air line make that calculation when you asked for the additional $70,000?

Mr. MCGREGOR: I am sure that it was done but I have not got the figure.

Mr. FULTON: Can it be procured?

Mr. MCGREGOR: Yes, we can go through the arithmetic.

Mr. FULTON: I hate to be always asking your officials to do these things.

Mr. MCGREGOR: It does not matter whether we arrive at the figure by arithmetic or by a telephone call to Montreal. The figure would be a reasonable approximation in any case.

Mr. HATFIELD: Do you carry any mail at other than express rates? What about newspapers?

Mr. MCGREGOR: We carry no mail at express rates.

Mr. HATFIELD: You carry newspapers?

Mr. MCGREGOR: That is not mail.

Mr. HATFIELD: What do you mean?

Mr. MCGREGOR: Newspapers are not mailed; they have no postage stamps on them and they do not go through the post office. They come from the newspaper office to the air line direct.

Mr. HATFIELD: Is that business solicited?

Mr. MCGREGOR: Yes.

Mr. HATFIELD: Is that not against the Post Office Act?

Mr. MCGREGOR: Not to my knowledge.

Mr. HATFIELD: I think it is. I do not think you can solicit to carry something that would otherwise go by mail. I think that is against the Post Office Act.

Mr. MCGREGOR: I think any express parcel up to a certain weight can go by mail.

Mr. HATFIELD: Well, look up the Post Office Act and see if I am not right.

The CHAIRMAN: Are there any further questions on page 4?

Mr. FULTON: Yes, since it will come out in subsequent evidence, I would like to get an accurate definition from Mr. McGregor of the expression "available ton miles"? What is the exact meaning of that term?

Mr. MCGREGOR: The available ton miles is the amount of lift in any one flight, stated in tons and multiplied by the distance that the flight is to travel in miles, and it bears no relation to the revenue load which the flight actually carries. There might be six tons of lift in an aeroplane going to fly 100 miles. In that case the available ton miles for that particular flight would be 600 ton miles. The aircraft might only carry 200 ton miles, because of the fact it is not being used to capacity. The available ton miles is the expression used to indicate the amount of air transportation which the system has made available for sale—irrespective of whether it has been sold.

Mr. FULTON: Does available ton miles apply only to cargo and mail?

Mr. MCGREGOR: No, to the whole load.

Mr. FULTON: In calculating the percentage of occupancy or the percentage of use of your available ton miles you have taken into consideration both passengers and mail which has been flown.

The CHAIRMAN: No, you will find the available seat miles on the next page.

Mr. MCGREGOR: There is a difference between available ton miles and what we call the weight load factor which is the percentage of utilization of the total lift of the aeroplane. The passenger load factor, as compared with express or the mail or cargo, is usually considered to be the higher load factor.

Mr. KNIGHT: That is one question which I wish to pursue. I want some help in connection with the interpretation of this plan on page 4. Mail ton miles are shown at 3,808,000 and commodity ton miles at 3,518,000—making a total of roughly 7,000,000. Does this mean that you are only using, out of the 84,000,000 available ton miles shown at the bottom column, something like one-twelfth of the available space? 7 is to 84 as 1 is to 12?

Mr. MCGREGOR: No, these things cannot be related to one another because the top figure is for numbers of passengers.

Mr. KNIGHT: I am leaving the top column out altogether and dealing with columns 2, 3 and 4.

Mr. MCGREGOR: Yes, but you are taking only the two smaller portions of the load of an aircraft. 70 per cent of the load is represented by passengers. Actually, the figure you are after is about 59 per cent.

Mr. FULTON: Available ton miles covers passengers, cargo, and mail?

Mr. MCGREGOR: Yes, all of the lift. In the case of passengers you cannot break it down to ton miles. It is a little tactless to call it ton miles.

Mr. KNIGHT: You are using 59 per cent of the space the year round?

Mr. MCGREGOR: That is roughly the figure.

Mr. KNIGHT: The fact that figure is so small is largely due to the seasonal aspect of your operations?

Mr. MCGREGOR: The figure may go as high as 70 per cent in the summer months and as low as 51 per cent or even lower in the winter.

Mr. KNIGHT: That is the main cause of the deficit?

Mr. MCGREGOR: Absolutely.

Right Hon. Mr. HOWE: If we could keep it at 70 per cent we would have a very profitable air line?

Mr. MCGREGOR: 1 per cent can throw it either black or red.

Mr. FULTON: I wonder if the arithmetical calculation requested this morning is ready because the discussion on it will be reached soon?

Mr. MCGREGOR: One of the questions this morning was on the allotment for mail between Ottawa and Toronto and between Montreal and Toronto.

I shall read it out and then turn it over to the reporter if I may, Mr. Chairman:

TRANS CANADA AIR LINES

Guaranteed Daily Mail Weight Allotment Post Office Department

Between Ottawa & Toronto—Pounds

Flight 31—	100	Daily
33—	300	"
35—	400	"
39—	300	Monday through Saturday
39—	100	Sunday
37—	1,000	Monday through Friday
37—	200	Saturday & Sunday

Between Montreal & Toronto—Pounds

Flight 31—	200	Daily
1—	800	Tuesday through Saturday
1—	250	Sunday & Monday
33—	250	Daily
3—	500	Tuesday through Saturday
3—	200	Sunday & Monday
35—	300	Daily
39—	200	Monday through Saturday
39—	100	Sunday
43—	50	Daily
37—	100	"
5—	800	Monday through Friday
5—	650	Saturday
5—	350	Sunday

In the case of those flights which operate from Montreal through Ottawa and Toronto, the flights must be added.

Mr. DREW: What time does that flight 37 leave?

Mr. MCGREGOR: Leave from Ottawa or leave from Toronto?

Mr. DREW: Leave from Toronto?

Mr. MCGREGOR: Well, here you find an air line man without a time table.

Mr. FRASER: Some of those flights are for 800 and 1,000 pounds. I suppose you have those weights on account of not having as many passengers at that time?

Mr. MCGREGOR: No. That flight is capable of lifting its full weight of passengers and cargo as well.

Flight No. 37 leaves Montreal at 8:45 in the evening and leaves Ottawa at 9:45 in the evening arriving at Toronto at 11:30.

Mr. DREW: And that is the one which carries the 1,000 pounds?

Mr. MCGREGOR: No. Flight No. 37 carries 100 pounds from Montreal, and 1,000 pounds, Monday through Friday to Ottawa, and 200 pounds on Saturday and Sunday.

Right Hon. Mr. HOWE: Some of this may consist of connections with the west. It probably is not just traffic leaving Ottawa destined for Toronto.

Mr. JAMES: You are operating now about 59 per cent of capacity?

Mr. MCGREGOR: That is the year average of weight, the load factor, not the passenger.

Mr. JAMES: Have you estimated how much this New York to Montreal run is going to build that?

Mr. MCGREGOR: I think it would have a tendency to raise the overall average slightly, because it is such a small proportion of the total amount of transportation which the system will perform. I would be happy to keep that passenger load factor to an average of 65 per cent to 66 per cent. That particular service, I think, would be much less susceptible to seasonal fluctuations than would the east-west runs.

You might be interested to know that 16 United States trunk lines, which we use as a yardstick, had a weight load factor of 53·59 per cent for the year 1949. I might say that for the year 1949 the month of December was estimated. Whereas, on the other hand, the weight load factor in 1949 for T.C.A. was 56·9 per cent.

Mr. FULTON: You are decreasing while they are increasing, according to last year's figures?

Mr. MCGREGOR: That is correct. That is a function of the amount of service you are rendering.

Mr. FULTON: Would you mind elaborating on that statement a little, please?

Mr. MCGREGOR: When you put on a third transcontinental as we did last May, and carry it through the winter, the amount of available ton miles of transportation is increased very substantially and it usually takes about a year to catch up to it with the load factor.

Mr. FULTON: Are they getting more passengers?

Mr. MCGREGOR: I think their tendency has been to reduce their standard fare services. I saw an application recently to step out of several cities that the American Air Lines were operating into.

Mr. FULTON: Have you a break down of the operating revenues?

Mr. MCGREGOR: Would it be satisfactory to table that?

The CHAIRMAN: Have you got a spare copy of it for Mr. Fulton?

Mr. MCGREGOR: Would you like to have me read the gist of it, Mr. Chairman?

The CHAIRMAN: I shall have mimeographed copies of it made. It is very difficult to take in a statement of that kind.

(Statement appears as Appendix "A")

Mr. FRASER: When will we have them? Will it be to-night?

The CHAIRMAN: I shall try to have them for you in an hour. Are there further questions on page 4?

Mr. DREW: This statement which you have just handed to the reporter, Mr. McGregor, deals with the figures for the different years which are available from the annual statements. But the question asked this morning was in regard to the breakdown of these different services on a monthly basis.

Mr. MCGREGOR: This was information in answer to Mr. Fulton's question. Your information is not yet completed. I think it will be available tomorrow, Mr. Drew.

Mr. FULTON: You do not show the Bermuda-Caribbean services separately. Is there any way I can get that?

Mr. MCGREGOR: No. I am sorry. That has been lumped throughout because of the use of the aircraft and the fact that the routing changed during the year. We have never distinguished between Bermuda, and Nassau, and Kingston, Jamaica as different services.

We did change the routing. We used to reach Port of Spain, Trinidad, through Kingston. But with the introduction of Barbados, it was changed and was reached through Bermuda, so it has been one southern operation so far as cost accounting is concerned.

There were two other questions asked. Perhaps we might table the answers to them.

I think Mr. Drew asked for a breakdown cost-wise, of the expenditures for converting the M1 aircraft prior to their being returned to the R.C.A.F., and the figures are as follows:

Labour—$107,752.25

Material—$51,069.22

Insurance—$22,272.29, making a total of $181,093.76

Mr. DREW: What did their conversion consist of?

Mr. MCGREGOR: It consisted in changing the aircraft from passenger seated aircraft with our set-up of radio equipment and of cockpit layout and instrumentation to the R.C.A.F. standards of their DC-4 M1.

Mr. DREW: How many aircraft were involved in that conversion?

Mr. MCGREGOR: Five.

Mr. JAMES: Those were the aircraft which you had on loan?

Mr. MCGREGOR: That is right. They were originally North Star aircraft which we had on loan. Originally we had six, and one was destroyed by fire at Sydney in 1948.

Mr. DREW: Those machines were the total of R.C.A.F. machines operated by T.C.A.?

Mr. MCGREGOR: That is correct.

Mr. DREW: In these figures I notice the item of $22,272.29 for insurance.

Mr. MCGREGOR: Yes. That is for insurance of the aircraft while in our possession under the condition of being converted to their military status.

Mr. DREW: Was that insurance taken with some outside insurance agency?

Mr. MCGREGOR: Yes. In that case it was.

Mr. FRASER: And that included the overhauling of the engines?

Mr. McGREGOR: Yes. The aircraft were sent back in a fully overhauled condition. They had to be completely stripped down as part of the contract of loan.

The CHAIRMAN: Are there any further questions on page 4?

Mr. McGREGOR: May I table one remaining answer, other than the answer to Mr. Drew's question about monthly figures. I think he asked for a statement with respect to passes issued by T.C.A.

The total is 74 approved by the Air Transport Board.

Group one are the passes in favour of directors, officers, and employees of Trans-Canada Air Lines, and they number 46.

Group two shows the passes in favour of officers and employees of Canadian National Railways. They total 17.

Group three shows the passes issued in favour of others, and they total 11, making a grand total of 74.

The CHAIRMAN: Have you a spare copy of that statement?

Mr. McGREGOR: No.

Mr. FULTON: I have the figure of 46 which were issued "in favour of directors, officers, and employees of Trans-Canada Air Lines".

Mr. McGREGOR: That is as I remember it.

Mr. FULTON: Those are the group one passes?

Mr. McGREGOR: The non-contingent passes.

Mr. FULTON: I take it that those with the group one passes are entitled to travel at any time, and the other type consists of those who are only entitled to travel provided there is space available?

Mr. FRASER: What about priorities?

Mr. McGREGOR: There are no priorities. The holder of that pass is in exactly the same category as a revenue paying passenger. He can seek a reservation on his pass, and if he gets it, he is entitled to hold that reservation.

Mr. FRASER: But in war years you had priorities; and if you were on a plane and, let us say, you got to Montreal and found that the flight was not going out, you would not have priority on the next plane.

Mr. McGREGOR: When peace broke out, the priority system was discontinued. There is no such thing now.

The CHAIRMAN: Page 5?

Mr. KNIGHT: On page 5 I have one question.

Mr. FULTON: Who were the holders of the 11 other passes?

The CHAIRMAN: Yes, Mr. Fulton?

Mr. FULTON: Who were the 11 others who had passes? Have you got the names?

Mr. McGREGOR: Do you want the names or the classifications?

Mr. FULTON: Well, the names, or their positions?

Mr. McGREGOR: There are three ministers.

Mr. DREW: Do you mean ministers of the Crown?

Mr. McGREGOR: Yes, also religious men; there is an ex-director of the T.C.A.; and there is the deputy postmaster general.

Mr. DREW: I do not think he should have one.

Mr. McGREGOR: I do not either. And there are officers of the Department of Transport and of the Air Transport Board. They constitute the remainder.

Mr. FULTON: Could you say how many officers of the Department of Transport?

Mr. McGREGOR: Well, it is eleven minus five, six all told.

Mr. FULTON: I mean as between the officers of the Department of Transport and the officers of the Air Transport Board.

Mr. MCGREGOR: Five of the Department of Transport and two of the Air Transport Board. We have Mr. Turnbull in twice, I am sorry. There are four of the Department of Transport and two of the Air Transport Board.

Mr. KNIGHT: I wanted to ask a question of Mr. McGregor. On page 5, I read the last paragraph: "Payroll chargeable to operating expenses rose by $2,384,584 in 1949 under the impact of the rising cost of living. Higher price levels were responsible for additional expense in the purchase of the airlines materials and supplies." I am taking that in conjunction with the paragraph on page 6, which reads as follows: "In considering these financial results, it should be borne in mind that Canadian airlines are placed at a severe disadvantage by the weight of customs duty and sales tax which they must pay on equipment and materials imported from the United States. On the average, T.C.A. spends 30 per cent more for such items than do its United States counterparts."

Can I ask the question before we stop? What is the comparative cost of payrolls of competitors in the United States.

Mr. MCGREGOR: Their average salaries are higher than ours.

Mr. KNIGHT: How much higher on such positions as crew and pilots?

Mr. MCGREGOR: If a rough guess is acceptable I will say ten to fifteen per cent.

Mr. KNIGHT: It would not be enough to offset this other thing?

Mr. MCGREGOR: No. In Canada we pay thirty per cent more per gallon for our fuel as compared with the price in the United States, and our annuel gasoline fuel bill amounts to about $5\frac{3}{4}$ million a year.

Mr. FRASER: On that fuel question, the price of fuel has gone up during the last weekend, has it not?

The CHAIRMAN: We will adjourn now and resume again at eight o'clock.

—The committee adjourned until 8.00 o'clock p.m.

EVENING SESSION

The committee resumed at 8 p.m.

The CHAIRMAN: We have a quorum, gentlemen; shall we carry on? Page 5. Are there any further questions on page 5?

Mr. FRASER: Just before we adjourned you mentioned something about three cabinet ministers; who were they?

Mr. MCGREGOR: Mr. Howe, Mr. Chevrier and the postmaster general.

Mr. FRASER: Oh, that would be the Minister of Transport, the Department of Trade and Commerce and the Post Office Department?

Mr. MCGREGOR: And the Post office Department. I mentioned the deputy postmaster general earlier.

Mr. FRASER: Who was the ex-official to whom you referred?

Mr. MCGREGOR: I said he was an ex-director, Mr. J. A. Wilson.

Mr. FULTON: Are all your employees entitled to a pass on the line?

Mr. MCGREGOR: Employees are entitled to one vacation pass a year on a contingent basis, subject to the usual limitations of space being available.

Mr. FULTON: But certain classifications of T.C.A. personnel have a continuous pass and can fly any time they want to the year round?

Mr. MCGREGOR: That is right.

Mr. FULTON: But only on company business?

Mr. MCGREGOR: That is right, and in addition to that they have one vacation pass per year, one trip.

Mr. FULTON: All employees have on trip?

Mr. MCGREGOR: No, it would depend on the length of service.

Mr. FULTON: How long?

Mr. MCGREGOR: They have to be one year in the service before they are entitled to it.

Mr. FRASER: How far would that pass carry them for the whole season?

Mr. MCGREGOR: There is a rather complicated set of applicable rules; those employees with the greatest seniority are entitled to somewhat more extensive pass privileges.

Mr. HELME: You say that in 1949 your surplus of revenues over operating expenses before depreciation and interest were $1,918,688, and your depreciation was $2,867,427, an increase in the amount of depreciation of $493,342, or 21 per cent; what is the reason for that?

Mr. MCGREGOR: The reason for that was that the North Star aircraft were depreciated in 1948 only for the time that they were in service, which was from June 1, whereas the full twelve-month depreciation applied in 1949.

The CHAIRMAN: Are there any further questions on page 5?

Mr. GILLIS: Yes, it seems to me that page 5 is one of the most important parts of the whole report. I do not like to see this thing given out as a deficit on the T.C.A. when it has such a good operating report. You show there that your payroll charges increased by $2,384,584 in 1949, and yet you paid to the government $3,000,000 in excise tax, landing fees and so forth, and your deficit was approximately a million and a half dollars. Now, can you expand this? Have you any ideas as to how that might be improved? Do you think it would be resonable to approach the government and ask for a reduction in the landing fees, or any other fees? I think it would be a reasonable thing to do. You can't go along just the way things are, getting worse and worse. I would like to know if you could tell the committee what in your opinion might be done to meet that deficit position?

Mr. MCGREGOR: I would like very much to talk on this subject. In T.C.A., every one of its personnel feels extremely sensitive on this subject of deficits. There is a high esprit de corps in the organization. Nobody likes to work for an organization which by implication is not pulling its weight; and there is a serious anxiety on the part, I feel very safe in saying, of the whole personnel body of T.C.A. to bring the operation into black figures. It is constantly the subject matter of management meetings, discussions and so on. The points which you mentioned as to what might be done government-wise to better the T.C.A. position are all perfectly logical and relevant. On the other hand the company rather feels there is no logical reason why it should be the subject of particular paternal action on the part of the government. We do feel that by comparison with other air lines doing the same work that our mail pay is on the low side. As far as that particular item of revenue is concerned we feel legitimately entitled to some consideration, to more consideration than we are getting at the present time. On the other hand we do feel that there is no good reason why T.C.A. should approach the government either through its stockholders or otherwise with pleas for special dispensation with respect to items of cost that are also borne by other large organizations, and we firmly believe that if this condition of seasonal fluctuations of traffic load in reference to capacity of the air line can be even partially alleviated that these red figures can be made to disappear. The situation is that we have an organization both as to equipment and as to personnel

which is capable of handling these 65,000 average passengers per month that present themselves for travel during the four summer months of the year and which dwindles to an average 45,000 per month during the remaining eight months. That is presented in the back pages of the report. You will see that the line presents an operating profit during those summer months. You will see that white area on the chart represents a net operating profit during those four months, or part of them, after all charges including depreciation, interest and so on; so we do know that when we are being filled up to the capacity which we are capable of handling we can make money with the air line. If we could get the shoulders of this mountain extended even slightly, we can eliminate the $1,419,000 deficit, which after all is rather a small percentage of the total revenue of $26,000,000 on domestic operations. We would then have accomplished what we are all striving for; and we believe that it is possible to do it by two approaches. We think that the family fares and a very strong concentration of advertising and stimulative effort in the low traffic period will help to bring it about revenue-wise. We believe also that something more than has already been done can be accomplished expense-wise. You see a sample of that in our operations for the first part of 1950 which indicate that progress has been good along these lines. And I may tell you that the reports show that our deficit position up to date for 1950—that is to the end of February, for the system—is $550,000 better than for the same period in 1949. Now, we could not use that comparison to make a projection across the year; nevertheless, if anything like that can continue I think we will be well on our way to the elimination of the domestic red figure. I did talk much the same thing at this time last year, and for that reason there may be some doubt cast on my rather optimistic forecasting with respect to this North American service; but we did have two or three things happen to us last year which were not foreseen with respect to both traffic and revenue, and it is conceivable that we may have unhappy things which we cannot forsee happen to us again in 1950, depending on labour action and so on; but we do not foresee them, and for that reason I am very hopeful that without requesting special treatment such as you suggest we can bring that operation either to a financial break-even point or extremely close to it.

Mr. GILLIS: I did not suggest that you should ask the government for special treatment similar to that given to the Canadian National, but I do feel that if someone responsible, the government or whoever it may be, were to make materials and things of that kind available to you without these heavy tariff charges you would be helped. They run to 30 per cent or higher on things which you have to bring in from the United States. The government tariff on materials is responsible for that; that is a definite fixed disability and one with which only the government can deal. Your picture financially I think is good. You show earnings of approximately $5,500,000 yet you show a deficit of $1,500,000. If you could only get some assistance from the government by way of tariff relief I think it would be easier for you to meet that; or, on the other hand, what are the possibilities of securing materials, or some of your materials that you import from the United States, in Canada? Is that possible?

Mr. MCGREGOR: Well, that has been very carefully investigated. Perhaps it would be of interest to the committee to report on the kind of things to which you have referred. I think one item to which I might refer is fuel. The T.C.A.'s major requirement for fuel is what is known as 100 octane, and at the present time that is not manufactured in any appreciable quantity in Canada. The T.C.A. pays, on the average, 32 cents a gallon for that fuel. It may be purchased for 15½ cents a gallon at La Guardia, N.Y. After allowing for the difference in the size of the gallon, there is a differential of about 8 cents per gallon, which represents the great fuel cost disadvantage to T.C.A. The T.C.A. system fuel bill for 1949 was in the vicinity of $5,750,000. If we were able to

buy even a substantial part of that volume from Canadian suppliers on a basis comparable to the price to United States carriers it would make a tremendous difference, as you can see, in that figure. Efforts have been made to interest the suppliers in the more extensive manufacture of 100 octane fuel in Canada; but, after all, there are not too many types of engines burning that fuel. There are other difficulties, but that is one of the type which I think you had in mind.

Mr. FRASER: What about the reductions that we have heard of in gasoline? I understand it is now down to 40 cents a gallon at some points.

Mr. MCGREGOR: There have been one or two minor reductions in that type of fuel during the last three months, but each time there has been a freight rate increase, there has been an over-all increase in our fuel costs.

Mr. FRASER: Is the price of ordinary gasoline any indication of the cost of the fuel that you use?

Mr. MCGREGOR: Not necessarily, but probably. The price of 100 octane gasoline and that which you use in and ordinary motor car does not necessarily go hand in hand.

Mr. GILLIS: It is a seasonal fluctuation. Isn't that largely responsible for that factor?

Mr. MCGREGOR: It is a factor, but, actually, I think history is more of a factor than weather. In the old days the air line was operating short range and unpressurized aircraft, they had to fly not more than 12,000 feet at any time and did not like to go above 8,000 feet on account of passenger discomfort. We operated on the northern line and touched down at such places as Kapuskasing and Armstrong. I think many business men will recall unhappy situations where they embarked on a trans-Canada flight and spent thirty hours or upwards at one of those small places. I think an experience or two of that kind convinced the travelling public that air travel while all right in the summer was very trying in the winter time.

I think you lose a reputation for comfort and regularity very quickly and it takes two or three years to build it back again. Now with the longer range and pressurized aircraft height is not a factor in comfort and we fly the more direct southern routes. Regularity has increased tremendously but I think it will take some little time for that resumption of regularity and additional comfort to become widely known.

Mr. HATFIELD: May I ask whether you purchase your fuel wholesale?

Mr. MCGREGOR: By contract.

Mr. HATFIELD: With the oil companies?

Mr. MCGREGOR: Yes.

Mr. HATFIELD: What tax do you pay on your fuel?

Mr. MCGREGOR: We pay two taxes—excise tax, and a special delivery tax on airports of one cent a gallon. That one cent is paid by the delivering oil company to the airport administration; it is to the Department of Transport or to the municipal interest involved, depending on which administers the airport. It is not called a tax but it is an assessment against the oil companies which the oil companies promptly pass back to the purchaser—ourselves.

Mr. HATFIELD: Do you pay municipal or provincial taxes?

Mr. MCGREGOR: We do not pay provincial taxes except in two cases, and we only pay what might be referred to as a municipal tax in the case of airports municipally owned or operated, such as the one at Vancouver.

Mr. HATFIELD: Do you pay sales tax?

Mr. MCGREGOR: It might be called a special assessment for fuel delivery on airports.

Mr. HATFIELD: Do you pay the regular 8 per cent sales tax?

Mr. MCGREGOR: No.

Mr. DREW: What is the total you pay on each gallon of gasoline coming from the United States?

Mr. MCGREGOR: I can get that figure exactly, Mr. Drew, but if I remember rightly it is in the order of 4 cents tax.

Mr. DREW: A total of 4 cents?

Mr. MCGREGOR: Yes.

Mr. DREW: That 100-octane gas is how much?

Mr. MCGREGOR: Thirty-three cents a gallon is the average figure across the system.

Mr. HATFIELD: What is the cost in the United States for a United States gallon?

Mr. MCGREGOR: Sixteen cents—15½ cents at New York.

Mr. MUTCH: That is based on 10 American gallons to 8 Canadian gallons.

Mr. MCGREGOR: Five to four.

Mr. HATFIELD: Do you bring that in in tank cars?

Mr. MCGREGOR: We do not bring it in—it is brought in by the distributing company.

Mr. CARTER: I was interested in what Mr. McGregor said about passenger comfort. I travelled across the Atlantic some time ago on BOAC and I got stuck up in one of the bulkhead seats which do not recline and in which you cannot stretch out. I came back by North Star and I noticed twelve of those seats in the North Star. It came to me afterwards that if I were going again I would not take a chance on getting one of those seats. I wonder if you have thought of that? It is an important factor with respect to passenger comfort.

Mr. MCGREGOR: Yes. We have done something about it to the extent of removing four of the seats to which you refer at the front end of the forward cabin. That is a modification which is about complete. It cannot be done in the after cabin due to the fact that there is some equipment tucked away behind those backward facing seats. However, your chances of getting such a seat are at least four better than they were before.

Mr. FULTON: May I ask some questions with regard to the detailed figures here. You have an item of interest on capital invested. To whom is that payable, and what capital has been invested?

Mr. MCGREGOR: Twenty-five million dollars has been provided to the air line in respect of capital stock issued by the company to the C.N.R. and on it we pay three per cent.

The CHAIRMAN: You will find that item on page 17.

Mr. FULTON: It is in the nature of a preferred stock with a guaranteed dividend?

Mr. MCGREGOR: Yes.

Mr. FULTON: What was the reason for the increase in the interest this year over last year?

Mr. MCGREGOR: The existence of that $1,500,000, in addition to the $25,000,000 which was discharged towards the end of 1949.

Mr. FULTON: Is it actually correct to call it interest on capital investment? If it was a loan would it not be interest on a loan?

Mr. MCGREGOR: It was a capital loan—I think it is correctly designated here.

Mr. DREW: What rate is paid on it?

Mr. McGREGOR: 1½ per cent was paid on it while the loan existed.

The CHAIRMAN: It is listed as common stock in the balance sheet?

Mr. McGREGOR: The $25,000,000?

The CHAIRMAN: Yes; Mr. Fulton said it was preferred.

Mr. DREW: This section of course relates to all of the things that come into the operating statement and perhaps I can conveniently ask some questions here. Mr. McGregor you have explained about the number of aircraft that you have and the fact that you had the same number of DC-3's and North Stars all through last year. Were you operating any other aircraft last year other than North Stars and DC-3's?

Mr. McGREGOR: Not in 1949.

Mr. DREW: Now in the case of the DC-3's were all those bought at the same time or have they been bought from time to time?

Mr. McGREGOR: Three of them were bought at one time—the first three. The remaining twenty-four were ordered at one time and delivered over a period of nine or ten months, if my memory serves me correctly.

Mr. DREW: They were ordered when?

Mr. McGREGOR: I am speaking without personal experience but I would think they were ordered in 1946.

Mr. DREW: You say you speak without personal experience, but you have been with the company since December of 1945?

Mr. McGREGOR: Yes, but I was in a traffic capacity and really had nothing to do with the purchase of aircraft at that time.

Mr. DREW: Just so that I will understand the relationship here, what different positions have you held since December of 1945 up until the present?

Mr. McGREGOR: The first position I held was special representative, and then general traffic manager.

Mr. DREW: That was when?

Mr. McGREGOR: From four months after I joined the company until February 1st, 1948.

Mr. DREW: Yes, so at that time you had nothing to do, personally, with the ordering of these aircraft, but your memory is that they were ordered in 1946?

Mr. McGREGOR: Yes.

Mr. DREW: Now, as I understand it, there are some requirements that all DC-3's shall be converted by next year?

Mr. McGREGOR: No, I believe there was a requirement which was met by T.C.A. It was announced two years ago that certain specific modifications had to be carried with respect to DC-3's in so far as fire prevention, fire detection, and fire elimination were concerned. That requirement, while elective to a point — I think until next year — was completed by T.C.A. at once. There is a further final grounding of DC-3's forecast in 1953.

Mr. DREW: That is with respect to the present model?

Mr. McGREGOR: I think all DC-3's — but not the super DC-3's.

Mr. DREW: Is it not correct that the Douglas company will take in the present DC-3 and convert it to a super DC-3?

Mr. McGREGOR: Yes.

Mr. DREW: What I was really asking was directed towards that. There is a time limit which has been set and in which conversion must take place?

Mr. McGREGOR: That might be — you mean they will only hold themselves open to orders of that kind for so long?

Mr. DREW: I understood they would only hold themselves responsible for the ordinary facilities which they offer up to a certain time — that is with respect to the conversion to super DC-3's?

Mr. MCGREGOR: That may be, although I have not personal knowledge of it.

Mr. DREW: These DC-3's cost how much?

Mr. MCGREGOR: They went on T.C.A. books on an average at something like $200,000 a piece.

Mr. DREW: They were all new machines?

Mr. MCGREGOR: No, they were for the most part war surplus C-47's purchased at a price on the order of $50,000 a piece and the $150,000 additional capitalization was required for complete rebuilding.

Mr. DREW: Does that apply to all the DC-3's you have?

Mr. MCGREGOR: All except the first three I mentioned.

Mr. DREW: The first three were bought as new aircraft, were they?

Mr. MCGREGOR: I am not sure on that—it is really quite far back. The first three were purchased, I believe, in 1945. They were originally Wright engined aircraft but converted by T.C.A to Pratt and Whitney engines.

Right Hon. Mr. HOWE: They were bought from C.P.A.

Mr. DREW: The first three?

Right Hon. Mr. HOWE: That is my recollection.

Mr. DREW: Does that account for the different depreciation period of the DC-3's? Is it because they were bought as war surplus?

Mr. MCGREGOR: Do you mean why they were being depreciated at a lesser number of years?

Mr. DREW: They were being depreciated on the basis of four years total depreciation?

Mr. MCGREGOR: The reason, I believe, was that they were considered as being in a rather well advanced state of obsolescence—being a ten year old aircraft—as compared with the North Star which was coming out as an aircraft of only a year and a half or two year old design.

Mr. DREW: What are your plans with regard to the utilization of DC-3's over the next few years?

Mr. MCGREGOR: The plan is to utilize the aircraft in their present form until they are actually fully depreciated. By that time we would hope to have completely factual data as to the performance, characteristics and costs of these many new types that are coming on the market at the present time. We feel it would be wrong, under present conditions where the fleet capacity is equal to the demands being made on it, to make any decision as between the three major types of aircraft today. I am thinking of an advanced piston type of engine such as the Martin 404, any of the turbo-trop aircraft which are very interesting but for which there is not yet actual operation data, and the full jet aircraft which are equally interesting but still without operational data.

Mr. DREW: What determines the use of a particular type of aircraft on any given route?

Mr. MCGREGOR: There are many factors that enter into—shall we say the "goodness of the job it does for the air line". Maintenance cost weighs very heavily and safety is always in the fore of any consideration of aircraft. There is also the ability to carry ton miles of air transport to a greater extent than a corresponding investment in another aeroplane would produce. Aircraft, as they are designed and built today, are particularly susceptible to the route lengths

over which they are to be operated. An aircraft may be excellent for a 600-mile route but may be most inefficient on a 300-mile route or even impossible on a 1,200-mile route.

Mr. DREW: That is just what I had in mind. You have North Stars, for instance, on the long route from Vancouver to Toronto and Montreal. I am talking now about the domestic lines.

Mr. MCGREGOR: Yes.

Mr. DREW: Then you have the lines that run up to Edmonton, and that run which is north to Kapuskasing, and then there is the run east from Montreal to the maritimes. In those cases I understand that you are using DC-3's entirely?

Mr. MCGREGOR: Yes.

Mr. DREW: Then, on the run from Toronto to New York, and now from Montreal to New York, I understand that you are using North Stars?

Mr. MCGREGOR: That is correct.

Mr. DREW: Well, the distance from Montreal to New York is about 350 air miles.

Mr. MCGREGOR: That is correct.

Mr. DREW: Is it an efficient operation to use a North Star on a very short hop of that type?

Mr. MCGREGOR: It is a better operation than the DC-3 provides but it is not as efficient a money-earner on that distance as it is on the 1,200 mile Toronto to Winnipeg hop.

Mr. DREW: What I am thinking of is this. You estimate, as I understand it, a possible load occupancy of 60 per cent. The passenger occupancy on the North Stars on that Montreal to New York run would therefore be 24 passengers?

Mr. MCGREGOR: Initially, that is; it is a brand new run.

Mr. DREW: I know that, but, as I understand it, that would be your estimate of the probable occupancy of seats in a North Star?

Mr. MCGREGOR: That is correct.

Mr. DREW: What I am thinking of is this: You have already changed your DC 3's from 21 to a 28 passenger machines.

Mr. MCGREGOR: Yes, in case of three aircraft.

Mr. DREW: Those machines operate at about one-third of the gasoline consumption per hour as compared to a North Star?

Mr. MCGREGOR: Something between one-third and one-half.

Mr. DREW: So that, with a smaller crew and a much smaller gasoline consumption, it would appear to be a much more economical thing to operate with DC 3's, would it not?

Mr. MCGREGOR: In the first place, Mr. Drew, the domestic crew in a DC 3 is only one cabin attendant less than in a North Star. There is no radio operator carried in a domestic operating North Star, so the crew cost makes very little difference. In addition, the sixteeen seats which you refer to are very desirable; and in addition to that, the feature of competition enters into it.

Colonial Air Lines have earned, I think, quite an unsavoury reputation for giving rough service between Montreal and New York through the operation of non-pressurized aircraft, particularly on a route which is down a river valley and between two rows of mountains. So I feel the adoption of a competitive position will prove its worth by giving service in an aircraft which is pressurized and which, thereby, can get over the weather and give a much more comfortable ride.

In addition, while it is not an unduly lengthy journey in a North Star, it will make good, in a financial sense, on both those runs, and certainly on the run from New York to Toronto.

Mr. DREW: Is it not true that Colonial Air Lines are operating DC-6's out of Montreal to New York?

Mr. MCGREGOR: No, DC-4's.

Mr. DREW: The DC-4; is that not a corresponding machine?

Mr. MCGREGOR: No. It is not pressurized. That is an old C-54 with seats put into it.

Mr. DREW: And that flies on to Florida, does it not?

Mr. MCGREGOR: Not as a continuing flight. In fact, Colonial does not go to Florida at all, but they operate a service from New York to Bermuda.

Mr. DREW: The only reason I happen to know about it is that in flying down to New York it happened to be one of those machines I went down in, and I noticed in the back of the seat circulars about the southern holiday resorts and so on. I was under the impression it was going on further south.

Mr. MCGREGOR: As far as I know, as soon as the threat of T.C.A. competition appeared, they introduced some of their Bermuda service aircraft on the New York-Montreal run, something which had not been the case before.

The CHAIRMAN: In making a comparison, Mr. Drew, is there not one other factor which you have overlooked, in considering the gasoline consumption per hour? Is not the speed per hour also a factor?

Mr. DREW: That is quite so. But it does not make so much difference on a shorter run because a 350 mile run is one which you can make in a comparatively short time.

Mr. MCGREGOR: I think the chairman was referring to the fact of the greater consumption of gas goes on for less time due to the greater speed.

Mr. DREW: That is quite true on a shorter run. But I understood there was a very definite tendency in the United States to go in for the use of the more modern two-engine types for these shorter runs, such as the super DC-3, and the Convair, and the new Martin-404. That is correct, is it not?

Mr. MCGREGOR: That is quite correct.

Mr. DREW: I was curious about whether, with these cost factors involved, that consideration might not be regarded as being of some importance in connection with such routes as the run from Montreal to New York, from Toronto to Chicago, and Vancouver to Seattle. The Vancouver to Seattle flight uses a DC-3, does it not?

Mr. MCGREGOR: That is not our run. It is a United Air Lines run, and I understand they usually fly it in DC-4's.

Mr. DREW: Well I was looking at the map.

Mr. MCGREGOR: Victoria to Seattle is our run.

Mr. DREW: And how is that flown?

Mr. MCGREGOR: That is flown with 28 passenger DC-3's.

Mr. DREW: Oh, yes.

Mr. MCGREGOR: And I feel I should point out that these aircraft which you speak of, such as the Convair and the Martin-404's, are extremely expensive. They are big aircraft. It is true they are only twin-engined, but nearly all of them are seated in the order of forty seats. They are big, fast and extremely expensive. You have to weight carefully the increase in efficiency of an aircraft of that kind purchased at a price in Canada which would be in the order of $1 million, probably, as compared to an aircraft which is now depreciated to around $35,000 to $40,000, as is the case with our DC-3's.

The CHAIRMAN: Any further questions on page 5?

Mr. FULTON: I started to ask Mr. McGregor about the interest on capital investment and I understand that that represents three per cent on the common stock, and then he said it was one and a half per cent on the $1½ million loan.

The CHAIRMAN: One and a half per cent on the common?

Right Hon. Mr. HOWE: Three per cent on the common.

Mr. MCGREGOR: That is correct.

Mr. FULTON: And you said one and a half per cent on the $1½ million loan.

Mr. MCGREGOR: That is correct.

Mr. FULTON: I make that $22,500 in each year.

Mr. MCGREGOR: It sounds about right.

Mr. FULTON: And I was wondering about the increase of $44,783 in the interest. How do you arrive at that?

Mr. MCGREGOR: All of the $25 million was not issued throughout 1948.

Mr. FULTON: Well, has there been an issue of stock made in 1949?

Mr. MCGREGOR: No, during the year 1948. You are comparing the year 1949 against 1948. All of the $25 million was not issued as of January 1, 1948.

Mr. FULTON: Oh, I see.

Mr. MCGREGOR: Would you like to know the various dates of issue?

Mr. FULTON: No, if that is the explanation, that is sufficient. I just wanted to compare the balance sheet with last year.

Mr. MCGREGOR: Well, you would have to compare it with 1947.

Mr. DREW: Mr. McGregor, you doubtless have seen the statements that have been made in regard to the fact that Trans Canada Air Lines will be paying part of the cost of a new aircraft that has been built or is being built by Canadair which is to be, apparently, partly for the R.C.A.F. and partly for other purposes. You know the aircraft to which I refer?

Mr. MCGREGOR: I know the aircraft but I do not know the statement.

Right Hon. Mr. HOWE: The T.C.A. is paying no part of that.

Mr. DREW: Is that so?

Mr. MCGREGOR: None.

Mr. DREW: I thought that it was stated that this was to replace an aircraft that was burned at Sydney, one that was being operated by the T.C.A.

Mr. MCGREGOR: That is correct.

Mr. DREW: And that T.C.A. was assuming its share of this aircraft for its replacement purpose.

Mr. MCGREGOR: No, I am afraid there is a confusion of ideas. The loan of the 6 M-I aircraft was covered under an agreement which required that all of those aircraft be modified to the military standard and returned to the R.C.A.F. and that should any of these aircraft be damaged beyond economical repair that it was then up to T.C.A. to replace that aircraft either dollarwise or otherwise. As I mentioned before one of those aircraft was damaged beyond economical repair, and under the terms of that agreement we paid the R.C.A.F. in cash and in spare parts which we had in storage the value of the aircraft to the tune of $660,000. What they did with the money or parts had nothing to do with us; it was entirely a matter of R.C.A.F. decision.

Mr. DREW: So that was done some time ago?

Mr. MCGREGOR: Yes.

Mr. DREW: When would that be done?

Mr. McGREGOR: Well, the final delivery of parts which represented part of this payment was made about two months ago. The payment of $330,000 was made in November, if my memory serves me correctly. It was either November or December.

Mr. DREW: Of what year?

Mr. McGREGOR: Of last year.

Mr. DREW: Of 1949?

Mr. McGREGOR: Yes.

Mr. DREW: And that was paid direct to?

Mr. McGREGOR: To the receiver-general.

Mr. DREW: Well now, were you consulted in regard to this aircraft?

Mr. McGREGOR: This aircraft that is being built at Canadair?

Mr. DREW: Yes.

Mr. McGREGOR: No.

Mr. DREW: Do you know if any of the officials of T.C.A. were consulted in regard to it?

Mr. McGREGOR: I do not know of any consultation that went on and I am therefore sure there has not been any.

Mr. DREW: The reason I am asking the question is because of the statement that it was a prototype aircraft.

Mr. McGREGOR: Well, I do not know what is conveyed in that particular sentence by the word "prototype" but T.C.A. has nothing to do with it in any shape or form.

Mr. DREW: Now, have you the figures available of the past utilization of the various aircraft being operated by T.C.A. for the year 1948?

Mr. McGREGOR: By aircraft?

Mr. DREW: Yes.

Mr. McGREGOR: No, I have not. We have the figures by major subdivisions of the company as between Atlantic and Caribbean and domestic.

Mr. DREW: Have you figures as to all aircraft?

Mr. McGREGOR: There are a number of routes on which the two types are used, as Toronto to Winnipeg; Montreal to Toronto, and so on.

Mr. DREW: Yes. How would you determine the efficiency of a particular type of aircraft if you do not know the extent to which that particular type of aircraft is being utilized on the line on which it is being operated?

Mr. McGREGOR: We have a utilization figure of the aircraft which does not have anything to do with the load. That is the number of hours of revenue work that we get out of an aircraft per hour of its existence. That is the measure of efficiency of the aircraft. The weight-load factor or the passenger-load factor is purely a matter of how the market is related to the amount of air transportation that you are providing and it has nothing to do with the inherent efficiency of the aircraft.

Mr. DREW: Well then, if you have not those separate figures, have you the figures of the utilization of the aircraft?

Mr. McGREGOR: Yes.

Mr. DREW: Well, could you let me have those?

Mr. McGREGOR: Yes. I can give them to you in a comparison with other lines in the United States.

Mr. DREW: No, I mean your figures within your own service.

Mr. McGREGOR: Yes, I was going to do the same thing. I can give it to you by the month or for the year.

The twin engine aircraft in 1949, in the case of the DC-3's were utilized five hours and twenty-three minutes for each twenty-four hours. That includes revenue time against all aircraft time. That is, if an aircraft is in the hangar being overhauled it is still counted as in the total time. It is utilization against the total fleet time, the number of aircraft multiplied by tweny-four hours. T.C.A. four-engined planes had a utilization of seven hours and forty-one minutes. That compares with similar figures for U.S. airlines as follows: American Air Lines, four hours and six minutes for their twin engine aircraft and six hours and fifty-two minutes on their four-engine aircraft; the United Airlines, five hours and twenty-six minutes on twin engined aircraft and six hours and thirty-eight minutes on four engined aircraft; Northwest Airlines, four hours and fifty-seven minutes on twin engine aircraft; eight hours and thirteen minutes on four engine aircraft.

Mr. DREW: Those are the figures you have?

Mr. MCGREGOR: Yes.

Mr. DREW: Now, of course you know of the terms of the agreement under which these aircraft were purchased and I would refer you to Article 23 of the agreement of the 31st day of March, 1947 between the manufacturing corporation and the Trans-Canada Air Lines, and the first paragraph of Article 23 headed "Exhaust System and Noise Level" reads as follows: "Notwithstanding the provisions in the detail specification both parties agree that it is necessary to improve the exhaust system in order to obtain an exhaust noise level satisfactory for competitive scheduled commercial airline operations. Canadair will co-operate with the power plant manufacturer to develop such satisfactory exhaust system and buyer will pay (as an addition to the price of aircraft purchased hereunder) one half of all increased costs to Canadair by reason either of increased prices paid by Canadair to the power plant manufacturer by reason of the change in the exhaust system or by reason of any change required thereby in the structure of the aircraft."

You know of that provision?

Mr. MCGREGOR: I must say, with regard to my previous remark, that I have no personal knowledge of the agreement because I was not in my present position with the organiaztion at that time, I had nothing to do with the purchase of aircraft engines.

Mr. DREW: I know that you had nothing to do with the actual execution of this contract but I find there was provision for payment because it refers in this agreement to steps to be taken to reduce the noise factor. Can you tell me now if any money has been paid under article 23?

Mr. MCGREGOR: Nothing has been paid because an acceptable exhaust system producing a reduction in noise level has not been produced yet. There have been payments for a modified exhaust stack which is known, or referred to as a fishtail exhaust manifold. There have been payments made with respect of that modified type of stack which is used on the inboard sides of inboard engines.

The CHAIRMAN: Mr. Drew, perhaps I might interrupt. You will recall that the reference to this committee is in regard to the 1949 operations. While I would certainly be willing, if you wanted to make any reasonable reference back for the purpose of dealing with the 1949 estimates, to allow you to do that, it is not within the power of this committee to deal with any expenditures of 1947.

Mr. DREW: This arises out of a 1947 agreement. This has to do with a continuing obligation on the part of Trans-Canada Air Lines. It would have a bearing on 1949.

The CHAIRMAN: I know, but the obligation was a committment incurred in 1947. I understood you to say that the date of the contract was 1947.

Mr. DREW: That is quite right.

The CHAIRMAN: The obligation was incurred then.

Mr. DREW: I know, but Mr. McGregor has just said that they have not made any payments by reason of this.

The CHAIRMAN: I have not made myself clear, apparently. Whatever obligations Trans-Canada Air Lines made in the agreement you are now referring to go back to 1947. Isn't that the time the contract was signed?

Mr. DREW: It was signed in 1947, yes; but the amount only becomes payable under the circumstances to which Mr. McGregor has himself referred; he said that nothing has been paid in respect of it in 1949, and that nothing has been paid yet. Now, in that respect, Mr. McGregor, this is a continuous provision which at any time when satisfactory arrangements are made would involve the obligations arising out of that position, would it not?

Mr. MCGREGOR: I would think so.

Mr. DREW: That being so this is very much something of the present. As I understand it you have been purchasing different types of stacks; you have tried to find an exhaust suitable for the purpose of reducing the noise of these engines and to meet the requirements of article 23 of the agreement; isn't that so?

Mr. MCGREGOR: Not quite. Only the one new type of stack has been released and that is not completely satisfactory; and that was never referred to in the terms of that clause because it was well understood to be an interim expedient applied to reduce the noise; and both Canadair and Rolls Royce have been working very intensively on the correction of the noise level of the North Star aircraft ever since, and would I think have something now which they are about ready to test and hope will be suitable.

Mr. DREW: Well, Mr. McGregor, it strikes me that this wording is not open to misinterpretation, it refers to the changes that would be satisfactory, and I quote; "to improve the exhaust system in order to obtain an exhaust noise level satisfactory for competitive schedule commercial operation". I do not know how that could be read other than to apply to a reduction of the noise level; that the noise level was not satisfactory for competitive air line operation. Is that not the correct interpretation there?

Mr. MCGREGOR: I would think so; that is if you are referring in your use of the word competitive to the one specific thing, the noise level.

Mr. DREW: The word competitive here covers competitive scheduled commercial air line operations.

Mr. MCGREGOR: I would say then that the aircraft is very satisfactory competitively, but as to noise level only I would say it is not competitive with some other aircraft.

Mr. DREW: And you would say that up to date, technically, in 1949, no payments have been made under article 23?

Mr. MCGREGOR: That is right.

Mr. DREW: And these incidental stacks that you are being supplied with by a manufacturer—these fishtail stacks I think you called them—where did you buy them.

Mr. MCGREGOR: They were purchased from the manufacturing company.

Mr. DREW: What does that amount to?

Mr. MCGREGOR: They are in continuous purchase. They are a simple item, Exhaust stacks operate at high temperatures and require quite frequent replacement, very much like an exhaust valve or any other part of aircraft which is subject to wear and tear.

Mr. DREW: I am curious about this provision in the agreement for this reason, that the whole of article 23 relates to this one subject and the particular

paragraph concerned represents a warranty that such aircraft will have an exhaust noise level satisfactory for competitive schedule air line operations. It is now over three years since that agreement was signed and I take it from what you say that they have not complied with that warranty?

Mr. McGregor: I think that hinges entirely on the sense of the word competitive. They have not got the exhaust noise level in the North Star aircraft down to the noise level in certain other aircraft.

Mr. Drew: Then they haven't fulfilled their warranty.

Right Hon. Mr. Howe: What was the warranty? That they would try to do it.

Mr. Drew: No, Canadair agrees and warrants that each of the aircraft will have an exhaust noise level satisfactory for competitive schedule air line operation. That is clear. That is the point.

Mr. McGregor: They are not claiming that they have done that, but we are carrying four times the load across the Atlantic out of Montreal as is carried by B.O.A.C.

Mr. Drew: That does not answer the question. It says here that when they did that you would then be under an obligation to meet the financial arrangement called for in paragraph 1 of article 23. You say they have not done that. If they have not done that in a little over three years since this was signed then they have not fulfilled their warranty and so you would be under no obligation to meet the payments called for in this article.

Mr. McGregor: I think that is a correct interpretation.

Mr. Drew: I think this is probably a fair question: do you know of any other contracts signed where an aircraft is purchased before it meets requirements of this kind?

Mr. McGregor: I am not familiar with other contracts, but I know of many things that have had to be done to an aircraft after it is purchased.

Mr. Drew: But this is an obligation in regard to a condition which the agreement itself states requires to be modified. However, we will leave that now. In regard to the aircraft you are operating on the route to the Caribbean and to Bermuda, are you using DC-3's or North Stars?

Mr. McGregor: North Stars.

Mr. Drew: Entirely?

Mr. McGregor: Yes.

Mr. Drew: I understand that you now carry that service right through to Port-au-Spain?

Mr. McGregor: Port-au-Spain, Trinidad.

Mr. Drew: Are all the North Stars operated by T.C.A. pressurized now?

Mr. McGregor: Yes.

Mr. Drew: Do you carry insurance outside of T.C.A. on the equipment used, or do you insure all that yourself?

Mr. McGregor: We self insure on North Star operations up to a maximum claim, with respect to any one accident from all sources of $750,000. We outside underwrite beyond that loss to a maximum of $5,000,000.

Mr. Drew: Well, how do you deal with such a thing as fire hazard? Is that insured outside as well as through your own funds?

Mr. McGregor: No—except fire in buildings which is outside underwritten, and loss to aircraft by fire on the ground.

Mr. Drew: The reason I asked that question is that I understand your reserve insurance fund is something just in excess of $3,000,000?

Mr. McGregor: $3,600,000.

Mr. DREW: It would be possible to have a fire that would do a great deal more damage than that, if you had a concentration of aircraft in one big hangar?

Mr. MCGREGOR: Yes, but we do not have such concentrations and, as I say, the liability on that portion which is self insured is limited for one claim to $750,000.

Mr. DREW: Well, Mr. McGregor, on those routes which you are flying in Canada do you break the figures down by separate routes the same way you do for your external operations? Is it possible for you to tell us exactly what the operating revenue and the costs of each of those lines are?

Mr. MCGREGOR: No, it is not possible, Mr. Drew. The reason is that the aircraft utilization overlaps. An aircraft might begin a flight at Vancouver, terminate the run at Toronto, and yet in half an hour be on its way to New York. It would be impossible to break down the maintenance costs on that particular aircraft.

The CHAIRMAN: Are there any further questions on page 5?

Mr. FULTON: Mr. McGregor, in answer to Mr. Gillis I think you said that you could anticipate a satisfactory revenue position with respect to the domestic operations. Paraphrasing your reply, I think there were several bad luck factors which you did not anticipate and which had upset the over-all financial forecast for 1949. I was interested in that because I intended to refer you to page 258 of the proceedings last year. Mr. Miller, a member of the committee, asked you this question: "If you get the 15 per cent increase, which you will get, will that take you out of the red in so far as the western flights are concerned?"

You said "I beg your pardon?" Mr. Miller said "If you get the 15 per cent increase, which you will get, will that take you out of the red in so far as the western flights are concerned?" Your reply is: "We hope that the increase will take us out of the red on our whole domestic operation." Mr. Miller then asked: "Do you agree with the statement that the 15 per cent increase would more than wipe out your operating deficit—for instance your deficit for 1948? That statement was made in the western brief at page 11." You answered: "I think it probably would."

I wonder whether you would comment further on the revenue position this year, and the over-all financial picture this year, in the light of those answers, and particularly will you amplify your explanation with regard to bad luck factors which you ran into this year?

Mr. MCGREGOR: Yes, I think I can. In the first place T.C.A. did not reap anything like the 15 per cent benefit, speaking of the year as a whole, as a result of the elimination of the transportation tax. It only became effective on the 1st of April, which reduced its effect, in so far as the annual report is concerned, by one quarter. In the second place T.C.A. elected not to increase fare charges by the full 15 per cent on many of its routes. The result is, speaking of one year as compared with another, the revenue advantage to T.C.A. for 1949 over 1948 is probably something in the order of 6 per cent—although it is difficult to determine what it was because the figure has to be related to each particular passenger's travel.

There are other elements that affected the company adversely, and these are impossible of computation in a monetary sense; first, the attack that was made on the aircraft in connection with the election—which certainly had the effect to some degree of shaking confidence in the aircraft; second, and a thing which strongly adversely affected traffic, was the complete deluge of reports of accidents throughout the world in the autumn. There was considerable prominence given to accidents in press reports. That had a very strong effect and was one which we could sense quite easily. The third thing that affected us adversely was the rising cost of fuel, coincident with the changes in freight rates.

Mr. FULTON: I am interested with what you say with respect to your election not to increase fares on many routes to the full 15 per cent, in view of the statement made last year that you anticipated the 15 per cent increase would take you out of the red. Was there anything which occurred that made you decide not to take full avantage of the 15 per cent available.

Mr. MCGREGOR: Yes, with respect to our east-west flights, although we are described as having a monopoly, we are strongly competitive. Our line is paralleleled by several others south of the border and it is not a difficult process for a passenger travelling from Vancouver to Toronto to go south to Seattle and cross the border here sowewhere at the eastern end of his travel. As you know there was the introduction of special fare rates in the United States which were so extensive as to make it necessary for us to make an approach to meeting them competitively.

Mr. FULTON: To some extent you have more or less reached the peak of possible passenger charges on many of your lines; is that correct?

Mr. MCGREGOR: No, I do not think it was because of reaching a peak, it was because of having competition from reduced fares and having to go a considerable distance towards meeting that competition.

Mr. FULTON: What I means is that you are approaching the point where further increases will bring into effect the law of diminishing returns—due to the competition factor.

Mr. MCGREGOR: It was not due to increases because we were not making any increases.

Mr. FULTON: Well, I will not say due to increases.

Mr. MCGREGOR: To maintaining the position—the cost to the passenger remained the same.

Mr. FULTON: What I had in mind was the increase in revenue that T.C.A. would receive. Are you approaching the position where an increase in the net fare charged to the passenger would bring into effect the law of diminishing returns?

Mr. MCGREGOR: I am certain of it.

Mr. FULTON: By virtue of the competition factor, which you must meet?

Mr. MCGREGOR: Both by other air lines and by rail.

Mr. FULTON: The answer to the problem of getting out of this deficit position which you are in is not to be found—certainly not entirely—and least of all, in an increase in fares?

Mr. MCGREGOR: That is my opinion, and it is the opinion of the traffic department.

Mr. FULTON: May I refer to increased operating expenses on page 5. One of the factors you referred to was payroll which you say rose by $2,384,584 in 1949. Can you tell us what portion of that increase was due to increased number of personnel and what portion was due to increased salary or wages?

Mr. MCGREGOR: Practically all of it is due to increased individual remuneration. There was a 1 per cent increase in the number of personnel throughout the year, in spite of the fact there was a 21 per cent increase in business.

Mr. FULTON: By far the greater percentage of it was because of increase in salary or wage rates?

Mr. MCGREGOR: By negotiated agreements for the most part.

Mr. FULTON: Do these increases run right across the board or were they confined to one classification of employee in a particular region—how were they distributed?

Mr. McGREGOR: Almost entirely among the types of employees earning wages as distinct from salary people.

Mr. FULTON: What would that cover? Mainly your maintenance crews?

Mr. McGREGOR: Practically every employee group except clerical.

Mr. FULTON: Practically everything except clerical?

Mr. McGREGOR: I think there are seven or eight associations; yes, eight.

Mr. FULTON: You have an association of air crew personnel and they received an increase of what per cent?

Mr. GILLIS: These wage increases are made necessary because of the rising cost of living. If the government had maintained price controls, it would have off-set that.

Mr. FULTON: Could you give me a percentage increase in wage rates, wages or salaries?

Mr. McGREGOR: Yes, I could give you that. The average monthly pay rose by nine per cent.

Mr. FULTON: Nine per cent and your operating costs have increased by 28 per cent; so it is true to say that materials accounted for a greater proportion of your increases?

Mr. McGREGOR: Yes, but you should understand that you are not comparing two equal jobs. The volume of work done was very much greater in 1949 than in 1948. Twenty new aircraft flew for twelve months instead of 6 months, burning gasoline, and having maintenance work done on them, and so on.

Mr. FULTON: Yes. But your increase is nearly one hundred per cent in flight equipment maintenance. Would that be on the domestic service? According to your break down on page 9 would that be due largely to the increased number of aircraft, or to the increased cost of the actual repairing?

Mr. McGREGOR: No. Some proportion of it would be due to the increased unit of cost per hour; and a very great majority of it would be due to the fact you are comparing six months of domestic North Stars in service as against twelve.

Carried.

Right Hon. Mr. HOWE: Is this a monologue or can someone else ask a question?

Mr. FULTON: Anyone may ask a question if he wishes. I understood that someone else wanted to ask a question on this page.

Mr. FRASER: Go ahead, Mr. Fulton.

Mr. FULTON: Can you break down your maintenance cost with respect to the operation of aircraft and make a comparison? Can you tell us how much of your higher charges for maintenance which are referred to on page 5 was due to any difficulties in maintaining the engines?

Mr. McGREGOR: We can break down the maintenance cost which you see there on page 19 as between air frames and engines. The air frame, in air line phraseology, is everything other than the engines and the instruments.

Mr. FULTON: I notice that your aircraft engine figure has increased considerably over 100 per cent, and the labour going into maintenance of aircraft engines has increased by approximately 50 per cent.

Mr. McGREGOR: Yes.

Mr. FULTON: Did you have 100 per cent more engines on hand as the result of the use of North Stars in 1949 over 1948?

Mr. McGREGOR: We had 100 per cent more engines on hand for 50 per cent more time. 153 Merlin engines were in use for six months in 1948 and for twelve months in 1949.

Mr. FULTON: But did you not have 100 per cent more engines in 1949 than you did in 1948?

Mr. MCGREGOR: We did in 1949, over a part of 1948, which was just what I said.

Mr. FULTON: Your 153 Merlin engines were necessarily 100 per cent more engines than those you had on hand before you took the North Stars into service?

Mr. MCGREGOR: Yes.

Mr. FULTON: How many aircraft did you have on hand during the first six months of 1948?

Mr. MCGREGOR: None, if you are referring to North Stars.

Mr. FULTON: But I thought you said you had over 100 per cent more engines during part of 1949 than you had in 1948?

Mr. MCGREGOR: We are talking about domestic engine maintenance, North Stars were not in use in the first six months of 1948. We had no North Stars in service on domestic then.

Mr. FULTON: What I was trying to find out was if you had 100 per cent more engines to maintain in 1949 than you had in 1948?

Mr. MCGREGOR: Yes, because the line service maintenance was for six months in 1948 as compared with 12 months in 1949.

Mr. FULTON: When you put North Stars into service, you had 100 per cent more engines in service than you had before you put the North Stars into service? That seems difficult to accept and I return to the question: How many engines did you have in service in 1948 before you put the North Stars on?

Mr. MCGREGOR: We have exactly the same number of Pratt-Whitney engines in service today, and the number of Pratt-Whitney engines is 76.

Mr. FULTON: In domestic service?

Mr. MCGREGOR: All the DC-3's are in domestic service. Those are system figures.

Mr. FULTON: Would there be any other type of engines than the Merlins in 1948?

Mr. MCGREGOR: In domestic service prior to June 1, they were all Pratt-Whitneys.

Mr. FULTON: How many of the other engines, the North Star engines, did you have in service after June 1?

Mr. MCGREGOR: I would say 153. I think that is correct. I know it was 138 as at December 31, and it would be 153 as at December 31, 1948. Yes, 138.

Mr. FULTON: 138, a hundred and thirty-eight?

Mr. MCGREGOR: Yes, as compared to 76 prior to the introduction of the aircraft.

Mr. FULTON: I do not think it would follow that you had over 100 per cent, if the average for 1949 was 100 per cent greater than the average for 1948.

Mr. MCGREGOR: I said we had 100 per cent more for 50 per cent of the time.

Mr. FULTON: Or you might say that you had 50 per cent more than the average for the whole year? You had to have 153 engines in your possession for domestic air lines to keep how many North Stars?

Mr. MCGREGOR: That figure is subject to correction, but in any case it is a system figure.

Mr. FULTON: 138, yes, I am sorry.

Mr. MCGREGOR: That is the total system number of engines of the Merlin type.

Mr. FULTON: I was referring to the domestic.

Mr. MCGREGOR: I explained. I have to keep separating between domestic and system. Our total number of engines is a system number of engines, and an aircraft may be used on domestic operation for two months, and later it might be used on international operation; and the engine is completely interchangeable with one or two very small modifications. And when the engine leaves the engine repair shop, we have no idea whether it is going to be used in domestic or international aircraft.

Mr. FULTON: How can you break down your engine maintenance figures then?

Mr. MCGREGOR: That is done on the basis of time performed by the aircraft. We say that the engine maintenance cost for an hour of aircraft time is so much and there was so much aircraft time flown domestically and so much aircraft time flown internationally.

Mr. FULTON: But your maintenance costs for 1949 were over 200 per cent of what they were in 1948.

The CHAIRMAN: Where do you get that figure, Mr. Fulton?

Mr. FULTON: I am trying to get a breakdown of the operating expenses on page 5 and if you will turn to page 19 you will find "Flight Equipment Maintenance".

Mr. GILLIS: Mr. Chairman, I wonder where we are getting with this. It seems to me that all the details that Mr. Fulton is looking for now can be discussed as we go through the book, and as far as I am concerned, I have got the whole picture now. I think this particular page we are on tells the whole story. I think we are just wasting our time. I appreciate Mr. Fulton's difficulty. But he is a trained lawyer and when he gets a witness on the stand, his desire is to cross examine him. Personally, I think we are wasting time. I am getting nothing out of this. That is all internal management. We are here to look at the financial picture and I think we have got the picture here on this page. I think the story is very clear and if Mr. Fulton would just let us get along—I think most of the information he is looking for can be found as we go through the book.

Mr. FULTON: I do not seem to have Mr. Gillis' advantage to be able to take in all the details as quickly as he says he can.

Right Hon. Mr. HOWE: Why not ask some of these questions as questions of fact and let the air lines officials file a statement on them tomorrow after looking them up?

Mr. FULTON: I am sorry. I am genuinely sorry, but I have not been able to convey the exact information I want to Mr. McGregor.

Right Hon. Mr. HOWE: I do not suppose he would be able to answer you right now even if you did. So why not put your questions in the record and let him answer them tomorrow?

Mr. FULTON: I am endeavouring to put them on the record in such a way as he will understand them.

Right Hon. Mr. HOWE: The record is being taken down by the reporter right now. So why not ask your questions.

Mr. FULTON: Is the minister acting as a member of the committee?

Right Hon. Mr. HOWE: Yes, as a member of the committee.

Mr. GEORGE: Why cannot Mr. Fulton do the same as Mr. Carter did: put his questions in writing?

Mr. FRASER: Well, Mr. Carter put his questions in writing and they were put in the record but we have not got the record nor the answers to those questions yet.

Mr. FULTON: What I want to know is: the corresponding figure as to the number of engines maintained between 1948 and 1949 because I find in the breakdown of operating expenses which we are dealing with on page 5 that the cost of maintenance in 1949 charged to domestic operations of engines is over 200 per cent of what it was in 1948 and I would like to know the reason for it?

The CHAIRMAN: You keep saying "over 100 per cent"; and I would like to be shown where you get it. I have checked the figures on page 19 and it is nothing like 100 per cent.

Mr. FULTON: Item No. 47.

The CHAIRMAN: Well, there is an increase which you can see is the difference between the year 1949 and the year 1948, but that does not work out to 100 per cent.

Mr. FULTON: Well, I make it that way. It is $1,894,115.69 as against $890,515.13.

The CHAIRMAN: You are now coming down to "aircraft engines—material etc.".

Mr. FULTON: We have been talking of maintenance of engines.

The CHAIRMAN: If you have doubled the cost, then you must have doubled the work done and the material costs; and your double cost does not show 100 per cent increase.

Mr. FULTON: I refer you to that item showing increased "Aircraft Engine—Labour" $864,295.56 as against $575,652.69, and the item "Aircraft Engines—Material, etc." $1,894,115.69 as against $890,515.13.

The CHAIRMAN: You are taking two items out of the table?

Mr. FULTON: Because those two items deal with engines.

The CHAIRMAN: Oh, no. All six items deal with engines.

Mr. FULTON: But Mr. McGregor explained it was broken down between aircraft frames and aircraft engines. I am dealing with items that refer to aircraft engines.

Mr. MCGREGOR: Even so, they do not add up, do they?

Mr. FULTON: Aircraft engine material is two hundred per cent in 1949 of what it was in 1948.

Mr. MCGREGOR: Are you dealing only with material now?

Mr. FULTON: As I pointed out earlier, aircraft engines, labour, is something like fifty per cent increase, and the fact I am trying to get at is, how many engines were maintained so we can decide whether it was simply due to the increase in the number of engines or whether there was some difficulty in maintenance. When I get Mr. McGregor's answer to that I can go on.

The CHAIRMAN: Any further questions on page 5?

Mr. MCGREGOR: I am afraid I will have to have more clarification before I can answer Mr. Fulton's question. The number of engines changed very materially in 1948 so if he wants any comparison made for any one month in 1949 I will be glad to make it, but I say that there was a difference in the number of engines in service in 1948 and in 1949 and unless you can tell me what part of 1948 you want the information with regard to, I cannot give it, because they changed very materially.

Mr. FULTON: Let us break it down to the two six months periods. The first six months of 1948 as compared with the first six months of 1949 and the last six months of 1948 as compared with the last six months of 1949.

Mr. MCGREGOR: Well, again, that changed. Will you let me give you the information as of January the 1st or February 1st of each year?

Mr. FULTON: All right, give it as of January 1 and July 1 of each year. Carried.

The CHAIRMAN: Page 6.

Mr. KNIGHT: I see at the top of page 6, the last paragraph, a matter of landing fees, and the amount of money returned to the government of Canada and its agencies, et cetera, for landing fees. I would like to be clear on that, but I shall not go into any detail. Landing fees paid to the government. I take it the fees would be paid to the Department of Transport insofar as that department owns certain fields and your company pays them for the use of those fields and facilities there.

Mr. MCGREGOR: Yes.

Mr. KNIGHT: What proportion or percentage of these fields does the Department of Transport own? There would be some municipally-owned fields that you land at also?

Right Hon. Mr. HOWE: Yes, there are some fields municipally operated, at Vancouver and Edmonton. Are there any more that you know of, Mr. McGregor?

Mr. MCGREGOR: I do not think so.

Mr. KNIGHT: Does T.C.A. pay in respect of these services provided by those fields exactly the same as your competitors, the Canadian Pacific Air Lines for instance?

Mr. MCGREGOR: Yes, it pays more because the landing fee is calculated on the size of the aircraft in terms of all-up weight. A DC-3 operated by T.C.A. pays the same as a DC-3 by the C.P.A. The C.P.A., however, only operates four-engine aircraft into one field in Canada, which is Vancouver.

Mr. KNIGHT: But there would be other navigation aids provided by the Department of Transport, I presume, and some of these would be intangible, that is, they could not be worked out and paid for in dollars and cents, I imagine, and these would be enjoyed by your competitors as well as by yourselves.

Mr. MCGREGOR: Yes.

Mr. KNIGHT: In which case, wouldn't I be correct in saying these private companies, your competitors, are to some degree subsidized? Is not every transportation company subsidized to that extent by the government?

Mr. GEORGE: No more than a ship would be in using navigation lights coming into a harbour.

Mr. MCGREGOR: The same way.

Mr. KNIGHT: I was thinking of the maintenance of station masters at Penticton—oh, no, Penticton is off now, isn't it? You abandoned that field; it is no longer in service. Who would pay for the maintenance of stations at a place like Whitehorse? I notice Whitehorse is served by the T.C.A.

Mr. MCGREGOR: The Department of Transport—

Right Hon. Mr. HOWE: The scale of landing fees is fixed so that for a greater density of traffic it will cover the expenses of the Department of Transport in maintaining their fields. The scale is comparable with landing fees to the south of us; fees must be competitive, although I think ours are fully as high as they are in the States. Montreal and Toronto have a density of traffic that allows airports there to pretty well pay the cost of operation. Of course, it will take some time to increase the density of traffic at certain fields, but when the required density is reached the fields will be enabled to pay their operating costs.

Mr. KNIGHT: You spoke about revenue to be obtained from flying aircraft into places where there are no other means of transportation. I presume you

call those bush routes, or whatever it is. Are they more profitable than the routes where you have competition?

Mr. McGREGOR: There is usually a higher revenue obtained from each ton-mile flown over those routes.

Mr. KNIGHT: And you are in the unfortunate position of not having many of those and certain rivals are in the important positions of running over those particular routes.

Mr. McGREGOR: I cannot think of any route where we are not subject to competition.

Mr. KNIGHT: Your accident rate is low, is it not? I was wondering how it compared with world or United States figures?

Mr. McGREGOR: Well, the figure is usually quoted in fatalities per million of passenger miles flown. We are in the fortunate position of not having had a fatal accident in 1949.

Mr. KNIGHT: Would you suggest that a monopoly in your own field has had some influence upon the accident rate or rather the absence of accidents? I mean would there be a tendency in the case of keen competition—for instance, I can imagine in certain parts of the United States many United States airlines might have a tendency to put aircraft in the air when perhaps the weather was just a little unfavourable.

Mr. McGREGOR: It is possible; but there is very careful regulation of the activity of all airlines.

Mr. KNIGHT: Thank you, Mr. Chairman.

The CHAIRMAN: Any further questions on page 6?

Mr. FRASER: About this intensified sales campaign. You did a lot of advertising in 1949 compared with what you did in 1948?

Mr. McGREGOR: Yes.

Mr. FRASER: Have you the figures of that?

Mr. McGREGOR: Yes.

Mr. FRASER: That is the figure for Canada only or would it cover all your routes?

Mr. McGREGOR: I can give it to you either way. The advertising charges in respect of all services in 1949 were about $150,000 more than in 1948.

Mr. FRASER: 1949 was $150,000 more? Well, what was the figure?

Mr. McGREGOR: $837,561 in 1949, and $660,940 in 1948.

Mr. JAMES: Mr. McGregor, with regard to that paragraph under financial review where you state "in considering these financial results, it should be borne in mind that Canadian Airlines are placed at a severe disadvantage by the weight of customs duty and sales tax which they must pay on equipment and materials imported from the United States," I presume that is in comparison with American competition and is not in comparison with the Canadian Pacific Airlines. In other words, they pay the same tax and customs duties as yourselves.

Mr. McGREGOR: Yes.

Mr. FULTON: Are your rates set by the Air Transport Board or do you have to apply to the Air Transport Board for approval of a schedule?

Mr. McGREGOR: Not approval of a schedule, approval of fares.

Mr. FULTON: And are the C.P.A. in the same position?

Mr. McGREGOR: I believe so.

Mr. FULTON: Could I ask you some questions with regard to the figures you have on page 6 here? It seems to me that the ratio of revenue passenger miles to available seat miles and the ratio of revenue ton miles to available

ton miles has decreased in 1949 as compared with 1948. In other words, in 1948 there was a difference of 117 million between the revenue passenger and the available seat miles, and in 1949 there was a difference of 149 million in round figures, and in 1948 there was a difference of 20 million between the available ton miles and the revenue ton miles and in 1949 there was a difference of 27 million between the revenue ton and available ton miles. I would like to know whether the result of the increased services which you have been giving has been to increase your availability considerable but the traffic available has not kept up?

Mr. McGregor: That is accurately measured by the load factor figures. It is shown for the total load, or if you prefer on the passenger basis. It is a direct measurement of the amount of advantage taken of your available space. And, as I mentioned, the two daily transcontinental services, which is one of our major activities, in the spring of 1949, were increased to three and we did not take off the third flight in the autumn of 1949 because we were in the somewhat unfortunate position in which two flights were too few, and three flights a little too many during the winter months.

Mr. Fulton: And you intend to run another transcontinental service this year?

Mr. McGregor: That is correct.

Mr. Fulton: Are you satisfied then that your use might be sufficient to take care of your availability?

Mr. McGregor: We are satisfied that our summer traffic will be sufficient to keep those flights occupied but the fourth flight probably will come off in the autumn of 1950.

Mr. Fulton: Can you give us a breakdown—I am not sure whether this point came up before—can you give us a breakdown of the passengers carried on the various sections of the system?

Mr. McGregor: No, but we can give you the load factor as a whole for the Atlantic or the North American operations.

Mr. Fulton: Could you give us a breakdown of the passengers carried, say, between Calgary and Winnipeg?

Mr. McGregor: I can give you what we call our flow chart figures compiled for each month which will give you the number of passengers travelling between each of these points.

Mr. Fulton: Could you give me that tomorrow say for the period from January to June, 1949?

Mr. McGregor: I have them for January but I haven't got it for last June. I could give you the passengers as a whole.

Mr. Fulton: Could you have them for me tomorrow?

Mr. McGregor: I could get them for you tomorrow for last June. I can give you the January figure now, if that is satisfactory?

Mr. Fulton: How long will it take to get it?

Mr. McGregor: I would think, 24 hours. You want it by legs; you understand many of these passengers will be repetitive figures; that is, the same passengers would be carried between Vancouver and Calgary, Calgary and Winnipeg, and Winnipeg and Toronto.

Mr. Gillis: Before we leave this page, the servicing of your aircraft at the different airports under the Department of Transport is done by T.C.A. personnel?

Mr. McGregor: That is correct.

Mr. Gillis: And foreign aircraft landing in this country at one of these places are serviced by your personnel?

Mr. McGREGOR: Not necessarily, we may or we may not. If there is an agreement existing between the owner of that aircraft and T.C.A. it will be done, otherwise any other air line or agency may do it.

Mr. GILLIS: You have the only personnel at the airport operated by the Department of Transport?

Mr. McGREGOR: Oh, no, Gander, for instance, has personnel of eight air lines.

Mr. GILLIS: That is what I am getting at. Has there been any suggestion to change that arrangement to hand all the servicing over to some private company?

Mr. McGREGOR: Yes, at some points.

Mr. GILLIS: I understand the general feeling is that if a private company were looking after that servicing work it would not be nearly as satisfactory as having it done by your own personnel; is that not the general feeling?

Mr. McGREGOR: That is our feeling.

Mr. GILLIS: That is your feeling?

Mr. McGREGOR: Yes.

Right Hon. Mr. HOWE: Everybody feels the same about it.

Mr. GILLIS: There has been some anxiety—I know I have had a letter or two from my own airport suggesting that the change was under consideration. They are feeling pretty anxious about it.

Right Hon. Mr. HOWE: Tell them to forget about it.

Mr. FRASER: Are we going to adjourn at 10 o'clock?

The CHAIRMAN: All those in favour of adjourning at 10 o'clock?

(It was decided to continue.)

Are there any more questions on page 7?

Carried.

Page 8.

Mr. FULTON: With respect to page 7, I wonder if Mr. McGregor has the figures we asked for this morning showing the increased poundage of mail being carried.

Mr. McGREGOR: Not yet, no.

The CHAIRMAN: That will be tabled.

Mr. FRASER: On page 8 you refer to ILS and the fact that it reduces the waits which passengers had before. You use it in every case, do you?

Mr. McGREGOR: There are a few airports in which it has still to be installed under the plans of the Department of Transport, but, as I understand it, all the major airports, with the exception of Patricia Bay at Victoria have been equipped with ILS.

Mr. FRASER: There is just the one place?

Mr. McGREGOR: That is the only one I know of although I am subject to correction.

Mr. KNIGHT: That is a technical term—it is instrument landing, but what does the "S" stand for?

Mr. McGREGOR: System.

The CHAIRMAN: Are there any further questions on page 8?

Carried.

Page 9.

Mr. FRASER: I may not have asked this in committee but I wondered about family rates and I believe you told me you did not have them.

Mr. McGREGOR: Yes, we have.

Mr. FRASER: Your competitors have reduced rates to quite an extent, have they not?

Mr. MCGREGOR: The only rate reductions that have been applied on the Atlantic have been applied by all the north Atlantic carriers. They are not of the family type, they are excursion return discounts and they consist of two types of return trip. One is the sixty-day return, which, as the name implies, requires that the passenger return within sixty days of his outward journey. That is being sold during the winter months at one and one-third fare. There is the second type of discount at one and one-tenth fare for a round trip for a fifteen day journey. All trans-Atlantic fares are agreed upon as between the trans-Atlantic carriers and are identical.

Mr. FRASER: Yes, but you do not have those reduced rates?

Mr. MCGREGOR: Yes, we do.

Mr. FRASER: You do?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Are there any further questions on page 9?

Mr. FULTON: Yes. I see that there is interest on capital invested charged to the T.C.A. Atlantic run, but it is considerably less than for the domestic run. Can you tell us how many aircraft you have on the Atlantic as compared with the domestic run?

Mr. MCGREGOR: Again it is a case of changing conditions throughout the year. It is referred to in the report and, if I remember the figures correctly, it began with twelve aircraft on the international operation and nine on the domestic. Today it is perhaps a matter of interest to note that the figures are exactly reversed. At the end of the year, however, the figures were ten to ten. These figures are for North Stars only.

Mr. FULTON: That is North Stars alone?

Mr. MCGREGOR: Yes.

Mr. FULTON: You have other DC-3's?

Mr. MCGREGOR: We have no DC-3's on the international run.

Mr. FULTON: On the domestic runs?

Mr. MCGREGOR: Yes.

Mr. FULTON: I wonder if you would give the total number of aircraft charged to the domestic or North American service as against the total charged to the trans-Atlantic service?

Mr. MCGREGOR: The figure was altered several times during the year, but at the end of December it would be fair to say there were 37 aircraft charged to domestic and ten to international.

Mr. FULTON: Is that the basis of your division of capital charges between the two?

Mr. MCGREGOR: No. Capital investment in such things as maintenance bases and so on is apportioned as between the two companies on one basis, and capital charges associated with the aircraft, are apportioned between the two companies on the basis of the numerical allotment of aircraft.

Mr. FULTON: And what is the proportion?

Mr. MCGREGOR: In the case of North Star aircraft I think it is ten to ten as at December 31.

Mr. FULTON: And you make your decision on the basis of the North Star, as I understand it, and you charge your interest on capital partly to domestic operations and partly to trans-Atlantic, and a different amount is payable in each case. What is the proportion of capital which is charged to the domestic as against the trans-Atlantic?

Mr. McGregor: We can get that directly from the interest charges; it would be identical. The proportion of interest charge would be the same because we pay the same interest on every dollar of our investment.

Mr. Fulton: I appreciate that; but what is the basis of division?

Mr. McGregor: I thought I told you. We cannot mix apples and oranges. In the case of aircraft, we cannot say it will be 37 to 10, when 27 of those aircraft are DC-3's at $200,000, and 10 are North Stars at $660,000. So we take the North Star's investment for aircraft which we know, and we say a proportion of that, as between domestic and international, will be half and half when the allotment is ten and ten. We had an investment represented by the 27 DC-3's aircraft assigned to the North Am. company. In addition, there is a large investment in tools, shops, and other things which is also apportioned on the basis of the amount of time performed by the aircraft in those two distinct services.

Mr. Fulton: What I would like to know is the financial details of the division of capital charge to domestic and overseas operations in 1948 as compared with 1949.

Mr. McGregor: I cannot give them to you now.

Mr. Fulton: Can you give them to us tomorrow morning?

Mr. McGregor: Yes, tomorrow morning.

Carried.

Mr. Knight: I notice on page 9, at the top of the page, there is a statement with regard to operating revenues and operating expenses, and it shows that revenues decreased 6 per cent, while operating expenses increased 4 per cent. I would like to ask this question—first of all, perhaps I should say that I suppose the people who travel in airplanes look upon it as a luxury form of travel. You might not be willing to admit it, Mr. McGregor, but I believe it. What would be the result in the whole general picture of an economic set-back?

Mr. McGregor: If by that you refer to the reduction in operating revenue, I would say it was entirely due to the discontinuing of the charter agreement between the government and the air lines for the transportation of immigrants.

Mr. Knight: I mean, in the case of a depression or recession in this country, I am afraid that would upset our balance sheet for the worse.

Mr. McGregor: I would think it would.

Mr. Fraser: Is it really a luxury to travel by air? I always felt that as far as the businessman is concerned it was a necessity because it saved him a lot of time.

Mr. McGregor: I think that is quite right, and not only is it a saving to the businessman but it is a saving as well to the holiday-maker, because it gives him more time for his vacation.

Mr. Fraser: Yes. It is not really a luxury.

Right Hon. Mr. Howe: I think it is really a third class passage in so far as the trans-Atlantic trip is concerned. I know that I crossed on the Queen Mary and I had to pay two and a half times as much as I would have had to pay to travel on Mr. McGregor's line.

Mr. Fraser: Yes, and it took you longer.

Right Hon. Mr. Howe: Yes, and it took me longer.

Mr. Knight: Of course, the time element is important for businessmen.

Mr. Fraser: If a businessman has to go over to the United Kingdom in a hurry, he can leave here on Monday and be back on Friday.

Right Hon. Mr. Howe: I really do not think you can say with certainty what the effect will be. I do not think you can tell exactly.

The CHAIRMAN: Page 10?

Mr. FULTON: I am sorry; I have a number of questions on page 9. You referred just now to the disadvantage you are under in the discontinuance of the immigrant movement, Mr. McGregor. It is not a fact that, overall, that did not improve your position when operating revenues and operating expenses were both taken into account?

Mr. MCGREGOR: No, it is not that.

Mr. FULTON: I find on page 282 of the proceedings of last year, at the bottom of the page, you said in analyzing the Atlantic operations: "Also, the difficulty of obtaining eastbound loads for aircraft proceeding to the United Kingdom for Canadian Governement immigrant flights, together with the low rate quoted for that traffic, made this service unprofitable to the Air Lines." So that, in the light of that statement I would have thought that the discontinuance of that movement has not prejudiced your operations.

Mr. MCGREGOR: I do not think that is quite correct. In not operating a service, whether it is profitable or not, when you are in a position to operate that service, both equipment-wise and crew-wise, you are not saving the total cost of that operation, all you are saving is your out-of-pocket expenses, fuel expenses and things like that, if you are equipped and established to operate the service. If the revenue from that flight is sufficient to meet or better the actual out-of-pocket cost of operating it, then you are better off than you are when not operating it, but it does not mean it is a profitable operation, if that doesn't sound too Irish, because you would not have established either the aircraft or the crew to electively operate that service, but if you have both you are better off to operate it.

Mr. FULTON: But I take it from what you said in 1949, the immigrant movement did not result in an overall profit to the airlines because you say that the difficulty of obtaining eastbound loads proceeding to the United Kingdom for Canadian Government immigrant flights was one of the factors which made it an unprofitable operation, so that, overall, it did not profit your Trans-Atlantic service to be carrying on that business.

Mr. MCGREGOR: No, because we put ourselves in a position to be able to do it, at heavy expense.

The CHAIRMAN: There is a difference in the degree of loss, Mr. Fulton. That confirms your statement.

Mr. FULTON: Yes, but it would follow, it seems to me from that remark of the chairman, that your net revenue position has not been prejudiced by the fact that that service is discontinued.

Mr. MCGREGOR: That is the point. I say the gross revenue position has been deteriorated with respect to that service by over a million dollars. We have maintained the equipment and we have paid salaries to the crews that were set up for that service.

Mr. FULTON: But did you acquire some of the equipment for the purpose of carrying on that operation?

Mr. MCGREGOR: No, I do not think that operation was even contemplated when the equipment was ordered.

Right Hon. Mr. HOWE: Put it this way. On the North Atlantic service we must have enough aircraft flying to serve the passengers available. If we could double or treble or even suppose we could quadruple that number of passengers we might improve our position because that would reduce relatively the cost of operating our airport stations, and our maintenance crews, let us say for instance at Iceland, London, and Prestwick. Everywhere we have to be prepared to do maintenance. Where we increase the number of our flights and the number of our passengers, we reduce the unit cost of operation. If we could increase

the number of flights and the number of passengers carried, as I say, it would have a material effect in reducing the over-all proportionate cost of operation.

Mr. FULTON: The position as I see it is this: we have given ourselves a certain amount of equipment—aircraft, crews, stations and so on—for our Trans-Atlantic service, and up to the present time, and last year, the ordinary passenger cargo and mail revenue and so on did not cover the operation expense.

Right Hon. Mr. HOWE: That is right.

Mr. FULTON: I do not think you can put the blame for the fact that it did not do so, that the deficit was increased this year as compared with the year before—I do not think it is proper to blame that on the fact that you did not have that immigrant work.

Mr. MCGREGOR: To a certain extent it is, the effect of it was that if we had had enough immigrant traffic it would have been an advantage.

Mr. FRASER: On the chart on page 23 I notice that October, November and December—particularly in November and December—there seemed to be a jump-up; would that be caused by the devaluation of the dollar and the pound?

Mr. MCGREGOR: I beg your pardon, which page?

Mr. FRASER: That was on the graph on page 23.

Mr. MCGREGOR: Yes, for what year?

Mr. FRASER: For 1949 and 1948 there is a definite drop in November, yes, November and December, but in 1949 there seems to be an upward trend; I wondered if that was caused by the devaluation of the pound?

Mr. MCGREGOR: No, I would not think so; part of that increase—this incidentally is only in the month of December, the month of November is the second column in and it shows a very sharp drop in the figures — part of that is stimulation in Christmas travel, and the remainder was the effect of the reduced fares that we spoke of, I believe.

Mr. FRASER: That is when it came into effect?

Mr. MCGREGOR: Yes.

Mr. FRASER: That is what I am trying to find out what caused that.

The CHAIRMAN: Mr. Fulton, you had one more question, I believe.

Mr. FULTON: Yes. I was going to suggest this Mr. McGregor, that quite possibly we have gone ahead too fast in this Atlantic service as a whole, and we have over-expanded ourselves; we have spent too much money on capital investment for the foreseeable future operations and we have in effect over-invested in that service for many years to come.

Right Hon. Mr. HOWE: It is a prestige service in a way, If the travel increases we will be able to pull out of the red; if we can justify an increase in the number of aircraft we will probably make a much better showing. But I think you are right; the difficulty of putting the service into the black would depend directly on travel; the traffic which develops over the period. The trouble is that there is a certain minimum service that we have to give, ground services that we have to have to maintain, to provide trans-Atlantic service. In our domestic service; we have three transcontinental services going now but when we had only the one transcontinental service we had very high mail rates, with the mail pay carrying most of the load; we existed on the mail revenue. As we put on more flights we reduced our ground expense proportionately. On our trans-Atlantic service we are now hoping to build up traffic until it is sufficient to carry the operating load.

Mr. FULTON: I can see that, taking the 1948 figures and comparing them with the 1949 figures, particularly in view of the forecast; but I am not suggesting

that a person could always make accurate forecasts; and in 1949 you were up on your 1948 operations in black and white, and you show an improved position in 1949.

Right Hon. Mr. HOWE: That is true.

Mr. FULTON: In fact the position was quite a lot worse.

Right Hon. Mr. HOWE: I do not think we were optimistic enough then to think that we would break even on the north Atlantic service, were we?

Mr. FULTON: No, but we get worse results than for last year, and very much worse than we forecast, because we said we would get better. I am raising the question as to how far the taxpayers should be called upon to subsidize an overseas service, instead of using the money to subsidize the domestic service. The overseas service is available to relatively few people — certainly relatively few compared with those who can use the domestic service. I am therefore asking whether it is not possible to reverse this trend either by cutting down the service or in some other way and to reduce the money we spend in paying the deficit which we incur on this trans-Atlantic service as a whole.

Right Hon. Mr. HOWE: I think the only way would be to cut out the service. We could stop it altogether. I do not know how we could fly the route at all with much less in the way of equipment and ground personnel than we have today.

Mr. MCGREGOR: It would be impossible.

Mr. FULTON: Mr. McGregor says it is impossible.

Mr. MCGREGOR: Yes, to operate with any more restricted staff and equipment than we have.

Right Hon. Mr. HOWE: The southern routes are building up nicely. They do help level out traffic and it may be that as the Atlantic service builds up we may get into balance in a year or two. That remains to be seen.

Mr. GEORGE: You talked about prestige—this is more building for the future than for actual returns today.

Right Hon. Mr. HOWE: Yes, and for holding our place. We are the pioneers on this route, and we are holding the traffic.

Mr. FULTON: How essential is the route? We provide a service by the Canadian National Steamships to carry cargo and we are told it is being carried on because of our traditional connections with the area. We incur deficit on that service and, as I understand the questions and answers given in regard to the railway, it is being done to continue showing the flag down in that area. Now how essential is it to incur a deficit here for the same purpose—just to show the flag on a line that has no prospects of showing a black figure for a number of years.

Right Hon. Mr. HOWE: In the 1948 reports it was said that until Canada has a larger population, or until the basic costs of air transport are reduced, international flying must be regarded primarily as a long-term investment. I think that is a fair statement.

Mr. FULTON: It is a long-term investment, I agree, but I am just wondering whether it is going to show any returns.

Right Hon. Mr. HOWE: All you can do is to keep fighting the deficit and to build up traffic as much as you can.

Mr. FULTON: I am wondering whether it is not going to be a little disheartening over the years. I am quite sure that Mr. McGregor and his officials fought it this year, because in spite of their prediction they had a deficit.

Mr. GILLIS: Would you want to discontinue it?

Mr. FULTON: I am wondering whether there is any way short of discontinuing the service to avoid the deficit?

The CHAIRMAN: The answer was no.

Right Hon. Mr. HOWE: The answer is no. We have got to discontinue the Atlantic services altogether and stop all the loss or run it as best we can and keep fighting the deficits and trying to build up the traffic. There is no way to cut down expense so all we can do is to hope to build up traffic.

Mr. FULTON: What would be your view on the proposition of allowing private air lines to develop those services. That would not cost the taxpayers funds, and we could concentrate our efforts on the domestic service.

Right Hon. Mr. HOWE: Well that would be something else. I would hate to think that a privately run firm has a longer view of the traffic situation than the Canadian government. I think if private concerns would tackle the routes and hope over the years to make them profitable then the Canadian government could do so just as well.

Mr. KNIGHT: You have let them do it in the Pacific?

Right Hon. Mr. HOWE: Yes, we felt we could not dissipate our resources and management in order to cover the Pacific as well.

Mr. KNIGHT: That was not always your opinion?

Right Hon. Mr. HOWE: No, but I thought if I had to account for the loss of an aircraft say in Japan and some operating loss as well, that the committee would not like it.

Mr. KNIGHT: The minister's optimistic views of three or four years ago have not been fulfilled.

Right Hon. Mr. HOWE: Well, we temper optimism with experience.

Mr. FULTON: How long, in terms of years, do you think it will be? Five or ten years? Ten or fifteen?

Right Hon. Mr. HOWE: If by developing the south-Atlantic service which is a direct contributor to the north-Atlantic—because we work with the same aircraft—if after five years we are convinced that we cannot operate without a substantial loss, then it would be a fair question for this committee to decide whether it is worth struggling on.

Mr. FULTON: So you would not forecast profits on this operation within five years? You would not care to do so within a shorter time than five years?

Right Hon. Mr. HOWE: That is right.

Mr. FRASER: The minister mentioned the southern lines. Is there any agreement on that new line down to Tampa that you have to run so many planes on that trip per month or per week?

Mr. MCGREGOR: Not in those terms. The agreement says that we shall relate our frequency properly to the indicated demands for traffic. In other words, we will not over serve or, by inference, under serve it.

Perhaps it might help to afford some relief to Mr. Fulton if I told him that on the basis of the first two months of operations of the Atlantic service in 1950 the net figure is $307,000 better than for the same two months of 1949.

Mr. FRASER: Is that due to the reduced fares?

Mr. MCGREGOR: Some proportion of it would be.

Mr. FULTON: My answer to that would be that I regret to say that it is very much the same thing that happened in 1948, when, in reviewing the 1949 operations you said at page 313:

> "... but I can very definitely assure you that our financial returns on our overseas operations for 1949 show improvement, and that the months that have already gone by would indicate that these estimates are very close to accurate."

I do not think anyone should criticize you severely for having made an optimistic forecast. But you made that forecast based on two or three months of operations in 1949. You made that forecast in April 1949, but it turned out that for the whole year they were completely reversed. And speaking personally, I have seen nothing which would indicate that the same forecast you make for this year will not be completely reversed this year. The Right Hon. Mr. Howe has said that he would not forecast black figures within five years.

Mr. McGregor: And I think he is quite right. I have already drawn your attention to the fact that at the time that statement was made there was a contract with the government and that it came to an end and it had the effect of reducing the revenue by something more than $1\frac{1}{4}$ millions.

Mr. Fulton: Yes. But you point out in your report this year that the west bound traffic—which I understand was passenger traffic—has contributed a greater proportion of your operating revenue this year than last year.

Mr. McGregor: Of the total revenue.

Mr. Fulton: Yes, and as for the Atlantic service, you say that the reason you showed a deficit this year was the fact that you lost that immigration traffic. But that has not altogether prevented you from carrying an increased number of passengers; nevertheless you show a deficit.

The Chairman: This is a most remarkable thing. You are one page ahead of us now, Mr. Fulton.

Mr. Fulton: No, Chairman, I am still on page 9.

Carried.

Mr. Fraser: Is the mail rate to be any higher for you?

Mr. McGregor: Well, it is on an entirely different basis. The mail rate is on an international agreed rate per pound mile as received by TCA and as received by other international carriers; but as you have probably seen, perhaps, from time to time, there is a claim made by other international carriers, at least by the companies to the south of us, for what is called retroactive mail pay which is an addition to that rate. In the largest company, it represents a back payment of about $9 million according to recent figures.

Mr. Fraser: Would you get any of that?

Mr. McGregor: No, it was paid by the United States Government.

Mr. Fraser: That was paid by the United States Government?

Mr. McGregor: Yes:

Mr. Fraser: Well, what is your rate on this per mile?

Mr. McGregor: The official figure is six gold francs per ton kilometre. It works out—

Mr. George: Is that a French franc?

Mr. McGregor: Not today, no it is a gold franc—that works itself out to $4.83 per pound to carry it across the Atlantic.

Mr. Fraser: $4.83? Even with the deflation and one thing and another that is still at that figure?

Mr. McGregor: Yes. Unfortunately the Canadian post office continues to pay in dollars whereas that figure was originally based on a gold franc which should have increased the mail pay when devaluation took place. The post office interpretation on the agreement, which was correctly stated in dollars and cents, has been to continue to pay us at the same rate after devaluation whereas the effect of devaluation as the report stated was to increase both cargo and passenger rates.

Mr. Fraser: And on that the Canadian Government,—the Post Office Department—pays you less than $4.00?

Mr. McGREGOR: No, it continues to pays us $4.83, whereas under devaluation it should have gone up.

The CHAIRMAN: Any further questions on page 10?

Carried.

Mr. FULTON: You flew fewer revenue miles in 1949 than in 1948 yet you continue to fly more available seat miles as shown in the chart at the top of the page. Can you say how you managed that?

Mr. McGREGOR: Yes, seat miles on the Atlantic do not relate themselves to the number of seats in the aircraft because all winter flights are weight limited as to the number of seats. In some flights it is as low as 32, for instance, and the achievement of flying a greater number of seat miles for a given number of revenue miles, which is aircraft miles flown, is done by increasing the number of seats available by the introduction of intermediate landings at carefully selected points.

Mr. FULTON: That would be the same as the effect of changing from Kingston to?

Mr. McGREGOR: No, that is the effect of landing a number of flights with heavy headwind components, at Keflavik in Iceland for instance. That has the effect of keeping up the number of seats that may be made available for sale on that flight.

Mr. FULTON: Then on page 10 I see that the westbound traffic was again greater than in the opposite direction Mr. McGregor. Can you give us the breakdown of the number of passengers carried to the United Kingdom as against the Bermuda-Caribbean service?

Mr. McGREGOR: Yes, in any one month?

Mr. FULTON: For the year 1949.

Mr. McGREGOR: Yes, I can give it to you now. The revenue passengers on North Atlantic service was $21,872, in 1949.

Mr. FULTON: And in 1948?

Mr. McGREGOR: 23,429 in scheduled flights.

Mr. FULTON: And on the other services?

Mr. McGREGOR: In 1949, 11,543; and in 1948, 2,911; that, of course, is a part year in that service.

Mr. FULTON: Yes. Did the scheduled flights include the immigrant flights?

Mr. McGREGOR: No.

The CHAIRMAN: Carried. Page 11: Can you tell me the total you received from carrying mail on the trans-Atlantic flight?

Mr. McGREGOR: I have that figure here; the mail revenue in 1949 on the international services was $1,178,653.41.

Mr. FRASER: That is more than in 1948?

Mr. McGREGOR: Yes, slightly; in 1948, $1,109,731.51.

Mr. FRASER: A little better?

Mr. McGREGOR: Yes.

The CHAIRMAN: Carried.

Mr. McLURE: Could you give me an idea of the number of passengers carried in the past year on the feeder line, Maritime Central Airways, to T.C.A. Moncton?

Mr. McGREGOR: I think I could get that figure for you.

Mr. McLURE: I wish you would.

Mr. McGREGOR: You mean, boarding passengers?

Mr. McLURE: Yes.

Mr. FULTON: On page 11 there is a notation that the company moved its central offices—that is in England—to larger accommodation; can you tell us if there was any increase in the cost for the new offices?

Mr. MCGREGOR: You mean, in rental charges?

Mr. FULTON: Yes.

Mr. MCGREGOR: Yes, some.

Mr. FULTON: Have you the figure?

Mr. MCGREGOR: No, I haven't. I will have to look at the lease; but we were occupying space which was leased from the Canadian National Railways and the Canadian National people told us that they required the space and we required additional space for ourselves so we arranged to lease space at another location on Pall Mall. The rental charges were per foot and the total rental is higher.

Mr. FULTON: You didn't get other space?

Mr. MCGREGOR: Yes.

Mr. FRASER: Was it a better location for advertising purposes?

Mr. MCGREGOR: I would think it was equally good.

The CHAIRMAN: Page 12: Carried.

Mr. FULTON: I understood, Mr. Chairman, that we are now on page 14?

The CHAIRMAN: Yes, page 14.

Mr. FULTON: The last paragraph—I am afraid that I am not able to understand this implication:

> Subsequent to T.C.A.'s fulfilment of its obligations to the government in connection with the loan of the initial fleet of North Star aircraft, the residue from the original reserve, together with certain allowances received from manufacturers, was set aside to provide for the cost of future major aircraft overhauls. This amounted to $523,426 at December 31, 1949, and, considering the anticipated maintenance programme, is sufficient for the nucleus of the reserve to which further accruals may be made.

I wonder if Mr. McGregor could explain—

Mr. MCGREGOR: What it means?

Mr. FULTON: Yes, what it means.

Mr. MCGREGOR: Yes. These six M-1 aircraft which we had on loan to the R.C.A.F. carried with them, as I have explained before, the expenditure commitment to rehabilitate these aircraft to military standard, which involves taking out all the seats, most of the interior decoration and upholstery, and many other modifications. Against that commitment there was an accrual of modification reserve which was put aside each year on these aircraft. At the time when they went out of T.C.A. service and became eligible to have that work done upon them and be returned to the R.C.A.F. we got a price from two outside contractors to do the work called for under the agreement.

Mr. FULTON: $760,500?

Mr. MCGREGOR: And money actually spent was $480,379, leaving $280,121 unexpended.

The CHAIRMAN: The actual amount set aside was $523,426?

Mr. FULTON: That was the balance left over.

Mr. KNIGHT: At the end of 1949.

Mr. MCGREGOR: In order to remove any doubt about these figures we will give you the balance of the total and accrued expenditure, and the residual balance which was left over after work had been done, which in turn was augmented by two amounts of money paid to T.C.A. by Canadair on the one hand and Rolls Royce on the other hand with respect to work T.C.A. had to

do both on engines and aircraft—work regarded by those companies as being responsibilities of their own. Those three sources of funds were lumped in the long-term overall reserve which was established for the first time in the company's balance sheet.

Mr. FULTON: The balance was $523,426?

Mr. MCGREGOR: Yes.

Mr. FRASER: In New York city you have not got a downtown office?

Mr. MCGREGOR: It is on 58th street—there is some question as to whether that is downtown.

Mr. FRASER: That is what I meant. You have not got an office down near 42nd street where the other air line companies are?

Mr. MCGREGOR: No.

Mr. FRASER: Is not 58th street pretty far out?

Mr. MCGREGOR: It is pretty far out but it is a great deal cheaper than 42nd street.

Mr. FRASER: Is it not a longer run?

Mr. MCGREGOR: No, it is a shorter run to the airport.

Mr. FRASER: Yes, that is right.

Mr. FULTON: Under the paragraph, international agreements, you indicate that you contemplate further expansion of your service. Have you any idea of the increased cost that it will entail?

Mr. MCGREGOR: I will say none. The reference there is to carrying more inter-island traffic on the existing services than we have done. Bermuda is the only island in the Caribbean to and from which we are allowed to carry inter-island traffic. For instance, we fly between Nassau and Kingston, Jamaica, with no permission to carry passengers as such between those two terminals.

Mr. FRASER: This does not refer to the right to fly to Tampa, Florida?

Mr. MCGREGOR: It does as far as the United States agreement is concerned; I thought you were referring to the United Kingdom agreement.

Mr. FRASER: I mean the United Kingdom and the United States agreements, respectively. I wonder whether you have any estimate of the actual increased expenditures—not net, but the total outlay?

Mr. MCGREGOR: Yes, it is estimated to be a very small amount of money. At Tampa, we are having our work done by contract and we are establishing only a station manager and a small sales group of two people.

Mr. FRASER: You will have to pay landing rights?

Mr. MCGREGOR: We always have to pay landing fees wherever we land.

Mr. FULTON: Have you got the figure of the total estimated cost with you?

Mr. MCGREGOR: No, but I can get it.

Mr. FULTON: By tomorrow?

Mr. MCGREGOR: Yes.

Mr. FRASER: The press said St. Petersburg—do you go in there?

Mr. MCGREGOR: We have consistently used the double barrelled name, Tampa-St. Petersburg, to indicate that we served the area.

The CHAIRMAN: Well can we go to page 15?

Mr. FULTON: Mr. Chairman, there are a number of questions which Mr. McGregor has been asked to answer and the information will be provided tomorrow. I suggest that we now adjourn.

The CHAIRMAN: I think that is a reasonable request. We will adjourn now and we will sit three times tomorrow if it is necessary.

The meeting adjourned to meet Tuesday, April 4, 1950 at 11.00 a.m.

—	North American Services		North Atlantic Services		Bermuda-Caribbean Services	
	1949	1948	1949	1948	1949	1948
	$ cts.	$ cts.	$ cts.	$ s.	$ cts.	$ cts.
OPERATING REVENUES:						
Passenger	19,460,394.52	14,869,577.63	6,039,874.53	6,532,348.34	1,055,812.51	239,298.27
Mail	5,400,000.00	4,648,775.41	1,166,287.65	1,106,737.73	12,365.76	2,993.78
Express and Cargo	1,005,803.36	764,175.18	748,994.73	509,716.31	43,248.55	4,500.71
Excess Baggage	155,809.07	124,742.89	43,836.52	38,871.92	11,181.51	2,005.74
Charter and Other	106,257.92	99,801.10	846,998.82	2,144,095.71	32,192.00	2,821.00
Incidental Services-Net	395,704.38	359,864.12	216,167.79	275,695.12	5,426.45	2,025.72
Total	26,523,969.25	20,866,936.33	9,062,159.04	10,607,465.13	1,160,226.78	253,645.22
OPERATING EXPENSES:						
(excluding Depreciation)	24,605,301.57	19,249,970.68	9,609,781.54	10,670,512.32	1,992,604.33	455,924.69
Surplus or Deficit of Revs. over Operating Expenses before Depreciation and Interest	1,918,667.68	1,616,965.65	*547,621.50	*63,047.19	*832,377.55	*202,279.47
DEPRECIATION	2,867,426.81	2,374,085.64	962,665.61	1,182,924.42	264,703.41	61,482.68
OPERATING *Loss*	948,759.13	757,119.99	1,510,287.11	1,245,971.61	1,097,080.96	263,762.15
Interest on Capital Invested	470,684.77	425,902.17	228,407.69	227,088.07	62,373.30	13,396.39
Deficit	1,419,443.90	1,183,022.16	1,738,695.80	1,473,059.68	1,159,454.26	277,158.54

*Deficit.

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

TUESDAY, APRIL 4, 1950
WEDNESDAY, APRIL 5, 1950

WITNESSES:

Mr. G. R. McGregor, President, Trans-Canada Air Lines; Commander C. P. Edwards, Deputy Minister for Air, Department of Transport; Air Vice-Marshal A. T. Cowley, Director of Air Services, Department of Transport; Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines; Messrs, Frank P. Turville, C. A., and O. A. Matthews, representing George A. Touche & Co.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

CORRIGENDUM

HOUSE OF COMMONS

CANADA

OTTAWA, April 4, 1950.

H. CLEAVER, Esq., M.P.,
Chairman,
Sessional Committee on Railways and Shipping,
House of Commons,
Ottawa.

Dear Mr. CLEAVER: I should like to call to your attention some errors in reporting of my statement during a session of the Committee as recorded in the last paragraph at the bottom of page 51 in the Minutes of Proceedings and Evidence.

My corrected statement is this:

> I might say that last February, while I was travelling to Ottawa for the opening of Parliament, the ship had to be diverted to Louisburg and this is what happened.....there was a mad scramble for taxis to get us from Louisburg to Sydney and we got into all sorts of difficulties. We finally got there just on time and then this old ramshackle train that rolls back and forth set out from Sydney to go to Louisburg to pick up the remaining passengers—some of the passengers could not afford to get a taxi—and the departure of our train was delayed until about 12 o'clock that night waiting for the old Sydney-Louisburg train to return and make connections.

Yours very truly,
C. W. CARTER, M.P.

MINUTES OF PROCEEDINGS

TUESDAY, April 4, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cleaver, Drew, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, Howe, James, Knight, Macdonald *(Edmonton East)*, McCulloch, McLure, Pouliot.

In attendance: Mr. G. R. McGregor, President, Trans-Canada Air Lines; Commander C. P. Edwards, Deputy Minister for Air, Department of Transport; Air Vice-Marshal A. T. Cowley, Director of Air Services, Department of Transport; Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines; Messrs. Frank P. Turville C. A., and O. A. Matthews, representing George A Touche & Co., the Auditors of Trans-Canada Air Lines.

Mr. McGregor tabled the following documents relating to Trans-Canada Air Lines which are printed as appendices to this day's minutes of proceedings and evidence:

Appendix A: Passenger Flow Chart Summaries, January 1949, and June 1949;

Appendix B: Income Statements and Operating Statistics, Domestic and North American Services.

The Committee resumed consideration of the annual report of Trans-Canada Air Lines for the year 1949.

Examination of Mr. McGregor was continued.

Mr. Howe moved that the future sittings of this Committee in regard to the detail of internal operations of Trans-Canada Air Lines, particularly directed to the type of engine, be held in camera.

Mr. Gillis moved in amendment thereto that no further information of a specific character be given to this Committee with respect to engine performance.

After discussion and the question having been put on the said amendment, it was agreed to;

And the question having been put on the main motion, as amended, it was agreed to.

At 1 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Bourget, Carter, Cleaver, Drew, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, Howe, James, Knight, Macdonald *(Edmonton East)*, McCulloch.

In attendance: Mr. G. R. McGregor; Commander C. P. Edwards; Air Vice-Marshal Cowley; and Messrs. Harvey, Turville and Matthews.

Examination of Mr. McGregor was continued.

At 6 o'clock p.m. the Committee adjourned until 8 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8 o'clock p.m., the Vice-Chairman, Mr. McCulloch, presiding.

Members present: Messrs. Bourget, Carter, Chevrier, Drew, Fraser, Fulton, George, Gillis, Hatfield, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), McCulloch.

Examination of Mr. McGregor was continued.

The Chairman, Mr. Cleaver, took the Chair.

The annual report of Trans-Canada Air Lines for the year 1949 was adopted.

The Committee proceeded to consideration of the Auditors' Report to Parliament of Trans-Canada Air Lines for the year 1949.

Mr. Turville was called, read the Auditors' Report and was questioned thereon.

Mr. Matthews was called and questioned.

The Auditors' Report was adopted.

The witnesses retired.

Mr. Drew gave notice of his intention to move that the Committee recommend that its Order of Reference be enlarged to include consideration of the budget of Trans-Canada Air Lines for the year 1950.

Mr. Fulton moved that a sub-committee on agenda be appointed, to consist of five members to be named by the Chairman.

After discussion, Mr. Fulton asked leave to withdraw his motion.

At 10.40 o'clock p.m. the Committee adjourned until Wednesday, April, 5, at 11 o'clock a.m.

WEDNESDAY, April 5, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Cleaver, Drew, Fraser, Fulton, George, Gillis, Hatfield, Helme, James, Macdonald (*Edmonton East*), McCulloch.

Mr. Drew moved that this Committee request that the Order of the House adopted on Friday, March 24, be enlarged to include reference to this Committee of the budget of Trans-Canada Air Lines for 1950; and that the Clerk of the Committee be requested to prepare the necessary report to the House.

And the question having been put on the said motion, it was agreed to.

The Committee resumed consideration of Mr. Fulton's motion of April 4 that a sub-committee on agenda be appointed to consist of five members to be named by the Chairman.

And the question having been put on the said motion, it was agreed to.

The Chairman announced that the following members would comprise the sub-committee on agenda, viz: Messrs. Fulton, George, Gillis, James and McCulloch.

At 11.15 o'clock a.m. the Committee adjourned to the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
April 4, 1950.

The Sessional Committee on Railways and Shipping met this day at 11 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. McGregor is now ready to table some answers to questions which were asked yesterday.

Mr. MCGREGOR: The first answer is in reply to Mr. Fulton's question with respect to the paragraph at the bottom left hand column of page 14 of the annual report. He requested the make-up of the major overhaul reserve which was set up during 1949.

After discharging the company's obligations with respect to the M1 aircraft there was left in the fund which had been accrued for that purpose	$280,121.00
to this was added an allowance from	
Rolls Royce Company of	$118,305.21
and an allowance by Canadair Limited of	$125,000.00
	$523,426.21

These three items aggregate the $523,426.21 which has been set up as the nucleus of a major overhaul reserve.

The next is an answer to a question Mr. Fulton asked regarding the capital allocation between the domestic and the international company.

The allocation is:

Domestic	$15,450,000
Atlantic	$ 9,550,000

Mr. FULTON: I did not ask this but is the $9,000,000 further subdivided as between the north Atlantic and the Bermuda and Caribbean?

Mr. MCGREGOR: Yes.

Mr. FULTON: I should have asked for that.

Mr. MCGREGOR: We can produce it.

Mr. FULTON: I am sorry that I did not make it clear at the time.

Mr. MCGREGOR: I should point out in reference to the last question that the allocation of capital as between parts of one corporate company—the Atlantic company—is purely on the basis of aircraft utilization. It does not mean anything accounting-wise because both services, the southern and the trans-Atlantic, are operated by the Atlantic company.

Mr. FULTON: It would give a rough indication of the amount of capital equipment you have on one service as against the other?

Mr. MCGREGOR: Very rough, because all the overhaul equipment and so on which is associated with both services is in one pool.

Mr. FULTON: I would appreciate it if you could make that breakdown for us.

Mr. FRASER: Why did the Rolls Royce Company and Canadair come in on this?

Mr. McGREGOR: These were claims made by the company with respect to warrantees of both Rolls Royce and Canadair. In one case it was on engines and in the other case on aircraft. The figure represents work Trans-Canada Air Lines had to do—a direct expense—due to warranty deficiencies in both cases.

Mr. FRASER: Rolls Royce and Canadair should have done it?

Mr. McGREGOR: Yes.

Another answer to a question by Mr. Fulton concerns air mail carried on domestic services. The present volume of air mail carried on domestic services exceeds two and one half times the volume of mail carried prior to carriage of all-up mail by 595,552 ton miles per annum; this is equal to an increase of 18 per cent.

Mr. FULTON: Thank you.

Mr. FRASER: On the air mail do they go to the limit every day, on every flight?

Mr. McGREGOR: It is not an allotment—it is a matter of moving the total amount which they require to be moved.

Mr. FRASER: But they put this all-up mail into it, to put it up to the amount that you are contracting to carry?

Mr. McGREGOR: There is no contracted amount. We are obliged, under the understanding that was reached, to carry such mail as the post office gives us. The post office in turn is obliged not to give us mail other than first class and the surcharged type. First class consists of letters limited to an ounce. That is the only restriction placed on the post office. They did furnish us with an estimate prior to us undertaking to take all-up mail, and the estimate of the expected total volume required to be carried by T.C.A. under the all-up plan was two and a half times what our previous experience had been.

There was also a question by Mr. McLure which we understood as requiring figures by months of the number of passengers boarded by T.C.A. from the Maritime Central Air Lines and by Maritime Central Air Lines from T.C.A., at Moncton?

Passengers boarding Trans-Canada Air Lines from Maritime Central Airways 1949:—January, 75; February, 52; March, 55; April, 40; May, 86; June, 105; July, 189; August, 244; September, 129; October, 103; November, 66; December, 91; Total, 1235.

Passengers boarding Maritime Central Airways from Trans-Canada Air Lines 1949:—January, 104; February, 92; March, 80; April, 108; May, 156; June, 189; July, 267; August, 253; September, 120; October, 89; November, 91; December, 103; Total, 1652.

There was a question by Mr. Fulton asking for the passenger loads by all legs of flights of T.C.A. for the months of June and January, 1949. (See appendix A.)

There was a question by Mr. Drew asking for revenue by classes, and the number of passengers by months for the domestic operation as a whole, together with the operating expense divided under the various classifications by months. (See appendix B.)

Mr. FULTON: Mr. McGregor, I take it you have not yet got the answer to the question I asked regarding the number of engines on hand. I think I asked for the information for January and July of 1948 and 1949.

Mr. McGREGOR: The information is being typed and I should have it here in a few minutes.

Mr. FULTON: Then I asked the estimated costs of the extensions of service referred to under the paragraph international air agreements on page 14.

Mr. McGREGOR: That was answered last night.

Mr. FULTON: Well I intended to ask for the estimated cost of all extensions referred to under the paragraph?

Mr. McGREGOR: We have no specific extensions under contemplation now. The only difference in the situation between the time the report was written and now is in connection with Tampa.

Mr. FULTON: Is the New York service not included? That change has taken place?

Mr. McGREGOR: Yes, but oddly enough we do not consider trans-border routes as being international, and that run is operated by the North American company.

Mr. FULTON: Then this paragraph on page 14 would only affect your Atlantic service operation?

Mr. McGREGOR: Yes.

Mr. FULTON: New York is part of the domestic set-up?

Mr. McGREGOR: Company-wise it is, but operationally naturally it comes under the bilateral agreement to which that paragraph refers. That is true of all trans-border routes.

Mr. FULTON: Arising out of the answer you have given here as to the number of passengers carried on the various stages of your domestic service, I see that at Victoria you show a figure of 6,972 passengers originating or carried to and from Victoria. I was asked to bring before you representations which indicate that people feel the rates charged on the Vancouver-Victoria service seem to be higher than the rates on the other sections of your service, in proportion to the mileage covered. Since it seems to be quite a heavy traffic route I wonder if you would answer and let me know if in fact the rates are higher and why?

Mr. McGREGOR: It is quite true on that route that the rate per passenger mile is higher than on others in the system. That is in line with the policy throughout that the rate per passenger mile is highest on the shortest route and descends fairly evenly throughout the various routes of the system. The reason is that the costs of reservation, boarding, and handling a passenger are reasonably constant whether he is travelling forty miles or three thousand. The cost is applied to the travel and naturally on the shorter route that unit or fixed cost weighs more heavily on each mile of the shorter routes. The next shortest route is the Montreal-Ottawa route which has a heavier passenger mile rate than for instance the Toronto to Winnipeg route.

Mr. FULTON: You obviously do not just charge a uniform rate per mile over the whole domestic service?

Mr. McGREGOR: No, it is a descending scale in inverse ratio to the distance.

Mr. FULTON: What about the cost of operating that particular service? Because it is shorter, does it follow that the cost per passenger carried is higher per mile?

Mr. McGREGOR: Yes.

Mr. FULTON: What about the over-all profit picture on that particular run?

Mr. McGREGOR: We endeavour to have the profit picture or—as will be indicated here the loss picture—constant, regardless of the route distance. In other words the basic theory of route-making is that a passenger mile between Vancouver and Victoria, should bear the same expense and revenue relationship as for a passenger mile between Vancouver and Winnipeg.

Mr. FULTON: They feel that they are being charged higher rates and in fact bringing in a profit to the company, and that it looks as if it is being used to

make up a deficit somewhere else. They are a little bit resentful that they should be put in that position.

Mr. McGREGOR: It is impossible of proof, but I am absolutely certain it is, if anything, the reverse. The short operations are expensive, particularly those exposed to coastal conditions with all the delays and interruptions of service that occur. As a matter of fact the fare between Vancouver and Victoria is less than when C.P.A. was operating that service.

The CHAIRMAN: Mr. Fulton, are there any further questions arising out of the answers?

Mr. FULTON: I have not the answer regarding figures for the number of engines on hand. There would be some questions arising out of that.

Mr. McGREGOR: The answer has arrived.

The CHAIRMAN: You may table it now.

Mr. McGREGOR: Yes.

	North American Services		*Overseas Services*	
	1949	*1948*	*1949*	*1948*
January:	76 Twin Row 132 Rolls Royce	76 Twin Row 90 Rolls Royce		
Labour	$ 60,254.94	$ 26,753.01	$ 37,698.14	$ 35,743.62
Material & Misc.	$ 71,958.12	$ 49,771.42	$ 53,236.27	$ 23,166.22
July:	76 Twin Row 132 Rolls Royce	76 Twin Row 148 Rolls Royce		
Labour:	$ 73,015.11	$ 56,968.65	$ 34,342.66	$ 40,840.54
Material & Misc.	$184,353.82	$112,486.46	$ 82,359.56	$144,667.66

Mr. DREW: This only gives the figures for Rolls Royce?

Mr. McGREGOR: No, Pratt and Whitney engines are designated as "Twin Row".

Mr. GILLIS: Would it not facilitate the business of this committee if that research job were done; allow the matter to stand now and get on with the business of the committee? Can we not get along now with the report?

The CHAIRMAN: I think that might be the best procedure. The committee are all here now and I do not think it is fair to hold them up. We have reached the consolidated balance sheet.

Mr. DREW: No, I think you are still on the last page.

The CHAIRMAN: I think we cleaned up the last page subject to the questions which might develop from the answers which were tabled, and that now we are really on page 16 of the consolidated balance sheet.

Mr. DREW: The consolidated balance sheet covers everything.

The CHAIRMAN: Yes, I understand.

Mr. DREW: Before I go on with the questions which I wish to ask, may I ask when there will be copies of this available?

Mr. McGREGOR: I had hoped that that would be put into the record as an appendix.

Mr. DREW: Well, if I may, I would like to have this until this afternoon.

The CHAIRMAN: Oh, yes, you may have it, and when you are finished will you please turn it over to the clerk of the committee. So long as it goes to the reporter by this evening it will be quite all right. Are there any questions in regard to assets in the consolidated balance sheet?

Mr. DREW: Yes. And I would like to point out, Mr. Chairman, that since this embraces the whole structure of the company it also embraces every aspect of it, and I have some questions in mind. I think the statement was made that

the reliability and general quality of the company's transport service will be helped with better airports and modern navigation aids and so on and will lead to higher revenue. Do you refer there to gross or to net revenue?

Mr. McGregor: Only the gross revenue will and already has been affected by improved regularity of service, and that will, in future, also satisfactorily affect the net revenue. I do not expect the expenses to increase proportionately to the increase in gross revenue.

Mr. Drew: The regularity of service has a considerable bearing on net revenue?

Mr. McGregor: Yes, I would think so more than any other single item, that regularity makes air travel more popular.

Mr. Drew: Before I pass from this question, I notice that in the reply to a question asked by Mr. Fulton, you gave the figures of these engines for January and July. I was not here at the time but that question was asked.

Mr. McGregor: Yes. That was a specific question, Mr. Drew.

Mr. Drew: I quite realize that and I am not questioning it; but I assume that you would have the figures available in your records; you might have them here with you?

Mr. McGregor: Yes.

Mr. Drew: Then would you add to this the number of engines on hand in December of last year as well? I mean, that might come forward anytime today.

The Chairman: Are there any further questions?

Mr. Drew: Now you say that the management will be in close contact with all trends of aircraft manufacture which offer promise of superior air transport at less cost. In the respect have you at any time given consideration to the question of the desirability or otherwise of any changes in the present aircraft which you have, changes from one type of engine to another type?

Mr. McGregor: No, we have not considered the question of changing engines in any of our aircraft. We have investigated the cost of increasing the seat capacity of the present aircraft for what we call inter-city runs. It would be desirable and the aircraft are qiute capable of being seated to a higher capacity, and the effect revenue-wise would, of course, be desirable.

One of the counteracting drawbacks, however, is that we would lose flexibility, that is, we would not be able to use all our aircraft interchangeably as betweeen routes if we specifically "seat-capacity" a few of them for a specific type of route.

Mr. Drew: Of course, you did change the engines at one time in some of your aircraft?

Mr. McGregor: We changed three DC-3's from Wright to Pratt-Whitney engines in order to avoid having a few orphan engines in the organization which would complicate the stores and parts and the maintenance problem.

Mr. Drew: The remark you make, I suppose, would apply with equal force to the situation at any place outside of Canada where your aircraft are landing? I am talking of the availability of engines or other parts of aircraft.

Mr. McGregor: I do not think so. At any place where we would operate, we would set up, and have done, our spare parts requirements where we deemed necessary; and have spare engines, and so on.

Mr. Drew: But you do not always have spare engines on hand?

Mr. McGregor: I think that on all routes where we operate, consistently, we have at least one point on that route where a spare engine is maintained.

Mr. DREW: I understand there were one of two occasions, specifically —because I think the minister will recall an occasion when he flew to Nassau when one of the engines went out, and it was found necessary to ferry another engine down there.

Mr. MCGREGOR: That is right. At that time I think the route was Nassau, Kingston, Jamaica, and Trinidad, while Port of Spain was at the end of the route.

Mr. DREW: You have had that happen in other places too?

Mr. MCGREGOR: Surely.

Mr. DREW: You would have a record of those incidents, would you not? You would have those in your general records?

Mr. MCGREGOR: We have the records of engine performance.

Mr. DREW: I was going to ask you a question but I shall not do so because it had to do with another service, not your service. The other service had an experience which I have in mind. It was a recent one. I mean another branch of the government service. In that respect you have had occasion where it has been necessary to ferry engines to the aircraft because of the fact that these engines are not available at certain points where the aircraft would be operating?

Mr. MCGREGOR: Yes, I think that is a common experience with all aircraft.

Mr. DREW: Could you give the figures of the number of occasions in 1949 when it was necessary to ferry engines to airports where spare engines were not available?

Mr. MCGREGOR: I have not got that information available, but if you are interested in the question of engine performance, I have some figures of engine failures. They might be of interest to you.

Mr. DREW: Well, no. It is true that I am interested in it, but I will follow through to that. What I am interested in right now is the number of occasions when it was necessary to ferry aircraft engines to airports where those engines were not available. I think you will agree with me the ferrying of spare engines to Nassau or to Goose, or to Kingston is not an inexpensive detail of operation?

Mr. MCGREGOR: It depends whether it can be done on the succeeding scheduled flight or not.

Mr. DREW: I think you will agree that the one I refer to was not done on a scheduled flight.

Mr. MCGREGOR: That was perhaps the case. It would depend on how soon the succeeding flight would come through.

Mr. DREW: As to the particular flight to which I first referred, I think you will find that another North Star went down and carried four of the passengers who were at Nassau on to their destination at Kingston, and the other machine then had the engine installed which had been brought down. But you would have records of that kind?

Mr. MCGREGOR: Yes. It could be derived from the flight records.

Mr. DREW: Before I ask a further question, I want to express recognition of the fact that I do not believe that you could conceivably have these figures before you at the moment. I would like you to enlarge on this question a little, if you please. You made a statement that regularity of service has more to do with the cost of operation than any other single item, did you not?

Mr. MCGREGOR: No. What I said was that it had more to do with the appeal of the service, and therefore the revenue of the service, than any other single item.

Right Hon. Mr. HOWE: If you want to get some records of engine failures, Mr. Drew, why not take a look at the records of the Boeing Stratocruiser? I do not like your insinuations that failures are more frequent on TCA than anywhere else.

Mr. DREW: That is a typical remark. Let me say that there is no question being asked which should not be asked in this committee. Moreover, I did not offer any suggestion or insinuation that any member of this committee is not performing his duty if he discusses any question in regard to the operations of this company. I intend to ask such questions and I think that I would be failing in my duty if I failed to ask them.

The CHAIRMAN: I think, Mr. Drew, that all members of this committee want to be fair, not only to themselves, but to T.C.A.,—I was a little surprised that when Mr. McGregor offered to supply to the committee a record of engine performance per mile,—you did accept. It would have been helpful if you would have accepted that answer before going into details of engine failures.

Mr. DREW: It is very interesting to the extent to which you have anticipated my question and a very logical anticipation it is too.

The CHAIRMAN: I think it would be very helpful to the committee to have that statement before developing individual failures, and I was a little surprised when the witness volunteered that he had the answer to that question and you did not accept it.

Mr. DREW: The answer that the witness gave was an answer that was perfectly proper in relation to the questions I had been asking but it was not in any way an answer to the general question. I propose now to direct my questions to the particular point which the witness has raised. I will let the record stand as to what the witness did say as to the importance of regularity of service because it will be recalled that his reply was in relation to my question as to whether the figures applied to the gross or net revenue, and it is gross and net revenues alone that determine the cost of operation. Gross revenue is determined by the number of passengers but net revenue is determined by the regularity of service and the cost of operation.

Mr. MCGREGOR: I am afraid that I have created a slight misunderstanding. If I am at fault I must apologize to the committee.

You asked me whether it was gross or net revenue regarding which I had spoken and I said I thought the two were completely related, that if the gross revenue went up the net would go up if expenses did not increase, and then you asked me if regularity was important with regard to revenue and I said yes I thought it was the most important single item.

Mr. DREW: I think we all agree that it has a very direct bearing but I think we all agree that where you have these problems of interruption of service it does add to the operating cost and would in turn affect the net revenue. I would like first of all to ask you if you have the record of flights which were interrupted,—of course I am referring to the year 1949,—the record of flights which were interrupted because of the necessity of mechanical repairs of any kind during the course of the flight. Have you those figures available?

Mr. MCGREGOR: No, I do not.

Mr. DREW: Do you mean to say, Mr. McGregor, that in an organization of this kind, that having regard to the necessity of cost accounting, if any business practice was to be followed at all, that you would not have entered into a record the reason for the interruption of service on your lines other than weather?

Mr. MCGREGOR: Yes. You asked if I had a record of the flights that were affected and I said no. We have maintenance records which show the cost of any mechanical delay which has arisen, a record of the engines that are replaced in the aircraft during their normal period of service. We have the figures

established in almost any way that has a bearing on the administration of the company or on the cost. We do not record the fact that on flight No. 1 of January 26th the plane had to have spark plugs replaced at Calgary, which I understand was the original form of the question.

Mr. DREW: I did not mean, of course, the sort of repairs that are done almost at every stop by servicing crews; I am talking about an actual interruption of flight. You would have a record of this, would you not?

Right Hon. Mr. HOWE: I wonder where we are going on this line of questioning. Every airline has its mechanical troubles. Airlines, in the interest of building confidence in aviation, which is justified by the overall picture, do not talk about their troubles, neither do they boast about their safety record if they are wise, because that record can be taken away tomorrow. I think that anything the committee is able to do here in the way of discussion of mechanical troubles in the airlines, would be bad advertising. T.C.A. has never had an accident with the North Star as a result of mechanical troubles, never injured a passenger, never damaged an aeroplane. Now I do not know—perhaps I cannot interfere—but if the committee wants this thing to be discussed, and thereby to show up every mechanical trouble we ever had during the year, I think that it is not good policy. I want to object to the line of questioning in the interest of the airline.

Mr. DREW: I would point out this, that every member of this committee, I am sure, wants the service to be the very best service, and I want to put it clearly on record—in view of the nature of some of the remarks that have been made—and I have stated this and say it now again, that there is no country in the world which has produced pilots and air crew equal to the Canadian pilots and air crew and that has been true through the whole development of aviation in this country. I am convinced that the record shows that we have the best pilots, we have the best air crew. We have pilots and air crew who undoubtedly can carry the name of Canada to every airport in the world. We have pilots and air crew who not only demonstrated their special qualifications in war but have more than demonstrated them in peace, and that has been more than demonstrated by the very high safety record of T.C.A. of which everyone belonging to that line may be proud and of which every Canadian can be proud.

We are dealing now, however, with a perfectly simple problem of operation. As Mr. McGregor pointed out at the time that he took over, the DC-3's were equipped with Wright Whirlwind engines and subsequently they decided to change those engines to Pratt and Whitney engines. It is preposterous and truly beyond any suggestion of common sense that this committee should not enquire into what type of engine they are using when we are examining into the reason for a deficit of $4 million on the airline. It has been so clearly stated that the type of engine and the experience with the use of those engines and the availability of those engines must have a very considerable bearing on the cost of operation, and it is in relation to that and in relation to my desire to see this service as the best available anywhere that I ask this question and propose to ask the next question in regard to that matter.

Right Hon. Mr. HOWE: I would like to point out to the committee that it is quite possible to throw away these engines and instal a different type of engine but that is only possible provided the aircraft is rebuilt. Therefore you are exploring a subject that is most impracticable. I can assure you that from the figures I have seen the performance of the T.C.A. Merlin engine is better than the T.C.A. Pratt and Whitney engine we are flying on the line.

The CHAIRMAN: If I may get a word in here. I have been listening to the discussion and I would like to suggest to you, Mr. Drew, that, as chairman, I cannot stop any question of this kind and do not intend to exceed my authority,

but I do want to appeal to you again that in fairness to T.C.A. you should first put on the record an answer to the question which Mr. McGregor offered to answer, namely, the T.C.A. record of engine performance per mile of travel. Now, if that engine performance per mile of travel shows a very unsatisfactory record why then you will have to use your own judgment as to how far you would go in going into and in broadcasting across Canada all of the different engine failures and things of that nature that have occurred. I do think that you should lay the groundwork first in fairness to the service. Now, this record which the T.C.A. has built up, this accident record which is as good or better than any in the world, I would suggest to you, did not come about by any accident; it came about through the greatest of care being taken in regard to equipment, and it may be T.C.A. has leaned over backwards and spent a little more money than they needed to spend to make sure that no passenger travelling on T.C.A. would lose his life. Would you please be good enough to first let T.C.A. put on the record their engine performance per mile of travel?

Mr. DREW: I will welcome the putting that information on the record but I am asking the question in fairness to T.C.A. What must be apparent is this, that T.C.A. has no competitors on the main route in Canada, that the ordinary principle of competition does not establish the standard of efficiency or the standard of service or the opportunity of the pilots to make full use of their superlative qualifications as well as those of the ground crews. Now, because of the fact that there are no competitive services as there are in the airlines in the United States along similar routes, and in other places in the world, that is the very reason that this committee is the one place where in fairness to the T.C.A. questions can be asked which will determine whether there is anything that this committee should ask parliament to do to assist the T.C.A. by advancing its services.

Now, Mr. McGregor, I do not think you will question the fact that you said on August 30, at the enquiry in Washington at the time of the application to the Civil Aeronautics Board there, that you would hesitate to ask for any substantial changes in equipment because of the capital position of the T.C.A. at this time. Is that not so?

Mr. MCGREGOR: I have no recollection of that question arising at that period.

Mr. DREW: Well, in that case I will present the evidence to you and ask you if that is not a correct record of your answer because that evidence is available. I may therefore point out—and I do this, of course, subject to the record of that evidence—that it is parliament, as you point out, which must provide the necessary funds for any development, that there must be votes to do these things, and I think that that is the very purpose of this committee. That is why this committee should have all the information as to what would or would not help in the advancement of T.C.A. because the T.C.A. is bound to come before parliament to ask for any further capital increases. It cannot go out and make its capital arrangements in the same way as a private company, although on the other hand, it has facilities available to it that no private company has. It can receive the full payment of any deficits that have been incurred by it in this last year.

Mr. GILLIS: Mr. Chairman, let us have the statement Mr. McGregor wants to put on the record. Let us have that statement. Then we will lay the basis for the argument that Mr. Drew is making. It seems to me that now we are going around in circles.

Mr. DREW: May I explain why that will not do it? Just let me give a recent example. Only a matter of four or five weeks ago I was flying back from Calgary; as a matter of fact Mr. McGregor will recall the occasion. I left Calgary

at one o'clock in the morning on a North Star flying to Winnipeg, and as has happened to me on other occasions, one of the engines failed and it was necessary to replace that engine. For that reason, those of us who were on that plane were called upon to carry on to Toronto in another plane, in that case, a DC-3. Now, in that particular case that engine was taken out of the plane. It was not functioning. A new engine was put in and consequently the fact that engine was out of operation will not in any way be disclosed in the figures to which Mr. McGregor now refers.

The CHAIRMAN: I do not like to interrupt so often, but are we not interested in the overall record? As you know, in human endeavour the exception does not prove the rule. It is the overall record that counts.

Mr. DREW: I would like to hear any private businessman who is operating a business showing a deficit of $4 million annually speaking like that to the shareholders. Any director should be fired if he did not ask questions of the management that might lead to the rectification of those conditions in that company if organized to operate on its own revenues. That means, on the basis of engine performance, I would say, that it does not compare with other air lines in the states.

Mr. GILLIS: I would like to say this. I think the last statement made by Mr. Drew is completely unfair—to link up the deficit of the T.C.A. with engine failures. I think that is completely misleading.

Mr. FRASER: Oh no, it is not.

Mr. GILLIS: This report which we now have before us points out very clearly the reason for the deficit. They start off with a handicap of 30 per cent as compared to their competitors operating in the United States: excise tax, landing fees, and tariffs on materials brought into this country are responsible for that deficit, and I do not think that engine failures have very much to do with it. They returned to the government last year more than $3,000,000 in fees and tariffs; and I think to put on the record as an indication of the reason for that deficit material of the kind which has just been placed before us in discussion is most unfair, if it is not even misleading.

Mr. FULTON: I would just point out to Mr. Gillis that if you take into consideration in this matter that the deficit on operation alone was $1,419,444, and your figure for material alone for the aircraft engine maintenance in this year was over $1,000,000—if that item alone could be eliminated you would go a long ways toward removing the amount of the deficit in this account. I appreciate that comparable figures are not available. All I am trying to do is to get the picture of this very important factor as a result of which you have an increased bill for maintenance of over $1,000,000 a year, as against the deficit of $1,419,000. I think that engine failure is a very material contributing factor to that deficit.

Mr. GILLIS: But you have a wage scale of $2,384,000 alone.

Mr. FULTON: I am talking about the material required for the maintenance of these engines.

Mr. GILLIS: That is not what Mr. Drew stated; he stated that the deficit was due to engine failure.

Mr. DREW: That is not what I said, and you know that is not what I said.

Mr. JAMES: Why not let Mr. McGregor have a chance to give us the information which has been asked for.

The CHAIRMAN: Mr. McGregor, since you have not been asked by Mr. Drew for a general statement I think perhaps members of the committee would support me in asking you to give us a general statement as to engine performance.

Mr. MCGREGOR: I would like to do that, Mr. Chairman.

Mr. POULIOT: Before that is done would it be possible for me to say just a word. My first word to Mr. Drew is this: I congratulate the leader of the opposition for the interest he takes in this matter. I appreciate that when the leader of the opposition comes to the committee and sits as a member he is taking a special interest in the matter. Now, I must repeat what I have said year after year about the importance of confining ourselves to the matters immediately before us and not going too far afield. And I want to say also that the T.C.A. compares advantageously with any air transportation on the continent of North America, and with the remarks which Mr. Drew made to that effect I most heartily agree. Now a question of doubt has been raised about these engines. If air transportation has failed, if it has broken down, I submit that has not been because of any failure within the T.C.A., it has been from outside. Everytime there is an air disaster in any of the companies doing business on the North American continent the T.C.A. must of course feel the effect adversely; is that right, Mr. McGregor?

Mr. MCGREGOR: Quite right.

Mr. POULIOT: Or, if there is a disaster in South America immediately people who have reservations on the T.C.A. will cancel them and go by train or boat or automobile, whichever may be conveniently available; they would use some other form of transportation as a result. That is only human nature; it is the natural reaction to air accidents in the minds of the travelling public. Now, Mr. Chairman, my suggestion to the committee is this, that members confine their inquiries to the financial side of the business, to operations.

Mr. GILLIS: We want information, we don't want speeches.

Mr. POULIOT: All right, just one minute; I am not making a speech; I am just presenting my views on the subject.

Mr. GILLIS: I was not referring to you at all.

Mr. POULIOT: I just appeal to members to use common sense. I have no objection at all to any member asking for figures on the financial side of the T.C.A. There are other matters which should be discussed by the committee, or perhaps between Mr. Drew and Mr. Howe on the one hand, or between Mr. Drew and Mr. McGregor, or the officials that may be concerned, about some matter on which they want information; but I do not think we should spend too much time on complaints about engines. I know something about them because I have travelled on T.C.A. perhaps just as much as some of the others here, and I know that the service is first class in every respect, particularly on the engine side of T.C.A. I have in mind, for instance, a trip which I had occasion to make from Montreal to Winnipeg and return, and I made that trip in five hours. It was an excellent operation for the T.C.A. to do that so efficiently. I recall that I got in the plane in Montreal and flew to Winnipeg where I alighted; and then when I got in the plane at Winnipeg I came straight through to Montreal without a stop. That was first-class service, and I think we should be careful to preserve it and maintain its high standard in every respect. That is my conclusion.

An Hon. MEMBER: We don't want any lectures.

Mr. POULIOT: Let me say at once that I am not lecturing anybody, but I do want to assure the committee that I am very proud of the record of the T.C.A. which I think can be compared with that of any other air transportation line on the North American continent; it is probably better than any other air operation in any part of the world; because, as has been said here, Canada has the finest pilots and the finest service in the world and we know that flying on this continent is ahead of even that done by the countries of Europe. Now that I have said what I wanted to say, Mr. Chairman, I would ask members of the committee to be very careful about their questions, and I would remind members of the fact that the officials of the T.C.A. have been here in previous years and

we all know that Mr. McGregor and his officials know their business, they answer questions fully and honestly year after year; and I do not want the T.C.A. to be destroyed by any man.

Some Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Mr. McGregor, would you care to make a general statement on engine performance?

Mr. MCGREGOR: Yes. As I understand it the discussion has taken place around specifically the Rolls Royce engine that we have in service in our North Star aircraft. The T.C.A. in common with every other air line, regardless of what type of engine it has been using, has had mechanical trouble. It is inherent to any piece of machinery which is required to produce often great amounts of power, in the case of the Rolls Royce, 1,750 horsepower at take-off. The factors by which the relative efficiency of aircraft power plants are measured show higher efficiency in respect of the Merlin engines than with radial engines of comparable power output. The T.C.A. experience, in so far as the maintenance of Merlin engines is concerned, has shown satisfactory labour costs and, as could be expected parts costs in direct ratio to the higher performance of the engine. It is a condition which applies to the engine because of that higher power-weight ratio. Each part of the Rolls Royce Merlin engine is machined down to exceedingly careful limits and all surfaces are perfectly finished. The result is that for a comparable part, such as an exhaust valve, which is replaced frequently in all aircraft engines, the cost per valve is something like double that of the radial engines, and that contributes materially to the cost of maintenance. That is additional money which in my opinion is very well spent. The measure of the performance of the engine has been in the performance of the air line regularity-wise, and our record, so far as I know, is the best on the North American continent for 1949. As a measure of reliability I can draw a direct comparison based on the number of hours per failure. I have those figures for the Rolls Royce engine and similarly for our Pratt-Whitney radial engines. The most recent figures I have take up to the end of February, 1950. The figures show that in January the Rolls Royce performance was 3,104 engine hours per engine failure. The total engine failures in the month were five. In February the figure was 3,057, again for five engine failures. The Pratt-Whitney figures were in January, for three failures, 2,947 hours per engine failure; and that is only about 66 per cent as good as the Merlin in that month; and in the month of February, 2,153 hours per engine failure, the number of failures being four. Now, if I was asked the question if T.C.A. would want to make any change in its Rolls Royce power plant in the North Star aircraft the answer would be no. I do not think I could give a more general statement than that.

The CHAIRMAN: Have you any comparable figures on engine failure or performance on United States air lines?

Mr. MCGREGOR: No, Mr. Chairman, that is one statistic which air lines do not interchange.

Mr. FULTON: I wonder if Mr. McGregor could tell me this: how old are these Pratt-Whitney engines?

Mr. MCGREGOR: These Pratt-Whitney engines were on the average, I would say, about two years older than the Merlin; but an aircraft engine is not allowed to age in the accepted sense of the word.

Mr. FULTON: I understood that they were more than two years old, and that on account of their age you could not expect to have the same high ratio of performance as with the other engines; would that be the case?

Mr. MCGREGOR: No.

Mr. GILLIS: To a layman this matter of engine failure brings to his mind that perhaps something has happened to the aircraft. Now, when one talks about engine failure, that does not mean that the plane met with disaster, or that there is really any trouble with it; what it really means is this, that you look at the engine and you find that it is not safe for flying, then that engine is reported as a failure and changed; is that right?

Mr. MCGREGOR: It is right as far as it goes. That engine failure may not have occurred in flight. Engines are checked on the ground for performance before take-off, and if the test shows the slightest thing not right with the engine, that is reported as an engine failure and it may be replaced by another engine.

Mr. GILLIS: So really nothing happened to the aircraft; it was just a case of making sure the engine was in proper working order.

Mr. MCGREGOR: That is it.

Mr. FULTON: Do you maintain an establishment at Calgary for the servicing of planes?

Mr. MCGREGOR: No.

Mr. FULTON: Do you have crew there qualified to do repairs on engines?

Mr. MCGREGOR: Yes, at all of our stops we have qualified ground crew.

Mr. FULTON: Perhaps you could tell me this: what would be a situation which would cause this to happen? I agree with you that the North Star aircraft is a very safe craft in flight, but the fact is that you have, as I understand it, very stringent safety regulations which do not permit the pilots to take off if one engine is out of service.

Mr. MCGREGOR: That applies to any of our aircraft and, I believe, to all good airlines.

Mr. FULTON: So I am not going to direct my remarks to a criticism of the safety of the aircraft itself, but I am wondering whether this item of engine failure is not a factor which greatly increases your expense. I flew from Vancouver to Calgary in the early summer or the late spring and as we were taking off—after we had taken off—one engine went off service. Everything was perfectly safe, no cause for alarm, just a matter of safety regulations, the pilot could not go further on acount of the engine. We landed and we were there for twelve hours while they were repairing that engine. I do not know what was the matter with it, but it must have been something material because they had to fly in another aircraft from Vancouver. That delayed us so that we were several hours late in arriving at our destination. They actually had to fly an aircraft there from Vancouver which meant that we had to lose some twelve hours; we were twelve hours late in arriving at our destination on account of the failure of that engine which apparently could not be repaired there. It occurred to me that if you had people there who could have repaired that engine, you would have saved the expense of having to bring another aircraft all the way from Vancouver to Calgary to pick us up and take us on to our destination. That is the reason I am asking this question.

Mr. MCGREGOR: The particular case to which you have just referred probably arose on account of exceptional conditions which might be described as being by no manner of means uncommon to air line operation, as we have had a very good opportunity of observing in the case of American air lines operating through Canada and on their trans-Atlantic services. That sort of thing is not at all infrequent on an aircraft. I do not think that I should mention names, but I have in mind a certain type of aircraft which on occasion stops at Gander or Goose Bay for a considerable period of time until an engine is brought in and maybe some other work done on it. The fact is that we have very strict rules

with regard to the operation of aircraft, and even the most minor mechanical fault may cause considerable delay. It is also a fact that a good deal of time can be lost locating the actual cause in the case of an indicated mechanical failure. If the engine instruments on take-off show any one of numerous conditions; loss of coolant, low temperature, high induction temperature—any one of a number of things—the pilot, under his instructions and in accordance with the very strict regulations, is not allowed to take off and does not take off. He does not know what the matter is with it, but he does know that something is not right. He reports that his instruments indicated some unusual situation, and mechanics may spend considerable time finding out whether it is a condition in the instruments or whether it is a condition where something is wrong with the engines or something in the aircraft itself. A great deal of time can be lost in a diagnosis of the trouble rather than in the correction of the trouble.

The CHAIRMAN: You would quite properly rather lose money than lives?

Mr. MCGREGOR: Yes.

Mr. DREW: That remark is wholly unrelated to the question.

The CHAIRMAN: That may be your opinion, it is not mine.

Mr. DREW: Mr. Chairman, let me say that I doubt if there is any man in this room, other than Mr. McGregor and possibly Mr. Howe, who has flown farther than I have in the North Stars, and I think that is known to Mr. McGregor. I have crossed the Atlantic as well as flown the southern section of the service, and I want to say from my experience, that not only have we one of the world's finest air services, but one with the highest safety factor, I believe, of any in the world. These questions are not directed to casting any reflection on that record; they are not directed to creating doubt about T.C.A.; they are directed to giving these splendid men and women working on that service an opportunity to do the kind of service which they can perform. I wish to leave no doubt of that.

You said there were how many engine failures in January of last year?

Mr. MCGREGOR: North Star Merlin engines five, and Twin Rows three—in January this year.

Mr. DREW: I must say that is a peculiar coincidence because in January of last year I was twice let down myself. That seems to be a pretty high percentage by failures.

Right Hon. Mr. HOWE: I have been flying on air lines for a good many years and the only time I have seen a prop feathered was with a Pratt and Whitney engine.

Mr. DREW: You remember when they had to send a machine down to Nassau last year.

Right Hon. Mr. HOWE: I do not remember that at all. The plane I travelled on was quite all right when I stepped off it.

Mr. GEORGE: This seems to be developing into a race to discredit the North Star aircraft and the Merlin engine. I think we should stop trying to spread destruction and ruin and get to work. T.C.A. has a good record, and all that we are doing is spreading propaganda to the public by publishing the fact that some 'plane was grounded somewhere for some minor reason, or because some pilot was cautious and did not want to take a chance on killing his passengers.

Mr. FULTON: I take immediate exception to that statement. I am not making any such effort.

Right Hon. Mr. HOWE: We will see the headlines tomorrow morning.

Mr. FULTON: All I am trying to ascertain is some of the cause for the increase in maintenance expenses, which are almost as much as the total deficit for this year on the domestic operation. I am trying to find out if there is some way that we can cut down the deficit.

The CHAIRMAN: If that is your aim why not direct your questions along that line? In view of the general engine record of T.C.A., if members of this committee are going to persist in citing exceptional cases, I think we should seriously consider whether we should carry on the inquiry in camera. The general over-all record is satisfactory. If members are going to persist I will certainly seriously consider whether I will suggest to the committee that for these special cases we should hold our hearing in camera and thresh it out.

Mr. FRASER: On this report for January and February, the way I read it is that you had 15,520 engine hours in January?

Mr. MCGREGOR: That is correct.

Mr. FRASER: Five failures, and 3,104 failure hours.

Mr. MCGREGOR: No—that is hours per failure—hours without failure.

Mr. FRASER: Performance of the engine without failure?

Mr. MCGREGOR: Yes—stated another way 184,000 miles are flown for any one case of engine trouble.

Mr. HELME: I think that Mr. McGregor's remarks in this connection were for January and February of this year?

Mr. MCGREGOR: That is correct.

Mr. HELME: But I believe Mr. Drew's remarks were with respect to last year.

Mr. DREW: I thought you said that the latest figures related to last year?

Mr. MCGREGOR: No.

Mr. DREW: Then I would ask for the figures on engine failures, for both of the types of engines which you use, for each month of last year?

Right Hon. Mr. HOWE: Well I do not know whether those figures should be given— it is up to the committee. No other air line gives that sort of information and we are talking to every newspaper in Canada. If the committee wishes to put T.C.A. up against that kind of damage all right. Every new engine when it comes out gives trouble, whether it is the engine or accessories or what not; We have had failures and feathering of props. If the committee wants that kind of propaganda spread around I suppose there is nothing that can be done, but it is going to damage the air line. We had a very serious drop in traffic in May and June of last year due to that kind of propaganda. I do not think that we should go on with this discussion.

Mr. DREW: It is strange that your records show a quite contrary result in May and June of last year?

Right Hon. Mr. HOWE: Of course, traffic is always on the rise then but the forecasted estimates of traffic fell behind very seriously in those months.

Mr. DREW: As far as this is concerned the question of safety does not enter into it because T.C.A.'s safety record is excellent. We are dealing here with a corporation that shows a loss of $4,000,000 odd in spite of its efforts and in spite of the high quality of air and ground personnel which it has.

Now Mr. Gillis has very properly pointed out that there are certain expenses involved in connection with this. What he has not pointed out is the very considerable advantage that accrues owing to the fact that a number of officials of this company can carry on business from the Canadian National Railways offices, without charge to T.C.A.

Right Hon. Mr. HOWE: That is not true. Three officials have their offices with the C.N.R., but when they are on T.C.A. business they come to the office space which Trans-Canada Air Lines pay for.

Mr. DREW: Mr. McGregor said the other officers were in the C.N.R. building—the record is quite clear on that.

Right Hon. Mr. HOWE: Ninety-five per cent of their time is given to C.N.R.

Mr. DREW: They have the purchasing advantage too. Canadian National Railways handles the purchasing on this line.

Right Hon. Mr. HOWE: For which C.N.R. is paid.

Mr. DREW: There is the very important fact—

Right Hon. Mr. HOWE: And a number of other companies do the same thing.

Mr. DREW: There is the very important fact that there are a number of economies effected through this association and there is a reduction in charges that would otherwise be made. Those balance out, but what has to be remembered is this, and when I say it I am not questioning the fact, I am simply saying this is a chosen instrument which has no competition except over two short stretches of its whole system. I speak there of the domestic area. It is therefore able to decide what traffic there is and to allocate aircraft to that traffic. They do not have the situation which exists in the United States, and in Europe, where there are competitors on the same lines and where they have to fight for the traffic—where the variable factor is related to the appeal. Let me give you an illustration.

For the sake of argument, suppose there are members of this committee who wish to discover whether it would be to the advantage of the Canadian National Railways to substitute diesel engines for steam engines. Does anyone seriously suggest for one moment that it would be regarded as detrimental to the interest of the Canadian National if questions were asked as to the number of times trains were late through failure to keep up pressure, or failure to keep up schedule because of difficulties in regard to coal supply and things of that kind; or to ask questions as to comparable figures for diesel equipment which would lead the committee to some sort of a reasonable understanding of what they should or should not recommend in regard to the substitution of various types of diesel engines?

Right Hon. Mr. HOWE: I would like to answer that question.

Mr. DREW: In receiving the information it might be demonstrated that they should stick to coal; it is a comparable thing.

Some Hon. MEMBERS: No, no, no.

Mr. DREW: This is the power plant in the aircraft and this committee has not only the right but it has the duty to find out what is happening in that power delivery.

Right Hon. Mr. HOWE: The answer to the question is that it may be quite improper for this committee to make recommendations as to what power the C.N.R. should use on its engines. That is a matter of internal management which is the responsibility of the board of directors. I may say the Rolls Royce engine was chosen by the board of directors of T.C.A. If the board of directors, on the advice of management, want to change the Rolls Royce engine for any other type of engine they have the money to do it and they have the right to do it. Therefore, I think this committee is going considerably out of its orbit when it discusses matters of internal operating management of the company.

Mr. DREW: Mr. McGregor will you give us the figures for engine failures for both types of your engines for the year 1949?

Right Hon. Mr. HOWE: Well I would move that this matter stand until after lunch and that we then sit in camera to hear the details of these internal operations.

Mr. DREW: I suggest that this is a straight business proposition and no question of safety is involved. I think this is not something that should be carried on behind closed doors.

Right Hon. Mr. HOWE: Well, I make the motion.

The CHAIRMAN: There is a motion before the chair that the future sittings of this committee in regard to the details of internal operations of Trans-Canada Air Lines, particularly directed to type of engine, be held in camera.

Mr. FULTON: I would say, on a point of order, that the type of engine used and the number of engine failures is information which is certainly not a matter of internal operation or internal management; it is a matter of public interest and public information. I cannot accept that resolution, even if it is carried, as a restriction preventing us from carrying on an inquiry as to engine failures in open session. I challenge the assumption that engine failure is a matter of internal operation.

Mr. FRASER: I object very strongly to this.

The CHAIRMAN: Are you ready for the question?

Mr. DREW: No, I want to point out the result which this proposal produces. It is suggested that there cannot be conversion of aircraft to use the Pratt and Whitney engine, but I will say that there are a number of engines that could be considered. I am not advocating one engine or another but this air line has adopted Pratt and Whitney—

The CHAIRMAN: You should speak to the motion.

Mr. DREW: I am speaking to the motion.

There are a number of other engines that could be considered and it is something that this committee should definitely have in mind. Now, when it is said there can be no conversion, let me point out that we had a statement from the Minister of National Defence that there has been conversion to a type or model—the 2,800 Pratt and Whitney; and that machine is shortly to be delivered. I for one want to make it quite clear that I regard this as public information. I certainly will not sit in camera with any limitation on the use to which the information is put.

The CHAIRMAN: Are you ready for the question?

Mr. FRASER: No, I think if you are going into camera it indicates that you are trying to hide something and I do not think that there is anything to hide.

The CHAIRMAN: I have repeatedly asked members of this committee to consider their responsibility in citing individual failures in the light of the overall record which is excellent. Now they have not acceded to my repeated sugestions. However, I would not be carrying out my duty as chairman if I allowed this discussion to carry on any further in public while the members wish to hold it in camera.

All those in favour of the motion?

Mr. FRASER: It was you who suggested going into camera?

The CHAIRMAN: I did suggest it.

Mr. FRASER: That should come from the committee.

The CHAIRMAN: I want a vote on it.

Mr. DREW: This is strategic camouflage.

Mr. FRASER: The chairman should be guided by the committee and not the committee by the chairman.

The CHAIRMAN: I have some responsibility, and, as long as I chair this committee, I will do everything in my power to prevent T.C.A. from being unfairly harmed or unfairly interfered with.

Mr. DREW: You are not concerned about T.C.A. any more than anyone else. The public has a right to know, and we are here as their representatives.

Mr. GILLIS: I would just like to say this. I do not agree with Mr. Drew's reasoning or with his comparison of T.C.A. and C.N.R. when discussing engines on the road and whether you should change those engines.

This whole question of engine failure in my opinion may do T.C.A. a great deal of damage. While we may sit in this committee and have a fair understanding of what an engine failure means the public does not. They read about it in the *Globe and Mail* or the Montreal *Gazette*—and this business of engine failures is played up in the headlines. It builds up in the minds of the public a fear that there is something wrong with the engines which T.C.A. is using. In that way it could do a great deal of damage. The C.N.R. engines and T.C.A. engines in the way we are discussing them are not comparable at all.

As far as I am concerned I do not want the information for 1949 either in camera or in open session. The figures which Mr. McGregor gave us a few moments ago are up to date for the last two months of this year. I would judge it to represent an excellent record. There was trouble with a few engines; but there was no damage to aircraft and passengers were not injured. There may have been delay in flight but you get that in an automobile—any automobile. You may start off with one and have a good trip but the next trip is bad through some minor defect.

As far as I am concerned I am satisfied with the information we got and I think the motion is wrong when it is suggests that we get the information in camera. If you give the information in camera it will go out to the press anyway. Someone will take it out and it is much better to give it to the committee here so that we can discuss it, analyse it and so on. It is better to do that than to have it taken out by somebody for propaganda purposes.

I do not want that information in camera. I am going to move as an amendment that this committee is of the opinion that that kind of information given in that way will injure the T.C.A., and I do not think it is necessary, and my amendment is that this information be not given to this committee at all because it is absolutely unnecessary.

Mr. FULTON: I wonder if I might just point out to the members of the committee that if we decide to go into camera, or if, on the alternative, Mr. Gillis' motion be adopted, there will be a very definite inference established arising out of the fact that Mr. McGregor did not hesitate to give the comparative figures of failures of Rolls Royce engines between January and July of this year which was a favourable period, but we asked him for the comparison with last year, and should the committee decide that we can only get that information in camera or cannot have it at all, the only inference would be that a comparison in the other case would be unfavourable. If we are refused the information, then I would draw the inference that the comparison was unfavourable.

The CHAIRMAN: The difficulty has arisen because, notwithstanding repeated requests from the Chair that members should refrain from referring to or stressing individual cases, they persist in doing so and we have reached the point where we are either going to publicize across Canada all these exceptional cases or we are not.

Mr. FULTON: We are asking for figures for five months.

The CHAIRMAN: Other than those asked for which you have been told were going to be given: Yet you keep on persisting.

Mr. DREW: The other members of the committee are not in possession of the information that apparently you are in possession of, Mr. Chairman.

Mr. KNIGHT: I think the necessity of the original motion was due to the sensitivity of public opinion in this matter. Mr. McGregor said yesterday that one of the reasons, in his opinion, for the deficit during the last year was this very fact that public confidence in the air lines was shaken. As a general question in regard to these publicly owned institutions which are competing with rival privately owned institutions, whether it be the T.C.A. or the C.N.R., a citizen of Canada might ask that all these figures be tabled whereas those of the privately

owned corporations do not have to be produced. I think that a citizen of Canada, if he knew that he was thereby injuring the company which is owned by the citizens of Canada, should not make this demand for production of this information. That is why I am going to back this amendment. I do not think these details should be tabled. Mr. Drew has offered repeated praise of the personnel of this particular organization. I am perfectly in agreement with him, but I would ask him or anybody this question: Is it reasonable that these men could have made the record which they have made with faulty machines? That is my reason for backing Mr. Gillis' amendment.

Mr. JAMES: Or with faulty management at the top?

Mr. KNIGHT: Yes, or with faulty management at the top.

Mr. FRASER: The record for January and February was very good, according to the reports we have. I do not believe the other figures which have been asked for with regard to T.C.A. would hurt T.C.A. one little bit. They would show the improvement there is in it and I do not think they would hurt T.C.A. at all.

The CHAIRMAN: I am entirely in favour of Mr. Gillis amendment. I think it goes further than the suggestion I made and I am in favour of the amendment made by Mr. Gillis that this information should not be made available.

Mr. POULIOT: Will you please read it?

The CHAIRMAN: I shall read by understanding of it, and Mr. Gillis can correct me if I am wrong. The amendment moved by Mr. Gillis is that no further information of a specific character be given to this committee with respect to engine performance.

All those in favour of the amendment will please signify? And all those opposed? I declare the amendment carried.

Mr. DREW: You are afraid to let the public have the truth.

Mr. JAMES: Go fight an election and let us get on with this report.

Mr. DREW: That is talking nonsense. We are considering an organization operating on a $35 million basis.

The CHAIRMAN: Are there any further questions as to assets?

Mr. FULTON: Could I ask Mr. McGregor if he could produce a chart showing passenger flow in the months of January and June 1948, similar to that which he has given me for 1949?

The CHAIRMAN: Would you mind repeating your question, please?

Mr. FULTON: Could Mr. McGregor produce a chart showing passenger flow for the months of June and January 1948 similar to that which he has been kind enough to produce in 1949?

The CHAIRMAN: You must realize, Mr. Fulton, that it takes a good deal of time to produce charts, so why not ask for the figures and make your own charts?

Mr. FULTON: I would be satisfied if Mr. McGregor would produce with respect to domestic operations the total passenger figures for June and January of 1948 comparable to the total figures shown on this chart for June and January of 1949.

Mr. MCGREGOR: You mean the total domestic passenger load?

Mr. FULTON: Yes. I take it that is what is shown on this chart.

Mr. MCGREGOR: That is right.

Mr. FULTON: I would like to have it comparable to the totals shown in the bottom right hand corner.

Mr. POULIOT: Might I ask if you have a weekly break down of your Canadian passenger service for the four weeks after the accident which occurred to the Canadian Pacific plane in which Mrs. Albert Guay met her death—I mean the plane which fell near Quebec—in order to see the effect on your line? And I

would like to have it for the week before the accident as well as for three weeks after the accident, if possible. I have not got the date the accident accurred.

The CHAIRMAN: Are there any other questions as to assets in the consolidated balance sheet?

Mr. POULIOT: When will you be able to give me that information?

Mr. MCGREGOR: I am sorry, Mr. Pouliot, but the company's passenger records are not compiled by weeks. Would it be acceptable if we gave you the month before and the month after?

Mr. POULIOT: Yes.

Mr. MCGREGOR: Thank you.

Carried.

Mr. HATFIELD: What is meant by "Temporary Cash Investment"?

Mr. MCGREGOR: That is capital which has become surplus to the company's requirements as a result of the accrual of depreciation charges.

Mr. FULTON: I notice that in your "Cash" and in your "Temporary Cash Investments" you are in a very much more fluid stage now than you were according to last year's balance sheet.

Mr. MCGREGOR: I am glad to say that is correct.

Mr. HATFIELD: Why is it necessary to have so much cash on hand?

Mr. MCGREGOR: You are referring to the "Temporary Cash Investment"?

Mr. HATFIELD: Yes.

Mr. MCGREGOR: The company is capitalized at $25 million, all of which stock has been issued and the company, under law, is not permitted to make a reduction of that capital, although it is necessary when capital becomes surplus, as it will during the life of any fleet of aircraft, due to the accruals; with approval to reinvest that surplus capital.

Mr. HATFIELD: Why is it necessary to have $1,774,981.39 in cash on hand?

Mr. MCGREGOR: Because the company's running expenses are something over $2 million per month.

Mr. FRASER: I see that under liabilities you have "Air Travel Plan Deposits". Is that for the special arrangements which have been made for air flights?

Mr. MCGREGOR: Those are the cards to which you referred yesterday where each subscriber contributes $425 as a guarantee.

Mr. FRASER: And do they get a discount of 15 per cent?

Mr. MCGREGOR: No. That was discontinued three years ago.

Mr. FULTON: Do the figures for "Cash" or "Temporary Cash Investment" include transfers from expense accounts, such as a credit item for the disposal of the Lode Stars?

Mr. MCGREGOR: The Lode Stars have all been disposed of, and the capital resulting from their sale has been put into the capital account of the company.

Mr. FULTON: Last year you had it in an expense account.

Mr. MCGREGOR: That is correct.

Mr. FULTON: And you say that that expense account has now been transferred to cash or temporary cash investment?

Mr. MCGREGOR: Yes.

Mr. FULTON: I see that your "Material and Supplies" and "Other Current Assets" have been materially reduced from the figures of last year. Have you made substantial disposition of your other assets?

Mr. McGREGOR: In reference to "Material and Supplies" that account has come down as the various supplying companies have come into a better position in Canada for delivering parts upon shorter notice.

After the war there was a period of short supply for several years which required that the company, in order to avoid delay in carrying out its work, carry a heavy stock of replacement parts and materials of every kind. But as the supply position improved, it was possible to reduce the amount of investment in stocks.

Carried.

Mr. HATFIELD: Will you please tell me how you can carry a deficit as an asset?

Mr. McGREGOR: It does not carry as an asset. It appears as a balance against the company's capital position because the capital position does not alter with respect to the deficit if the deficit is made good by vote.

Mr. FULTON: This is a reference to the 1948 deficit, is it not?

Mr. McGREGOR: I beg your pardon.

Mr. FULTON: This reference to the 1948 deficit: that has been voted, has it not?

Mr. McGREGOR: In 1949 it has been delivered to the company.

The CHAIRMAN: Are you reading from the liabilities side or from the assets side?

Mr. HATFIELD: I am reading from the assets side.

The CHAIRMAN: On what line?

Mr. HATFIELD: "Government of Canada—Balance of Deficit." I never heard tell of a deficit being carried as an asset.

Mr. DREW: No; and you never heard of an operation like this either.

The CHAIRMAN: I would refer to Mr. McGregor this item of $603,283.16 indicated as "Government of Canada—Balance of Deficit", and I would ask him if he would kindly explain it.

Mr. McGREGOR: Under the Company's Act, the T.C.A., in respect to the period during which that Act has had effect, or is having effect, is entitled to draw down its deficit. That is shown as an asset on the balance sheet because that deficit has been incurred and is therefore payable by the government to the company.

The CHAIRMAN: And that amount of $603,283.16 indicates part of the deficit which you have not yet drawn down?

Mr. McGREGOR: At the time of the statement, yes.

Mr. FULTON: Would you please explain the item "Traffic Balances Payable" on the liabilities side?

Mr. McGREGOR: That had to do with the continual balance both for and against the company with respect to inter line exchange of traffic. If we sell a ticket to a passenger from Toronto to Paris and he is carried over another air line from London to Paris, then we owe that air line the revenue which that transportation represents; and in reverse, the same is true. So there is always a running balance between our company and any other.

Mr. FULTON: What is meant by "Air Travel Plan Deposits"?

Mr. McGREGOR: I think that question has already been asked.

Mr. FRASER: Yes, I asked that question. Those are the cards which you buy for $425, but there is no discount on them now.

Mr. McGREGOR: That is correct.

Mr. FRASER: When you stopped giving a discount, did the buying of those travel cards drop off?

Mr. McGREGOR: There were some cancelled, but then buying resumed and I may say that the number of cards in force now is considerably greater than the number in force at the time the discount was discontinued.

Mr. FRASER: Do you think it would increase sales any if you started again to give a discount?

Mr. McGREGOR: They would be very popular if they carried a discount.

Mr. FRASER: Would it not help your line?

Mr. McGREGOR: No, I do not think it would because we would be depriving ourselves of the 15 per cent.

Mr. FRASER: Well, why make it 15 per cent? Why not make it 5 per cent or 10 per cent and get that money deposited with you?

Right Hon. Mr. HOWE: Did not the Board of Transport Commissioners rule that discounts to travel card holders are the equivalent of rebates and therefore illegal?

Mr. McGREGOR: That may be the case. But these cards are completely interchangeable between all air lines.

Mr. FRASER: You had your own cards before?

Mr. McGREGOR: On T.C.A., yes; but we have now made them good for international travel by issuing them under the same terms as apply to the cards of other companies.

Mr. FRASER: Could you not just have for the one purpose of Canadian travel your own cards, which would not be interchangeable?

Mr. McGREGOR: That would be physically possible, but I think it would reduce the value and convenience of the cards to some extent. They are usually held by people who are travelling widely and therefore on several lines.

Mr. FULTON: On the right hand side of this page, page 17, there is an item "reserves for overhaul $523,426.21," which is the exact same figure as that which became available to you following the conversion of the six North Stars.

Mr. McGREGOR: I gave you the three sources of that figure.

Mr. FULTON: Last year you had under reserves for overhaul $523,426.21. I am wondering if the reserves for overhaul have not increased. In other words, why is there just the $523,426.21? From the figures it shows that it must have cost you $144,000 to do the work. You had $424,000-odd in there last year.

Mr. McGREGOR: Because we spent the money to do the work on the M-1 aircraft.

Mr. FULTON: And completely exhausted the fund?

Mr. McGREGOR: No, there was a residue in the fund, according to the statement I gave you, after the work was done.

Mr. FULTON: Thank you.

The CHAIRMAN: Carried?

Mr. DREW: No, not carried. When you do certain conversion work on aircraft such as, for instance, the changeover from the Wright Whirlwind to the Pratt and Whitney engine or any similar conversion, is that cost capitalized or is it allocated to your current expenditures?

Mr. McGREGOR: Probably both. Part of the total expense would be capitalized and part would go to operating expenses depending on the nature of the work. If a complete new unit is purchased as a unit it is capitalized but labour that would go into the installation of that unit would go to operating expenses.

Mr. DREW: In relation to this statement, can you give us an example of the cases where you have actually capitalized payments of that kind?

Mr. McGREGOR: Yes, I think I could give you an example almost identical to the type you are referring to. A decision was reached last year to change the type of cabin superchargers which was installed on North Star aircraft to one having a considerably better performance and a lower maintenance cost. The purchase of those superchargers was capitalized, but the changes in aircraft plumbing and ducts and so on and the work associated with that was an operating expense.

Mr. HATFIELD: Do I understand you to say that you had an arrangement with the government to pay all deficits?

Mr. McGREGOR: No, my statement was that under the Company's Act and during the period which it is in force, that the company may draw down the deficits as they occur during the period in which that particular act is in force.

Mr. HATFIELD: As long as the Act is in force? Then the arrangement is that the government pays all deficits?

Mr. McGREGOR: It permits drawing down the deficits. The approval of that deficit has to be put through separately but that Act is passed for only a twelve month period at a time.

Mr. FULTON: In connection with the $523,426.21 reserve for overhaul, under what heading or under what obligation liability of the Rolls-Royce Company did you have to be paid $118,345 for that conversion?

Mr. McGREGOR: That is very much on the same basis as Canadair. Canadair paid an amount of comparable size. Under the warranty as an example, when delivery was made we took the engines with type 9-A magnetos installed. As soon as type 9-B magneto became available, which is the one that should have been installed if then available, the cost of the work of replacing the magneto and returning the obsolescent type of magneto to the company was borne by the airlines and that and similar costs are properly chargeable back to the manufacturer. I am stating that as an example of the type of thing that produced that adjustment. Similar things applied to the air frame and a similar claim was made against Canadair for that reason. That credit was given to us.

Mr. FULTON: As I understand it they are responsible under their warranty to make their adjustments and you made them for them.

Mr. McGREGOR: Yes.

The CHAIRMAN: Carried?

Any further questions?

Mr. DREW: Yes, I have further questions. You can make loans for any expenditures, without parliamentary approval, from the C.N.R. can you not?

Mr. McGREGOR: You mean negotiate loans?

Mr. DREW: Yes.

Mr. McGREGOR: Yes.

Mr. DREW: How is that actually done?

Mr. McGREGOR: With the approval of the directors.

Mr. DREW: of T.C.A.?

Mr. McGREGOR: Yes.

Mr. DREW: In such a case do you consult the government before you make an application for a loan of that kind?

Mr. McGREGOR: I would expect that the treasurer would.

Mr. DREW: The treasurer would be the man who would do that?

Mr. McGREGOR: Yes.

Mr. FRASER: Up to what amount, or is there a limit to it?

Mr. McGREGOR: There is no stated limit that I know of.

Mr. FRASER: No limit on it?

Right Hon. Mr. HOWE: The limit is the amount that the Canadian National Railways is willing to loan them, I suppose.

Mr. DREW: Have any requests by Trans-Canada Air Lines for increased capitalization ever been refused?

Mr. MCGREGOR: I know of no requests that have been made for increased capitalization during my experience.

Right Hon. Mr. HOWE: I can answer that. Suggestions have come forward that T.C.A. needed additional capital and as the minister responsible I told the treasurer; you had better carry on as best you can until the depreciation fund catches up with your requirements; which they did. It was not a formal request or a formal refusal.

Mr. DREW: Mr. McGregor, do you know of any case where they made a request for increased capitalization?

Mr. MCGREGOR: No.

Mr. DREW: Have you ever had anything to do with requests for loans from the Canadian National Railways?

Mr. MCGREGOR: Yes, part of the $1½ million loan in force at the beginning of last year was negotiated during my period of office.

Mr. DREW: Well, now, in connection with these loans they are, of course, shown as capital obligations. Is it not unusual for any organization not to accumulate its deficits and balance them off against any profits that have been made and show a net position in regard to its operations in its statements?

Mr. MCGREGOR: As I read the report of the company that was done.

Mr. DREW: Yes, it was done until the reserves out of profits were exhausted, but it has not been done since then.

Mr. MCGREGOR: How can it be done, after a deficit is paid it is no longer a deficit.

Mr. DREW: Any other company would show accumulated deficit; in fact it is required to do so by law.

Right Hon. Mr. HOWE: That is all taken care of in the Canadian National-Canadian Pacific Act of 1933.

Mr. DREW: Mr. McGregor, your records do not show any accumulated deficit?

Mr. MCGREGOR: No, because the deficit has been made up by parliamentary action.

Mr. DREW: So in that way your position as shown would be one quite different from that of any ordinary company, other than a publicly owned company of that kind.

Mr. MCGREGOR: I am not familiar with what action a private company would take on that.

Mr. DREW: Were you not in an executive position with the Bell Telephone Company?

Mr. MCGREGOR: Not in any financial capacity, no.

Mr. DREW: Could you give us the figures in regard to the net position, in regard to profit and loss over the whole life of the T.C.A. up to the end of 1949?

Mr. MCGREGOR: No, it is not available.

The CHAIRMAN: Do I understand you want a total of the deficits voted for Trans-Canada Air Lines?

Mr. DREW: Showing each year the profits and deficits and the net results.

Mr. MCGREGOR: Going through the annual reports it could be made available.

Mr. DREW: Yes. Will you have that prepared from your reports?

Mr. MCGREGOR: Yes.

Mr. DREW: This situation presents itself, Mr. McGregor. This is a wholly owned subsidiary of the Canadian National Railways. Four of your directors are appointed by the Canadian National Railways and in that way control the Board. Canadian National Railways is a traffic operation, as yours is, although of a different kind. Would it be possible for the Canadian National Railways to guide your operations in any way because of that control?

Mr. MCGREGOR: Perhaps I can best answer that question, Mr. Drew, by saying that there has not been the slightest evidence of that and perhaps in substantiation of that statement I should point out that one of the Canadian National directors is an ex-president of the Trans-Canada Air Lines. That being so, I feel his sympathies are with the airline.

Mr. DREW: You would not say entirely with the airlines? I would hope his interests are also with the board he is now on.

Mr. MCGREGOR: I would also think they are, but there has never been an attempt in my experience to direct the activities of the T.C.A. so as to improve the competitive position as between air and ground transportation. I am sure that the officer to whom I refer would resist such attempts, and there never has been such an attempt.

Mr. DREW: But you would say that physically the Canadian National could control the operations of the T.C.A.

Mr. MCGREGOR: It is completely an imaginary situation.

Mr. DREW: I am only putting it forward as a speculative position in regard to a certain number of directors, and I want to remove the individuals from the consideration. There are four directors appointed by the Canadian National Railways out of seven. The Canadian National Railways owns all the stock. Would it not be possible, physically, for the Canadian National Railways at any time to direct the method of operation and other procedure of the Trans-Canada Air Lines?

Mr. MCGREGOR: I think physically it might be possible but if that happened I think the Trans-Canada Air Lines would find itself without many of its management.

The CHAIRMAN: Carried?

Mr. DREW: This is not carried.

The CHAIRMAN: Gentlemen, we have nearly reached our hour of adjournment. I should on completing our work in connection with the Canadian National Railways, have tabled the committee report in regard to the four votes referred to us. The report is now ready and I will ask the clerk to read it.

(see report to the House)

The CHAIRMAN: Mr. Gillis moves adoption of the report and its presentation in the House.

Carried.

Mr. MCGREGOR: I have the accumulative figures here on the result of the operations of the air lines from their inception in 1937; do you wish me to read those into the record?

The CHAIRMAN: Right.

Mr. MCGREGOR: They are as follows: For the seven months in 1937, a deficit of $111,005; for the year 1938, a deficit of $818,026; a deficit in 1939 of $411,656; a profit in the year 1940 or $539,263; a profit in 1941 of $302,437; a profit in 1942 of $494,915; a profit in 1943 of $147,889; a profit in 1944 of $7,409; a profit in 1945 of $32,773; a deficit in 1946 of $1,269,624; a deficit in

respect of North Atlantic operation in 1947 of $1,761,043; a profit with respect to Atlantic operation in 1947 of $136,303; a deficit with respect to North American operation for 1948 of $1,183,022; a deficit with respect to Atlantic operation in 1948 of $1,750,218; a deficit with respect to North American operation in 1949 of $1,419,444; a deficit with respect to Atlantic operation in 1949 of $2,898,149; making an accumulative deficit of $9,961,198.

Mr. FULTON: That is the net figure?

Mr. MCGREGOR: I believe so, I have not checked the arithmetic.

Mr. DREW: Mr. McGregor, in regard to the two lines which run parallel to the Canadian Pacific Airways, those are from Calgary to Edmonton, are they not?

Mr. MCGREGOR: No.

Mr. DREW: What are the two?

Mr. MCGREGOR: I do not know the second one. They operate between Calgary and Vancouver with intermediate stops and we operate non-stop between those two points.

Mr. DREW: You only know of the one?

Mr. MCGREGOR: Yes.

Mr. DREW: Is there any kind of co-operative flight arrangement there for passengers, freight or mail?

Mr. MCGREGOR: There is full interchange of traffic at every point, both with respect to other C.P.A. operations and the operations to which we were referring just now; that is, if there was a passenger destined for Penticton from Winnipeg we would carry him through to Calgary and transfer him there to the C.P.A. air line.

Mr. DREW: And in that particular operation do the ticket offices of the Canadian National Railways and the Canadian Pacific both sell tickets for both services?

Mr. MCGREGOR: Yes.

Mr. DREW: How do you find co-operation?

Mr. MCGREGOR: I should add, on a commission payment basis.

Mr. HATFIELD: What do you pay the Chateau Laurier for the ticket office space you occupy there?

Mr. MCGREGOR: I think I can give you the figures. As I remember it is something of the order of $2.50 a square foot.

Mr. FRASER: Does that include the telephone service there?

Mr. MCGREGOR: We have our own telephone service there.

The CHAIRMAN: Shall page 17 carry?

Mr. DREW: No.

Mr. FULTON: I would like to ask you about this item for overhaul. I see you have a substantial balance on hand in 1949 as compared to 1948, after work you have done on reconditioning those M-1's. During the course of 1949 were any additions made to this fund in the course of normal operations for that reason?

Mr. MCGREGOR: No, because the aircraft were out of service. The original fund was accrued during the period M-1's were in service.

Mr. FULTON: Well, then, I think we should point out that you appear to have made a profit on that operation of, if I am correct, $208,000 still in the fund. I see you have indicated there the amount applied to conversion. Would not one way of considering it be that you now have in addition — you have approximately $144,000. You said you charged to your fund the cost of the reconversion work?

The CHAIRMAN: I understood the witness to say that the actual cost was in the neighbourhood of $312,000.

Mr. MCGREGOR: That is correct. I explained that we were able to do the work and have a residue left in the fund which had been accrued, because of the fact that we were able to do it in our own shops over a slack period, and that the quotations we had from the two outside manufacturers to do that work were in excess of the amount of the accrued fund.

Mr. FULTON: Yes, but it appears that the cost to you was only $144,000, although you made up a budget for $250,000. I am asking you what the position was at the end of 1948? According to the answer you gave to me this morning the fund was roughly $344,000. There was a balance of $280,121 in the fund: and it looks to me as though the difference between those two amounts would be the amount you saved, namely a difference of $144,125.

Mr. MCGREGOR: The residue that remained unexpended in the fund after performing that work represents the saving resulting from doing the work within the company.

Mr. FULTON: So what is charged against that fund for doing that work was $144,125.

Mr. MCGREGOR: I do not think it is correct to draw conclusions by arithmetic because some of the work was done during the end of 1948, as I remember it, and there may have been charges levied against the fund in 1948.

The CHAIRMAN: At any rate it was a quite satisfactory operation as far as you were concerned?

Mr. MCGREGOR: Yes.

Mr. FULTON: What I am trying to point out to you here is that you apparently have made a profit on it, and the way it looks to me you appear to have charged the two companies, Rolls Royce and Canadair, more than you actually paid for the conversions.

Mr. MCGREGOR: The fund to which you refer was not paid by Rolls Royce or Canadair; only the conversion on the M-1's came out of that fund. The payments by Rolls Royce and Canadair had to do entirely with the M-2 aircraft.

Mr. FULTON: Why did you add this to the fund, so it would accumulate?

Mr. MCGREGOR: Because it seemed desirable that a long-term overhaul reserve fund should be established.

Mr. FULTON: I may have misunderstood your earlier answer on this point, but I understood you to say that instead of calling on the Rolls Royce and Canadair people to do the conversion on these M-1's that you did it yourself and they paid you what it would have cost them.

Mr. MCGREGOR: No, you certainly misunderstood me. The work for which this warranty payment was made had to do with the M-2 aircraft. We did the work ourselves rather than give the aircraft up to them to have the work done. and that applied entirely to the M-2 aircraft.

Mr. FULTON: Then, the picture I had of the fund is not a correct one, because I thought that you had created the fund with payments owing to you with respect to aircraft other than those for which the fund was originally established. I take it now that you have set this up as a general long-term overhaul fund.

Mr. MCGREGOR: That is right, and the name of the fund has been changed accordingly. I previously referred to it as the M-1 conversion fund, and it is now the North Star long-term overhaul fund.

The CHAIRMAN: Shall page 17 carry?

Mr. DREW: No, I shall have another question.

The CHAIRMAN: Well, we have reached the time of adjournment; shall we adjourn until 4 o'clock?

—The committee adjourned to meet again at 4 p.m.

AFTERNOON SESSION

—The committee resumed at 4.00 p.m.

The CHAIRMAN: Mr. McGregor, have you answers to further questions?

Mr. MCGREGOR: Yes. I believe that I have answers to all the additional questions asked this morning.

Mr. Fulton asked for the total passenger figures on the domestic lines for the months of January and June of 1948. The figure shown here is comparable to the figure shown in the lower right hand corner of the flow chart.

Revenue Passengers carried—domestic—January, 1948, 26,601; June, 1948, 58,827.

Mr. Fulton also asked for a subdivision as between capital assigned to the Bermuda and Caribbean part of the international operation and the north Atlantic portion of the operation.

Capital utilized in 1949 in Atlantic services: Bermuda-Caribbean, $2,043,700; North Atlantic, $7,506,300.

Mr. Fulton also asked the number of engines and the cost of maintenance divided between labour and material as already provided but extended to cover the months of December 1948 and December 1949.

	North American Services		Overseas Services	
	1949	1948	1949	1948
Month of December:	76 Twin Row 131 Rolls Royce	76 Twin Row 132 Rolls Royce		
Labour	$ 68,371.41	$58,007.49	$18,998.04	$41,150.05
Material & Misc.	128,462.54	71,592.26	37,517.27	56,557.80

Mr. DREW: Are those all of the answers?

Mr. MCGREGOR: Yes, that is all.

Mr. DREW: Are we ready to proceed, Mr. Chairman?

The CHAIRMAN: Yes, Mr. Drew.

Mr. DREW: Mr. McGregor, just for my information, who is the chief technical officer of Trans-Canada Air Lines?

Mr. MCGREGOR: James Bain.

Mr. DREW: What is his official designation?

Mr. MCGREGOR: Director of engineering and maintenance.

Mr. DREW: Is he here now?

Mr. MCGREGOR: No.

Mr. DREW: During the past year who was in charge of operations?

Mr. MCGREGOR: The vice president of operations, Mr. English.

Mr. DREW: Is he here?

Mr. MCGREGOR: No.

Mr. DREW: Will he be here?

Mr. MCGREGOR: Not unless requested.

Mr. DREW: How many meetings of the board of directors of Trans-Canada Air Lines were held last year?

Mr. McGREGOR: Inasmuch as meetings do not take place regularly every month, I would have to look up the figure but I would venture the opinion that it would be six or seven.

Mr. DREW: You might find that out will you, and also tell us the place where those meetings were held?

Mr. McGREGOR: The meetings were held at 360 McGill street.

Mr. DREW: Trans-Canada Air Lines building?

Mr. McGREGOR: No, the Canadian National Railways building.

Mr. DREW: All your directors' meetings were held in the Canadian National Railways building?

Mr. McGREGOR: We do not feel ourselves in a position to afford a board room.

Mr. DREW: Are the minutes of directors' meetings kept in your own office or in the offices of the C.N.R.?

Mr. McGREGOR: Both in my office and in the secretary's office.

Mr. DREW: You mean that there is a duplicate set of minutes?

Mr. McGREGOR: Yes.

Mr. DREW: Now, Mr. McGregor, referring back to this new type of aircraft which has recently been discussed with the press, I am referring to a report which was handed to me as being a statement given to the press by the Minister of National Defence. It actually appeared in this form in a number of newspapers. I quote it:

"The aircraft will be able to carry two complete crews. In addition it will be equipped to carry 33 passengers, the same number as carried by passenger North Stars, now in service. Sleeping accommodation will be provided for a total of 12. The engines in the aircraft are series R-2800, Pratt and Whitney, developing approximately a total of 7,000 horsepower. The aircraft is a modification from the successful North Star transport now in service. This new aircraft has been built to test such an engine conversion."

You will notice the positive statement—This aircraft has been built to test an engine conversion of the North Star model for use of the R-2800 Pratt and Whitney engines.

I think it would be just as well if any statements are being made, to have them made out loud.

Right Hon. Mr. HOWE: Will the honourable gentleman continue asking his questions?

Mr. DREW: I just asked the question. Will you please let me know what your opinion in regard to this statement is?

Mr. McGREGOR: If I might be so presumptuous as to criticize the statement, I would say that I am afraid the minister has been misquoted to some considerable degree.

Mr. DREW: This is a statement issued by the minister.

Mr. McGREGOR: Well, I do not know how the power of an R-2800 can be added up to 7,000 in respect of four of those engines. Secondly, I do not know how anybody can refer to a North Star transport aircraft, as a 33 passenger aircraft when it is a 40 passenger aircraft. In so far as the conversion testing of that aeroplane may be a project of the Department of National Defence, I have no information. All I can say, and I have already said it, is that it has nothing to do with T.C.A. in any shape or form. We have not been consulted or involved in any expenses, except in the indirect manner which I have described. Personally I have not seen the aircraft and I do not know of any of our technical people who have.

The CHAIRMAN: May I interrupt and suggest in future where the answers are similar in conclusion to your present answer, that you should answer that part of the question first. If T.C.A. has nothing to do with the matter I do not think it is your duty, or the duty of this committee to comment on a statement made by some other department.

Mr. GEORGE: Carried.

Mr. DREW: No, it is not carried.

Mr. McGregor, you have given us the information in regard to where meetings of the board of directors of Trans-Canada Air Lines took place. Do you issue or send out the notices of those meetings or who is responsible?

Mr. MCGREGOR: I determine the time of the meeting and I endeavour, as far as possible, to have the meeting time coincide with the date—not hour—of the Canadian National Railways board meeting, to avoid duplication of travelling for those directors who do not live in Montreal. I instruct the secretary to send out notices of the meeting.

Mr. DREW: As a result of that procedure you again make a saving in having no expenses for the board of directors being called together for Trans-Canada Air Lines?

Mr. MCGREGOR: I do not know that there is a direct saving because I do not know that otherwise we would be charged travelling expenses. I do not think any of our directors have asked for them.

Mr. DREW: Directors sometimes do get expenses.

Mr. MCGREGOR: Yes, they do indeed.

Mr. DREW: I am merely pointing out this is another economy which is available to you because of the fact that you are a wholly owned subsidiary of the Canadian National Railways.

Mr. FULTON: Mr. Chairman, since the committee decided this morning that no further questions would be answered with regard to engine failures, I feel that I should take this opportunity of placing on the record an analysis of certain figures which have been given by Mr. McGregor. In the table with respect to the comparison between 1948 and 1949—

The CHAIRMAN: Mr. Fulton, I think the committee decided in its opening meeting that we would in a large part refrain from addresses or comments by members and that we would content ourselves at this stage of the inquiry with question and answer, in order to save the time of the officials. We agreed that we would have a general discussion when preparing our report; it would be helpful if you would be kind enough to reserve your remarks until we are at the report stage. We are very anxious to clear these officials today if possible.

Mr. FULTON: I quite appreciate what you have said and perhaps I used the wrong words when I said that I wanted to place the analysis on the record. I do want this on the record and I should also like, and it would only be fair, to have Mr. McGregor comment on these figures if he wishes to do so. I merely analyzed them as they were presented to me but they indicate to me a very definite trend.

The CHAIRMAN: You can accomplish your purpose by stating what you find and asking Mr. McGregor to comment?

Mr. FULTON: Yes, if he has any comment to offer.

In analyzing the figures, I find, in comparing the months of January and July of 1949 that there was an increase in the number of engines of 58—36 per cent; there was an increase in the cost of maintenance of $213,528, or 160 per cent. There is an increase in cost of maintenance of 160 per cent as against an increase in the number of engines of 36 per cent.

Comparing January 1948 with January of 1949 the increase in the number of engines was 42, or 25 per cent; the increase in the cost of maintenance was $87,713, or 65 per cent. That is a 65 per cent increase in the cost of maintenance as against a 25 per cent increase in the number of engines.

Comparing July 1948 with July 1949 there was a reduction in the number of engines of 16 and an increase in the cost of maintenance of $19,108—a reduction of 8 per cent in the number of engines and an increase in the cost of maintenance of 6 per cent as between those two months.

Then the latest figures—those just furnished for the month of December—and I have not had time to work out the percentages—show December 1948 as compared with 1949 reflects a reduction in the number of engines on hand of one. There is one engine less in 1949 than in 1948. The increase in the cost of maintenance however was $26,041 for that month.

Now I think the position is stated accurately when I say a large part of this increase in the cost of maintenance is reflected in the figure for materials rather than for labour. The majority of the increase results from the increased purchases of materials, I gather, rather than from increased labour costs. That does indicate to me the fact that the engines used have resulted in a very greatly increased maintenance cost—out of proportion with the number of engines on hand—unless such other factors as difficulty of maintenance could explain it. It is on that feature that I would like Mr. McGregor to comment.

Mr. McGregor: Yes, I have a comment, Mr. Fulton.

I would suggest the interpretation that you have drawn from the comparative figures is—not putting too fine a point on it—completely incorrect. The situation is this. The aircraft went into service in June of 1948. Prior to that we were buying engines and they were being delivered to us in preparation for the state which would exist when we had the aircraft in service. That produced a condition during the first six months of 1948 in which we had engines but we were not using them. There was a labour cost associated with maintenance during that period because we had in training a large maintenance staff whose duties were to be the maintenance of the engines when they went into service. In July of 1948 the engines had been in service for a matter of thirty odd days which would indicate very low maintenance charges against the engines at that time. It would only be reasonable to commence comparing the maintenance cost of them when we got into full operation. I cannot see how 1948 can be used as any basis for drawing assumptions as to the trend of maintenance cost of engines for the reasons that I have set forth.

Mr. Fulton: If you take December 1948 as against December 1949, your material—your increase both for the overseas and domestic service was $26,000 in one month. Now if you could give a figure for the seven months to the end of December 1948 would it not be fair?

Mr. McGregor: Hardly. The maintenance charges in any one month may vary by $25,000 to $30,000 and more just on the matter of when the bills are received for materials delivered. A heavy supply of materials may come in in one month and the same type of materials may not be delivered for another three months; and the bills for material used in any one month may not be billed for another six months after delivery.

Mr. Fulton: I thought you said it was impossible to compare them on a yearly basis.

Mr. McGregor: It would not be if we had two full comparable years.

Mr. Fulton: Why cannot you compare a six month's period with a six month's period?

Mr. McGregor: Because they are not comparable, due to continuous state of change during the periods being discussed.

Mr. FULTON: June to December 1948 as compared with June to December 1949?

Mr. MCGREGOR: But you are referring to figures for only individual months, in your questions.

Mr. FULTON: The figures were furnished to me. They are for January and July, actually, within those years.

Mr. MCGREGOR: And December.

Mr. FULTON: You gave me December 1948 and December 1949. I was trying to get some basis. You objected to a comparison between the total cost in 1948 with the total cost in 1949 and I was trying to get some basis of comparison. But the only basis you have been able to arrive at is on a monthly basis and I find the same trend is borne out when you compare individual months as when you compare whole years.

Mr. MCGREGOR: $26,000 as a fluctuation in monthly expenses is neither here nor there and it does not indicate any trend.

Mr. FULTON: But when you find it repeated in any of the other months you gave us?

Mr. MCGREGOR: None of the other months are comparable.

Mr. FULTON: Oh, I am afraid I just cannot follow your reasoning there. I am sorry. But you did say something with regard to the labour aspect of these costs of maintenance. What was it that you said in that regard?

Mr. MCGREGOR: In respect to your question?

Mr. FULTON: Yes.

Mr. MCGREGOR: I said that maintenance labour was charged to the engine job during the first six months of 1948 because the labour force was then under training for the purpose of maintaining those engines when they did come into service as of June 1, but the staff under training were, in effect, doing no productive work during that time because the engines were not in line service domestically.

Mr. FULTON: So, for the year 1948 the maintenance costs are unduly heavy because you were training a crew?

Mr. MCGREGOR: That is right, but they were consuming no material whatever, during the first half of that year.

Mr. FULTON: But they were not doing any productive work?

Mr. MCGREGOR: Yes, but they would not be using bits and pieces.

Mr. FULTON: I do not think that your labour costs for maintenance have shown the same difference as the material costs.

Mr. GEORGE: Where is all this leading us to, Mr. Chairman?

Right Hon. Mr. HOWE: What conclusion are you going to draw from it, Mr. Fulton?

Mr. FULTON: The conclusion, and it has not been changed, is that the vastly increased amount paid for maintenance in 1949 over 1948 results from the type of aircraft engine used; and so far as I can see, and so far as any evidence has been given, it is not accompanied by commensurate advantage to the company in using that type of engine.

The CHAIRMAN: I wonder if you or any other member of this committee is qualified to reach any conclusion in that regard.

Mr. FULTON: I beg your pardon, Mr. Chairman?

The CHAIRMAN: I said: I wondered if you or any other member of this committee is qualified to reach any conclusion in that regard? Are we engine experts?

Mr. HELME: I do not know very much about aircraft engines but I do know something about the maintenance of automotive equipment. I presume there is

some connection between the two so far as maintenance is concerned. And I know that it will vary as between seasons.

Right Hon. Mr. HOWE: When you buy it as a brand new machine the maintenance is not very heavy. But when you get to your second year the maintenance becomes heavier.

Mr. DREW: Let us keep on the one point. I think there is a good deal in what the minister has just said; but in regard to the suggestion that this committee is not competent to form judgment. I would like to point out that no court could ever sit if it only could deal with those things in which the judge was an expert; and no committee would ever make a finding unless it attempted to form a judgment on matters based on expert knowledge. I think this is the place to get that expert knowledge of things which are component factors in the cost of operation of the T.C.A.

The CHAIRMAN: Well, I am in the hands of the committee.

Mr. FULTON: I have stated my conclusion, and perhaps further discussion of it should be reserved to the time when we consider our report.

The CHAIRMAN: Are there any further questions?

Mr. FULTON: I would like to go back now and refer to the subject discussed last night under the general heading of the North Atlantic Services. My question to Mr. McGregor and to the minister as well was whether we had not committed ourselves—whether the company—and here I am not criticizing the management at all—but whether the company has not been committed to a service on which it has no chance of showing a profitable operation for many years?

I find in the break down of capital charged for the two lines that on the Atlantic service there is the amount of $9½ million charged, while on the domestic service there is the amount of $15½ million; and I would point out, leading up to my question, that the company is charged with interest on that portion of its capital devoted to the North Atlantic service, and that it vastly increases its deficit in that respect. And I would point out that if a greater proportion of its capital and its attention were devoted to the domestic service—and I would like to get an answer to this—if that were done, would there not be a better chance of reducing the deficit on domestic operations, and at the same time reducing the deficit on overseas operations?

Right Hon. Mr. HOWE: The difficulty is that you cannot run an overseas operation unless you have some aircraft and some overall bases, and the capital necessary to run that overseas service. I do not see how you could charge that to anything else.

Mr. FULTON: But it could be operated, I would suggest, with considerable less capital and equipment devoted to that service, than is the case now. Let me say that I was very impressed by the minister's statement last night that he would not care to forecast an overall profitable situation on that service within five years. I would now like to direct the minister's attention to his statement made before the committee last year on page 257 where he said:

> "Right Hon. Mr. HOWE: The problem of this air line is to increase its revenue by at least $2,000,000. I won't operate an air line very long which is in red ink."

I entirely agree with the minister in that last sentence which I quoted; and since he does not foresee any prospect of coming out of the red ink on the Atlantic service for a very lengthy time, I would ask him whether he would modify his former statement?

I can see no justification for asking the taxpayers of Canada to subsidize a service which relatively few of them can ever use; whereas, if greater attention was given and a greater share of capital equipment was operated on domestic service, a service which they can use, we would thereby reduce our deficit.

Right Hon. Mr. HOWE: I am not prepared to recommend to the government that we abandon the North Atlantic Service. The British Overseas Airways operate routes similar to ours and I have heard no suggestions that their overseas services should be curtailed because they are not profitable. I believe the loss on their services last year was about $40 millions.

Mr. DREW: No, not on B.O.A.C.; that was their combined service.

Right Hon. Mr. HOWE: That is true.

Mr. DREW: B.O.A.C. last year lost less than the T.C.A.

Right Hon. Mr. HOWE: No!

Mr. DREW: Yes, and I can produce the report for you.

Right Hon. Mr. HOWE: I would be glad if you did so.

Mr. FULTON: I would refer particularly to the Bermuda-Caribbean service where the revenue figures show a very very great disparity between the cost of operations and the revenue produced; whereas the deficit on the Bermuda-Caribbean service is a very high percentage of the total revenue of $1,160,000 total revenue, and the deficit is $832,000. On the North Atlantic service the deficit was not nearly as high a percentage of the operating revenue. My remarks are directed particularly to that Bermuda-Caribbean service which I would consider is in the nature of a luxury service.

Right Hon. Mr. HOWE: It has the effect of utilizing aircraft and crews which would otherwise be idle. Those are crews for the North Atlantic service who otherwise would be idle because there would be no traffic to warrant keeping them in that North Atlantic service during the winter months. It would probably mean laying off pilots. We should remember that it has cost $25,000 to train each pilot. We cannot keep air crews waiting around without work for six months of the year. This service actually provides employment for those crews for a few months of the year. It is a new service and I think it is building up very nicely.

Mr. FULTON: But that is not what you said last year.

Right Hon. Mr. HOWE: Oh, I am not at all interested in what I said last year.

Mr. FULTON: But I am.

Right Hon. Mr. HOWE: Then I will let you quote it and I will not worry about it.

Mr. FULTON: You are a responsible minister and I would be interested in your comments and remarks which you made last year, when you said: "I won't operate an air line very long which is in red ink".

Right Hon. Mr. HOWE: But I did not specify what "very long" means. Perhaps it means two or three years. Perhaps it means another five years. We are trying to bring that North Atlantic service into balance. And as I say, it is going to be a long pull. Canada cannot support the traffic lines that the United States can support with their population which is fifteen times larger than ours. We are rendering a creditable service across the North Atlantic and we are trying to develop other routes which would be valuable to Canada. We have always regarded the West Indies as our child. We have build steamers to run down there. We lost some steamers in the war and we are not replacing them. But we are trying to make up for their loss by running aircraft instead. We are running aircraft down there in the summer season on a minimum schedule and we are running a service in the winter season to the capcity that the traffic justifies. In doing so we lighten the burden of overhead on the North Atlantic, and we hope to have an operation which will pay out, but it will take time.

Mr. FULTON: I do not see any comparison between steamship service and air line service. We were told that the steamship service was operated to dis-

charge an obligation originally made under a trade agreement. Moreover, that service is a freight service.

Right Hon. Mr. HOWE: It also carries passengers although it does not carry as many passengers now as it used to, because we have not as many passenger boats. Therefore we are supplementing the steamer service with aircraft.

Mr. FULTON: Your aircraft service is a new type of service altogether.

Right Hon. Mr. HOWE: But it moves people between Canada and the West Indies as did the boats.

The CHAIRMAN: Is not this a discussion which should take place when the time comes for preparing our report?

If you intend to move that the North Atlantic service be discontinued, then of course the discussion would be in order at that time. But should we not make a real effort? I think we are practically through with the consolidated balance sheet which is the last item we have to deal with before releasing our T.C.A. officials. So could we not make a real effort to finish this up and release them?

Mr. FULTON: There is one thing I would like to follow up. You keep referring to the Trans-Atlantic service. I have tried to make it clear that I am referring particularly to the Bermuda-Caribbean service and I am asking a question to which I have not yet received a direct answer: whether we could not curtail that service, and by curtailing it divert more of our attention and equipment to the domestic service in the hope of providing a better and more complete service to the people of Canada, one which they could use, and one which would help to eliminate a part of our deficit?

Right Hon. Mr. HOWE: We have more crews and aircraft on the domestic service than we can use in winter. It would be quite impossible to absorb those aircraft from the Atlantic service into the domestic service in the wintertime. We could, of course, release those crews hoping that in the spring they would come back to us again, and we could put the aircraft up in mothballs. In doing that however, you would not lessen your depreciation charges on the aircraft. You would of course save the salaries of the crews if you fired the crews, but it is better to keep both the aircraft and the crews working and that is the purpose of the lines to the West Indies.

Mr. DREW: Is this not the point that is raised? There is not any suggestion of abandoning the trans-Atlantic or abandoning the Caribbean service. As Mr. McGregor pointed out yesterday the big load on the trans-Atlantic is at the time of the low point in the Caribbean service, and the big load in the Caribbean service is at the low point of the trans-Atlantic service. The point that presents itself to me, which I understand Mr. Fulton was pressing, was as to the possibility of an adjustment of schedules which would make it possible to utilize the aircraft to the maximum by reducing the number of services to the Caribbean and the southern area in the light period, moving those aircraft into the trans-Atlantic service and vice versa.

Right Hon. Mr. HOWE: That is exactly what we do.

Mr. DREW: Not to a point which reflects itself, apparently, in the occupancy of the aircraft. Is it not correct that you have aircraft travelling with light loads in the summer months in the Caribbean service?

Mr. MCGREGOR: Quite light loads, if I may answer the question, Mr. Howe. However, you must maintain a certain minimum number of flights, and we have reduced the flights to one a week in the off season. Below that you are not considered to be operating a scheduled operation.

Mr. DREW: It was reduced to one a week last summer?

Mr. MCGREGOR: Yes, and I still am of the opinion that the paucity of traffic is largely the result of the monetary situation as between the sterling area and

Canada. This is something which I hope might rectify itself or be rectified in the not too distant future.

Mr. FULTON: You spoke of putting on another domestic service in the summer. I do not see then why you cannot cut down your Atlantic service or the south Atlantic service and utilize your aircraft in the summer right here at home and by an extension of your special low rate winter charge domestic program increase that movement and gradually thin down your Caribbean movement, and by increasing your domestic movement secure a better return on the money that the taxpayers in Canada are called upon to pay.

Mr. MCGREGOR: I must have failed miserably because I have tried for two days to make the point that is firmly held, not only by this airline's executive but by all others that I know of, that a profitable operation hinges on the basis of getting as flat as possible the chart showing the traffic carried over twelve months of the year. I understand you to suggest that we take such action as would lead to a further humping of that chart in the summer season, by reducing summer fares.

Mr. FULTON: My suggestion was exactly the opposite. Your heavy load period on the domestic service, as I understand it, is during the winter months. You say that you are increasing your passenger occupancy by your present program of special rate concessions and you told us, as I understood it, that you expected further improvements and benefits from that program. Now, the point I am trying to make is that I thought your efforts should be concentrated upon that to the exclusion of your efforts to improve your Caribbean service which, it seems to me, on the basis of the revenue and expense situation last year, has resulted in an increased deficit. What I am trying to say simply is that I would think it would be preferable to devote your efforts to building up the domestic service and to gradually reduce your other service because the one seems to me to show a much greater profit potential than other.

Right Hon. Mr. HOWE: Well, in the month of June we will be running every aircraft that we own to capacity and turning away passengers, except on the aircraft, or perhaps one, maybe two, that are used in the Caribbean in the off-season making the one trip a week. Now, I do not think we can do better than that.

Mr. DREW: You are speaking of last year.

Right Hon. Mr. HOWE: Yes, and of what we are anticipating this year. We never have seats enough to take in all the traffic offering from June to September and we have far too many seats in the wintertime. In the wintertime we therefore put them on the routes where we have traffic possibilities, that is on the southern routes. I do not know whether we can do better than that. In fact I think you are asking us to do exactly what we are doing.

Mr. FRASER: That Caribbean run will be only one a week through the summer months?

Mr. MCGREGOR: Yes.

Mr. FRASER: What are you running now?

Mr. MCGREGOR: Three a week.

Mr. FRASER: Have you a landing field or any landing spot between Toronto and Tampa where you could drop down in case of necessity?

Mr. MCGREGOR: Traffic-wise we could not do that.

Mr. FRASER: I know but you would have made arrangements for that would you not? Suppose a storm came up or something cropped up? I know you are away up above the weather and all that, but could you land any place if you wanted to?

Mr. McGREGOR: Any flight has a right to land at any field.

Mr. FRASER: And the passengers will just have to stay there in the plane, they cannot be left there?

Right Hon. Mr. HOWE: Well, we get across the north Atlantic without landing in the Atlantic and I think we can get between Toronto and Tampa without having to land.

Mr. FRASER: What I was getting at was, the passengers are not allowed out of the ships. They would have to stay there and go on again.

Mr. McGREGOR: There is no right to sell a ticket to any point other than Tampa.

Mr. FRASER: I knew they could not leave the plane but you would have the right to drop down into a field if you felt it was necessary?

Mr. McGREGOR: That is a universal right.

The CHAIRMAN: Any further questions on page 7? Carried?

Mr. DREW: You were dealing a moment ago, Mr. McGregor, with the maintenance of engines in answer to some questions asked by Mr. Fulton. Now, I notice by the varying figures of engines in use it is obvious that these fluctuate. Have you the figures as to the total number of engines that T.C.A. has bought, Pratt and Whitney engines for the DC-3's and Rolls Royce engines for the North Star?

Mr. McGREGOR: You mean as distinct from the number we have in service at the present time?

Mr. DREW: I am talking about the total number of Pratt and Whitney engines that have been bought either with the aircraft or otherwise both for the DC-3's and the North Stars.

Mr. McGREGOR: I was just trying to think why the number bought should be different from the number in service at any one time. There has been one Rolls Royce engine scrapped and I cannot think of a Pratt and Whitney engine which has been scrapped in respect of DC-3's. There were Pratt and Whitney engines destroyed which were in service in the Lockheed Lodestars. Otherwise, I would say our purchases and the figure of in service engines, which I have given, would be the same.

Mr. DREW: You see, that hardly explains the situation because the figures for July 1948 show 76 twin row Pratt and Whitney engines in operation and 148 Rolls Royce engines. The figures for July 1949, which you supplied in the answer you gave, show 76 twin row Pratt and Whitney engines and 132 Rolls Royce, which is a reduction of 16 in the number of Rolls Royce engines. What is the explanation of that?

Mr. McGREGOR: The five aircraft each carrying four engines which were returned to the R.C.A.F., that is the M-1's and there were some purchases in addition to that.

Mr. DREW: Then, if there were some purchases it is obvious there have been purchases during this period?

Mr. McGREGOR: I beg your pardon?

Mr. DREW: If there were purchases then there must have been purchases separate from the aircraft themselves.

Mr. McGREGOR: What I said, Mr. Drew, is I could not think why the number of engines purchased should be different than the number of engines now in service. We naturally returned the engines with the M-1 aircraft that we returned to the R.C.A.F., which accounts for twenty.

Mr. FULTON: Then you bought eight more?

Mr. DREW: Do you show in your statement the engines of the machines that you had on loan as being Trans Canada Air Lines engines?

Mr. MCGREGOR: Those are figures for engines in service.

Mr. DREW: It cannot be a difficult figure to obtain. If you would give a figure from your record, submit it, you can submit it personally or have it placed on record with the committee, showing the purchases of Rolls Royce engines at various times?

Mr. MCGREGOR: I can do that but if it is satisfactory to you, Mr. Drew, I would think that it is almost certain that our purchases of Rolls Royce engines would be 132, including those delivered installed.

Mr. DREW: Would you check that and let us have the figures with the dates on which those engines were purchased, and if it is found that any engines have gone out of service for any reason that you mention, would you just let us have the date as of that time?

Before we pass on from this page it was mentioned that there are other officials of Trans Canada Air Lines here. What other officials was it intended to call as witnesses, Mr. Chairman? The answer to that question will govern the questions that are to follow.

The CHAIRMAN: The witnesses in attendance in addition to Mr. McGregor are Air Vice Marshal Cowley, Director of Air Services, and Mr. C. P. Edwards, the Deputy Minister of the Department of Transport for Air.

Mr. FULTON: Are there no other T.C.A. employees here?

The CHAIRMAN: There are other officials here. I have given you the names of the men who have been in the habit of appearing before this committee. I can give you the names of all the officials who are here.

Mr. DREW: Have you the list?

The CHAIRMAN: I have not, Mr. Drew, but I can get it.

Mr. DREW: Is Mr. Cooper here?

Mr. MCGREGOR: No.

Mr. DREW: Mr. McKim?

Mr. MCGREGOR: No.

The CHAIRMAN: Mr. Cooper was here last week on C.N.R. business but he is not here now. The only executive officer of T.C.A. who is here in respect of the hearing is the General Auditor, Mr. Harvey, who is on my right.

Mr. DREW: Mr. McGregor, just see if you can check up on your recollection of this, and let me know if you could answer this: tell me whether or not you agree with the answers which I am going to read from the report of the application of Trans-Canada Air Lines before the Civil Aeronautics Board at Washington on August 30, 1949, and I am reading from page 147. On that page Mr. Cooper was making a certain statement in regard to the preparation of cost figures. I understand you were present at that time and you can say whether or not your recollection of this is what I am about to read. I will just read the following questions and answers which will explain to you what is in my mind and then you can say whether or not you recall them.

Mr. MCGREGOR: I think I will be able to tell you whether that was when I was there or not. There were three hearings in connection with that application.

Mr. DREW: You attended on the morning of August 30, and in the afternoon of August 30 Mr. Cooper was there; and I am starting to read at line 19 on page 147:

> Q. Have you any exhibits which would show whether or not your trans-border services, operating without the rest of your North American services, are making money?—A. I couldn't answer that. No. So far as

the accounting part is concerned, we do not make that separation. Whether the management of Trans-Canada make estimated computations of those separate results, I don't know.

Q. You then, as the man who is presumably in charge of income statements and consolidated balance sheets, wouldn't know whether your Toronto-Chicago operation or your Toronto-New York operation were profitable in and of themselves?—A. I wouldn't know.

Q. You haven't any figures with reference to revenues and expenses which would show that?—A. We would easily be able to determine the revenues, but it would be a matter of considerable work to get the expenses.

Q. You don't have them, though?—A. I do not have them.

Q. Do you think, as an expert in accounting matters, there is any way of telling whether or not you are making money on a particular route unless you have figures like that?—A. I think the management would know that.

Q. The would know it?—A. Yes, I think they would know it.

Q. How would they know it if they haven't the figures?—A. They have other people than accounting people.

Q. Do they have any figures that are submitted to them that would show whether they are making money on the Toronto-New York run?—A. I don't know.

Q. Well, I am asking you as an expert in accounting and comptrolling matters whether you would ever accept anybody's opinion as to a matter of that type without figures.—A. Well, my answer to that would have to be by way of explanation. In the beginning we asked our management to what extent they wanted us to break down the accounts of Trans-Canada by routes, and we pointed out that it would be a matter of expense, but that it could be done, by dividing the expenses, that is, the common expenses, on certain agreed arbitrary bases. And the management said, 'No, we don't wish you to undertake that work,' and we haven't done it."

Is that in your opinion a correct statement of the situation?

Mr. McGregor: Yes.

Mr. Drew: He says in the last answer I read there that they asked the management if they wanted a breakdown showing the expenses of operating that route and the management said they did not want that; is that correct?

Mr. McGregor: Yes, that is correct, because I do not believe it is humanly possible—and, again, that opinion is shared by other air lines with greater ramifications than our own—that it is not possible to segregate the cost of one route, and I know of no instance where that has been done. It is possible to segregate costs as between let us say our Atlantic service, our North American service and our southern service, to segregate it with respect to major subdivisions; but to carry the segregation beyond that point down to individual routes, or sections of an operation, I do not believe is practical and, even if you were to try to do that, to figure out the actual amount of money spent on a particular operation on a particular route, I doubt very much whether the end figure you would get would be of much use to you, because that figure would be of extremely doubtful accuracy.

Mr. Drew: Well, Mr. McGregor, without in any way debating the question with you I think you will agree that with men in charge of management—having in mind particularly the business men of today—at the present time the very general practice in every business activity is to establish a system of cost accounting which indicates the actual net position of every operation, every phase of operation with which that business is concerned. As you suggest, this may be a

relatively small operation compared to your whole system, but I do not believe there is any company operating today which does not have a cost accounting system which with as great a degree of accuracy as possible allocates to each department a proportion of overhead and management costs and all the other costs; and the purpose of that, of course, is so that they will be able to know at the end of each operating period, whether it be a month, six months or whatever it may be, how much they are losing or how much they are making on the basis of this cost accounting set-up. Can you see any reason why a system similar to that should not apply to the operations of Trans-Canada Air Lines?

Mr. McGREGOR: That same system in great detail does apply to the operations of Trans-Canada Air Lines, but you cannot make a segregation from it of what it costs you to operate a particular aircraft on a route which runs 280 degrees as compared to another going at 180 degrees. But in greatest detail we assess the cost of operation on that aircraft by major sub-divisions; let us say as between the Atlantic division, the southern division, and the domestic operation.

Mr. DREW: That seems a little bit difficult to understand. I understand you to say that the cost was higher on that short operation you have between Vancouver and Victoria.

Mr. McGREGOR: Are you referring there to the statement I made regarding the rate between those two points?

Mr. DREW: Yes.

Mr. McGREGOR: That is not what I said. I said that the cost of the ticket selling and the stimulation of business and the advertising is a fixed sum and is similar across the country, and when that is applied to a larger number of miles it has a different effect than when it is applied to a short run.

Mr. DREW: Well then, Mr. McGregor, why is it that you charge a higher rate per mile on that section of the line?

Right Hon. Mr. HOWE: He just explained that. We know the station cost, the the cost of selling tickets, and so on, and that such costs are greater for a short flight than for a longer one.

Mr. DREW: You didn't give a breakdown.

Mr. McGREGOR: I said that. We made a very detailed analysis but that it could not be segregated as between routes.

Right Hon. Mr. HOWE: Having established the fact that he has no figures by routes, let us drop that.

Mr. DREW: I am not going to suggest that he did not have any figures—

Right Hon. Mr. HOWE: He gave you what it costs to sell tickets, that it was proportionately higher on a short route and lower on the longer routes.

Mr. FULTON: Well, suppose you sell more tickets.

Right Hon. Mr. HOWE: The cost of selling tickets is averaged over the country.

Mr. FULTON: It seems to me to be a most arbitrary kind of allocation.

Right Hon. Mr. HOWE: What does it matter anyway? We know what it costs for the system, we don't care what area it applies to.

Mr. FULTON: But the taxpayers are interested.

Right Hon. Mr. HOWE: Oh well, now.

Mr. DREW: I am rather surprised that the minister should say that, that we don't care. That is one of the reasons we should go into this matter regarding this particular government operation. We should deal with it as a committee as a practical operation, a government business, and not as though it were a mythical ephemeral body about which you cannot ask a question.

Right Hon. Mr. HOWE: But Mr. Drew wasn't asking questions, he was making statements, reading from that report. He can't do that.

Mr. DREW: Do you agree, Mr. McGregor, that the figures do not exist from which you could break down the cost on a reasonable basis of distribution, the estimated cost in regard to each one of these route operations?

Mr. MCGREGOR: Absolutely, I say that it is impossible to apply costs, except as to the operation of the North Star aircraft as between major divisions of the company.

Mr. DREW: But you can supply it for the system as to major divisions?

Mr. MCGREGOR: Yes; but I say to apply that as an average cost with respect to any one expense item to any one route is absolutely inaccurate.

Mr. DREW: Mr. McGregor, how would you possibly, going before your board of directors, be able to say to them that you think a certain type of service should be given on a particular route, or a certain type of aircraft should be continued or discontinued on a particular route, unless you are able to put before them at the same time your estimate as to what the actual earning and expenditure situation is on that route?

Mr. MCGREGOR: That could easily be done with respect to any one given set of conditions. If we have the aircraft and the personnel available for a particular route we can calculate what will be the out-of-pocket expense, and associated with that quite obviously the revenue that would be derived from it; and if the result of the comparison of the out-of-pocket expense with the anticipated revenue showed a losing operation it would not be approved, but if on the other hand a comparison of those figures showed a possibility of net earnings, that would be a basis on which to approve it.

Mr. FULTON: When you go before the Air Transport Board to have your application for tariffs approved, what figures do you use? You must surely show what it costs to operate a line, and what the anticipated revenue will be, how much traffic you anticipate and what you figure it will bring in; and you must know how much it will take to carry the line, to cover the cost of the operation, and therefore to determine whether or not the rates you are applying for are justified.

Mr. MCGREGOR: Mr. Fulton, I think the Air Transport Board, as I understand it, in the ratification of our proposals on fares, base their considerations principally on the need of the public. If we make a proposal which is in their opinion in the public interest it is approved, and if in their opinion it is not in the public interest it would not be approved. I do not think the Air Transport Board are interested in the efficiency or inefficiency of the operation.

Mr. GEORGE: We seem to be repeating ourselves. If it is in order, Mr. Chairman, I move the adoption of pages 16 and 17 of the report. I do not know if I am in order or not.

Mr. DREW: Mr. Chairman, I am hoping that this committee will be able to make recommendations that will be of assistance to Trans-Canada Air Lines, and I want to place before the committee certain things which I think indicate very great need for an examination of the business methods of Trans-Canada Air Lines; and I am not being critical of any official. I am pointing out that this is a wholly-owned subsidiary of the Canadian National Railways and that for a time when it was operated by the Canadian National Railways it operated at a profit. It is still being operated by the Canadian National Railways as their own company, although much of the time it would seem as though the minister regards it as his own operation. I want to read again from this report and ask Mr. McGregor whether or not he recalls this, because he was present when this was taken down, and I would like to read into the record what it says with respect to the situation in regard to this company. I now read from page 148 of the report of the Civil Aeronautics Board hearing with respect to the application of Trans-Canada Air Lines, under date of August 30, 1949, reading from page 148:

"Q. Do you think, as an expert in accounting matters, there is any way of telling whether or not you are making money on a particular route unless you have figures like that?—A. I think the management would know that.

Q. They would know it?—A. Yes, I think they would know it.

Q. How would they know it if they haven't the figures?—A. They have other people than accounting people.

Q. Do they have any figures that are submitted to them that would show whether they are making money on the Toronto-New York?—A. I don't know."

Right Hon. Mr. HOWE: Mr. Chairman, I wonder how many times my honourable friend is going to read that particular piece of evidence into the record? This is the second time at least.

Mr. DREW: I have no intention of reading it a second time. Let me start at the bottom of the page.

The CHAIRMAN: There is a motion before the chair.

Mr. DREW: I would like that motion to be put to see whether discussion is going to be closed off.

Mr. MCCULLOUGH: I will second Mr. George's motion.

Mr. DREW: I would like the question to be put, and to see whether discussion is going to be closed off here.

The CHAIRMAN: It has been moved by Mr. George that pages 16 and 17, being the pages showing the consolidated balance sheet at December 31st, 1949, be now adopted.

Mr. GILLIS: Just before you put that motion, we do not want to make it appear that this committee is applying any 'gag rule'. The motion made by Mr. George applies to the two pages under consideration, but the subject matter being discussed by Mr. Drew, in my opinion, has no reference to these two pages.

Mr. DREW: Oh yes.

Mr. GILLIS: No, it has not. Mr. Drew is discussing the methods of accounting carried on by Trans-Canada Air Lines and he has read from a document about an inquiry held in the United States. It was with regard to the routes which were in dispute recently. They are two matters which are not related at all. I am quite prepared to carry this balance sheet but I am not prepared to shut off discussion on the subject matter that is under consideration.

I think the chairman should have ruled long ago whether that particular document had any relation to this committee. I do not think that it has but, at the same time, we have listened all afternoon to a technical discussion on accounting and I know most of the members of this committee are not qualified in that field. I am quite satisfied, as far as I am concerned, that T.C.A. has experts in the field and I am not questioning the methods they adopt.

However, I wish Mr. Drew would do this. Rather than enter into just a straight argument with Mr. McGregor on this particular matter, if he has any ideas in mind with regard to changes, would he make some specific recommendations to the committee so that we can vote on them? I want it to be understood that as far as I am concerned I am quite prepared to adopt these two particular pages on the grounds that they have no reference to the discussion Mr. Drew is carrying on, and, if the chairman rules that the document is in order, then I wish Mr. Drew would make some recommendations with reference to the subject matter of the document. We are not closing him off but we do want to get through with this report.

Mr. FRASER: The effect of the motion is to shut off discussion.

Mr. GILLIS: No.

Mr. FRASER: Yes it is.

The CHAIRMAN: In reply to your question, Mr. Gillis, I would say that any member of this committee is quite within his rights in reading from any docu-

ment that he wishes to read from, and then asking the witness whether he agrees or disagrees, and if so why. I take it that is what Mr. Drew has been doing.

I know that he does not want to—well, 'wear out his welcome' kind of thing—but I wonder if you would indicate, Mr. Drew, if you were left uninterrupted, just how long you think it would take for you to develop the points which you wish to develop? I hope this is not in fulfillment of the threat you made last night.

Mr. DREW: I made no threat last night; I simply made the statement that we were not going to finish before Easter because there were a number of witnesses to call.

The CHAIRMAN: You said it would not speed up the work if we sat last night.

Mr. DREW: I said that it would not facilitate the hearings of this committee, and you will recall that it was in reference to an earlier suggestion that we would be finished by tomorrow. I pointed out that was not possible because there are witnesses to be called who are not here.

The CHAIRMAN: If you are given a free hand, without interruption, would you indicate how long it will take you to develop the point you wish to make—without being needlessly hurried?

Mr. DREW: I should think it will take me about fifteen minutes to cover the points that I have here if I am permitted to read and then ask questions; but I would also point out, in relation to the remarks that have been made, that there is on this very page of the consolidated balance sheet statement—

The CHAIRMAN: I have not ruled against you on that.

Mr. DREW: But I want it on the records, in view of the statement that was made, that on this page we have a deficit of $4,317,593, and that everything that goes into it helps create the deficit or otherwise, and is therefore now under consideration.

The CHAIRMAN: I have not questioned that at all and if ten or fifteen minutes will clear this up to everyone's satisfaction I think that we had better go ahead. If the mover and seconder will permit me I will withhold the motion.

Mr. DREW: The reason I was reading this is simply that it relates to the method of accounting and I think we should know what the answer is. I apologize for having read the page before but, I admit that in picking up the book I started on the previous page, I am now reading from page 149, starting at line 16.

Right Hon. Mr. HOWE: May I interrupt to ask who is asking the question?

Mr. DREW: Mr. Cooper.

Right Hon. Mr. HOWE: No, who is asking the questions?

Mr. DREW: Mr. Gewirtz.

Mr. MCGREGOR: He was counsel for Colonial Air Lines.

Right Hon. Mr. HOWE: He was a hostile counsel.

Mr. DREW: These are the questions and answers that were given on the hearing in Washington. I am simply reading what statements were made.

"Q. You are the comptroller, are you not, Mr. Cooper?—A. Yes sir.

Q. Would you not be familiar with the fact as to whether anybody else in the organization is messing around with figures of this type?—A. I don't quite agree with your description of "messing around"—

Q. Use it any way you want to.—A. But answering your question perfectly sincerely, I do not know whether the management, in some method other than through the accounting department, do take out figures on these routes separately.

Q. You refer to management of Trans-Canada. Are you not involved in the management of the air line?—A. I am the comptroller.

Q. Is there anybody other than you who has a legal or other responsibility for financial data?—A. Not the ultimate financial data. I am responsible for the accounts of Trans-Canada.

Q. Are you responsible for determinations of addition and subtraction which would show the extent to which Trans-Canada is or is not making money on its total operation?—A. Yes.

Q. You have stated that as far as you know, you have never been authorized, for certain reasons that are not particularly important at this time, to make any breakdowns on a route basis?—A. That is so.

Q. Would it be within the normal course of managerial events of Trans-Canada for you to know whether anyone else within the organization or management of the company were participating in studies or analyses of that type?—A. Well, it might be a matter of opinion as to whether I should know or I shouldn't. But I am telling you that I don't, and if it is held that I should, then, I suppose I ought to perform my duty.

Q. Well, I am asking you whether you think that, within the normal compass of your responsibilities, the preparation of data of that type would come within your orbit of responsibility?

A. It would not. Are you speaking of the breakdown?

Q. Yes.

A. It would not.

Q. You mean that anybody in Trans-Canada, despite the fact that you have said that one of the reasons you haven't done it was because of the expense involved, that anybody in the organization on company time could go ahead and make any kind of breakdown he wants, without reporting to you?

A. Could be.

Q. Is that normally the way the company is run?

A. I don't know how other companies are run.

Q. Are there lines of responsibility with respect to particular problems?

A. I would think so. We operate on a departmental basis. I don't know what the purchasing department is doing; I don't know what the law department is doing; I don't know what the research department is doing. They may be getting out figures. If they are, it is all right with me. It does not affect my responsibility, which is the certification of accounts of the company. My duty with respect to this particular matter would begin if I were required by the management or by the government, or by any outside party to furnish revenues and expenses by routes, and that has not been done.

Q. Then, as far as you are concerned, as far as you know, there is no available data on that subject?

A. Not to my knowledge.

Q. Do you know what the differential is between United States average monthly salaries and the salaries paid by Trans-Canada to employees in classification such as pilots?

A. I wouldn't know that."

Now, first of all Mr. McGregor, you do recall those questions and answers, do you?

Mr. McGregor: Yes.

Mr. Drew: You will agree that the comptroller is the man in charge of the methods of accounting within your organization?

Mr. McGregor: Yes.

Mr. Drew: And you accept that as the statement he made as to the way he carries on in that capacity?

Mr. McGregor: Yes.

Mr. DREW: Then in regard to his last statement as to the comparative salaries paid to pilots, other air crew, and ground crew, have you figures which would give the comparative payments to Canadian pilots, air crew, and ground personnel?

Right Hon. Mr. HOWE: We just decided that we were not going to give that information.

Mr. DREW: I beg your pardon?

Right Hon. Mr. HOWE: We just decided that we would not give that information.

Mr. DREW: I do not know whether there was any question of this dealt with this morning. After all, we have been talking about the relationship of cost on other air lines and I should think this is one very important question of operating cost.

The CHAIRMAN: The matter was gone into in a general way in an earlier part of our inquiry and, if I remember correctly, Mr. McGregor stated on the over-all average that wages were higher in the United States than in Canada.

Mr. KNIGHT: 15 per cent.

Mr. GILLIS: In order to have the complete picture, may I just know what that document is which you read?

Mr. DREW: This is an official record of the evidence that was taken on an application by Trans-Canada Air Lines before the Civil Aeronautics Board in Washington, heard on August 30th and 31st last, and that application was for authority to operate a route from Montreal to New York.

Mr. GILLIS: What is that record you are reading from, Mr. Drew? Is that a court record from the United States?

Mr. DREW: The people I obtained it from are the Columbia Reporting Company, official reporters in Washington.

The CHAIRMAN: The evidence you are reading from, Mr. Drew, is a cross examination made by counsel for Colonial in cross-examining one of the T.C.A. witnesses?

Mr. DREW: That is right.

Mr. GILLIS: And Colonial contested Canada's right to put an air line in there.

Mr. DREW: There were a number of counsel there, I can check with you.

Mr. GILLIS: These questions and answers were designed to help T.C.A.?

Mr. MCGREGOR: Oh, quite the reverse. They were propounded by lawyers representing intervening air lines.

Mr. DREW: I presume that whoever answered these questions told the truth.

Mr. GILLIS: What I am concerned about is the motive in asking those questions.

Mr. DREW: What I am concerned about is whether the answers are accurate answers.

The CHAIRMAN: Mr. McGregor has said that the answers are accurate, and I think Mr. McGregor did inform the committee that wages and salaries for ground crew and air crew were, on the overall average, about 15 per cent higher in the United States than in Canada.

Mr. MCGREGOR: It was approximately 10 per cent to 15 per cent, if I remember my answer.

I think we might be of some help to Mr. Drew in the matter of pilots' salaries because the question as worded is impossible of answer. The whole basis

of pilot payment in the United States is entirely different to that in Canada, and I would think that what the comptroller was saying was exactly the correct thing when he said that he was not in a position to compare them because they are no more easily to be compared than apples and lemons.

Mr. DREW: Are the pilots here unionized?

Mr. MCGREGOR: They belong to an association, yes.

Mr. DREW: Is it a union?

Mr. MCGREGOR: It has the effect of one, but it is not so designated by name.

Mr. DREW: I thought it was described as a union.

Mr. GILLIS: An employees' association.

Mr. DREW: Is it an international organization?

Mr. MCGREGOR: No. It is the Canadian Air Line Pilots Association.

Mr. DREW: There is no association, I mean a similar association, in the United States?

Mr. MCGREGOR: It is not affiliated.

Mr. DREW: That is fine.

Mr. GILLIS: It is a straight company union.

Mr. MCGREGOR: No. It is all Canadian air line pilots.

The CHAIRMAN: Please do not interrupt Mr. Drew any more than you have to because the time is running.

Mr. DREW: Could you explain as closely as possible how you arrive at the percentage difference that has been given, and explain in your own words how you could arrive at a comparison between what the Canadian pilot gets and what the United States line pilot gets?

Mr. MCGREGOR: No, I do not believe that is possible for the reason I gave. I formed my conclusion of a rough approximation of 10 per cent to 15 per cent based on a few positions which I have discussed with United States air line people, positions which are directly comparable by description. I do not know whether the actual work they do is identical. But I do know the basis of compensation for pilots on the major air lines in the United States and on TCA—and with T.C.A. I group the Canadian Pacific Air Lines—and I can say that they are entirely different.

Mr. DREW: After all, there is no mystery as to why this would be a matter of some importance. If this committee is to give consideration to the points raised, they must know. Certain statements have been made as to percentages of expenses in regard to fuel and other matters of that kind which, obviously, are matters now before us for consideration. And if one is able to have some estimate of the difference in percentages of the salaries and wages paid to those in the service in Canada, then one is able, by taking the total payment to these people, to apply it along with other factors to see where we are arriving in the net result. Could you, with any degree of accuracy, under the headings of pilots, air crew, and ground personnel, give us the percentage relationships?.

Mr. MCGREGOR: I said that it is impossible to give them with any degree of accuracy and I might explain why. It is British practice and, I think, European practice, and the practice throughout Canada, not only in the TCA, to pay pilots fixed monthly sums with relation to certain commitments of flying time which each must perform.

That salary varies with the qualification of the pilot as between 1st officer and captain, and it varies as to his duties, such as Atlantic, domestic, flat country, and domestic mountain country. We have an entirely different basis of compensation to that applying, as I understand it, to the major air lines in the United States where there is a flat sum of money paid by classification which is considerably lower than that salary to which I referred in Canada, but which is greatly augmented by what might be termed as piece work, being payment for the number of hours they fly. The earnings of United States pilots for that reason vary materially depending on how much work the company gives them. And that work, in turn, varies seasonally. That is the reason why I still maintain it is impossible to form any relationship between the two.

Mr. DREW: I shall not press my question. So you would say that the relationship of 10 per cent to 15 per cent is nothing but a very loose estimate?

Mr. MCGREGOR: Having regard to the overall personnel grouping.

Mr. DREW: Can you give comparisons in the case of air crew other than pilots and ground personnel?

Mr. MCGREGOR: It would have to be an approximation because, again, the same work feature applies.

Mr. DREW: Are you in a position in that case to give what you regard as a reasonably accurate comparative basis?

Mr. MCGREGOR: I would suggest that in the case of a cabin attendant in the United States who happened to have an overall reasonably full work month, that his remuneration would be something in the order of 15 per cent to 20 per cent greater than in the case of the T.C.A.

Mr. DREW: And what about the others?

Mr. MCGREGOR: As I said before, I would think that the overall staff of the air lines are probably, on the average, receiving remuneration to the order of 10 per cent to 15 per cent less than in the case of air lines of comparable size in the United States.

Mr. DREW: Now, just relating back to what has already been said, and quite apart from what has been done in the past, do you not think it would be helpful if we had a basis like the ordinary cost of accounting set-up in an industry or other similar organization, if we had a breakdown so that we could form an accurate estimate of what your real operating position is on each of these routes, such as the Toronto to New York, the Montreal to New York, the Victoria to Seattle, and the other lines.

Mr. MCGREGOR: As I said, if such figures could be accurately developed, they would be of great assistance. But the problem associated with developing figures as between routes has been discussed on numerous occasions with everybody associated with the problem including Mr. Cooper, to whom you referred. And after the most careful analysis of the problem, everybody that I have talked to who is in a position to have a good opinion on the subject believes that the figures would be a snare and a delusion for the reasons which I have already mentioned.

The CHAIRMAN: Are you through now, Mr. Drew?

Mr. DREW: Yes.

Mr. FULTON: May I ask if the Canadian Pacific air line pilots get the same salary as do the T.C.A. pilots?

Mr. MCGREGOR: No.

Mr. FRASER: Is it more or less?

Right Hon. Mr. HOWE: I suggest that you subpoena officials of the Canadian Pacific Air Lines to give those answers.

Mr. FULTON: Mr. McGregor has said "no".

Mr. MCGREGOR: The association negotiates separate agreements with the companies of which its members are employees.

Mr. FULTON: There is no standard rate per mile flown?

Mr. MCGREGOR: No.

Mr. FULTON: Coming back to the Air Transport Board and the basis on which your rates are approved, you said that the Air Transport Board takes into consideration only the public benefit.

Mr. MCGREGOR: That is my understanding.

The CHAIRMAN: If you are coming back again to your point that you believe that the people who travel from Vancouver to Victoria are paying too high a rate may I say that we have gone into that so carefully before that I would like to suggest to you that if you think there is anything wrong, would it not be a good idea to get the tariff in the United States for a similar length of route and take the matter up with the Air Transport Board?

Mr. FULTON: I am asking a question as to the basis on which the company applies to the Air Transport Board for approval of its tariff schedule, and Mr. McGregor has explained with regard to the Vancouver-Victoria route. I am not going into that particular question again. I am relating this to the question of a breakdown of expenditures.

Right Hon. Mr. HOWE: Mr. McGregor also said that he thought the Air Transport Board did not go into the cost of the operation. They examine first as to public convenience and necessity and they compare the rates filed by the applicant with other rates for the same type of service.

Mr. FULTON: But where there is no service in Canada, no similar service, as in many cases there is not, surely the Air Transport Board will take into account whether the rate charged is a reasonable remuneration for the service rendered.

Mr. MCGREGOR: I do not think they do that.

Mr. FULTON: Otherwise, how can they arrive at the "public convenience and necessity"?

Mr. MCGREGOR: I do not think the Air Transport Board is interested in the financial matters of the company which is filing the rates for approval, but rather with the value of the services to be rendered to the public.

Mr. FULTON: Do they not ask you for the cost of your operation over a certain route, Mr. McGregor?

Mr. MCGREGOR: Definitely not!

The CHAIRMAN: Are we unanimously agreed to carry pages 16 and 17 now?

Carried.

The CHAIRMAN: Page 18 "Income Account". I think that has been pretty well covered already.

INCOME ACCOUNTS

North American Services Year 1949	North American Services Year 1948		Atlantic Services Year 1949	Atlantic Services Year 1948
		Operating Revenues:		
$ 19,460,394.52	$ 14,869,577.63	Passenger	$ 7,095,687.04	$ 6,771,646.61
5,400,000.00	4,648,775.41	Mail	1,178,653.41	1,109,731.51
1,005,803.36	764,175.18	Express and Cargo	792,243.28	514,217.02
155,809.07	124,742.89	Excess Baggage	55,017.83	40,877.66
106,257.92	99,801.10	Charter and Other	879,190.82	2,146,916.71
395,704.38	359,864.12	Incidental Services—Net	221,594.24	277,720.84
$ 26,523,969.25	$ 20,866,936.33	Total	$ 10,222,386.62	$ 10,861,110.35
		Operating Expenses—Excluding Depreciation:		
$ 6,334,459.95	$ 5,596,608.14	Flight Operations	$ 3,022,061.39	$ 3,278,511.71
4,583,226.35	2,694,508.91	Flight Equipment Maintenance	2,113,024.54	1,924,371.88
4,158,908.72	3,623,019.48	Ground Operations	1,848,764.77	1,693,462.07
3,260,681.07	2,566,751.24	Ground and Indirect Maintenance	1,796,806.08	1,552,445.37
1,508,178.15	1,346,680.46	Passenger Service	603,875.22	619,462.49
2,769,949.30	2,043,684.09	Traffic and Sales	1,184,296.65	1,201,804.38
586,719.39	416,194.28	Advertising and Publicity	250,842.09	244,746.30
1,504,368.17	974,635.76	General and Administrative	667,785.93	596,960.40
101,189.53	*12,111.68*	Miscellaneous Income—Net	114,929.20	14,672.39
$ 24,605,301.57	$ 19,249,970.68	Total	$ 11,602,385.87	$ 11,126,437.01
		Surplus or *Deficit* of Revenues over Operating Expenses before		
$ 1,918,667.68	$ 1,616,965.65	Depreciation and Interest	*$ 1,379,999.25*	*$ 265,326.66*
2,867,426.81	2,374,085.64	Depreciation	1,227,369.02	1,244,407.10
$ 948,759.13	*$ 757,119.99*	Operating *Loss*	*$ 2,607,368.27*	*$ 1,509,733.76*
470,684.77	425,902.17	Interest on Capital Invested	290,780.99	240,484.46
$ 1,419,443.90	*$ 1,183,022.16*	*Deficit*	*$ 2,898,149.26*	*$ 1,750,218.22*

The CHAIRMAN: Shall it carry?

Carried.

The CHAIRMAN: Page 19 "Flight Operations"?

5100 FLIGHT OPERATIONS

North American Services Year 1949	North American Services Year 1948		Atlantic Services Year 1949	Atlantic Services Year 1948
$1,682,547.81	$1,484,644.26	23 Captains and First Officers	$ 489,256.71	$ 549,851.46
.....	.....	24 Other Flight Personnel	273,014.35	289,573.89
72,560.51	215,172.24	28 Training—Salaries and Expenses	14,946.69	59,198.12
164,464.19	190,852.42	36 Travel and Incidental	100,053.38	100,768.22
4,094,937.68	3,215,780.92	45 Aircraft Engine Fuel and Oil	1,730,743.97	1,867,067.34
9,263.88	16,089.35	53 Other Supplies	6,919.16	8,642.87
296,183.29	472,241.76	55 Flight Equipment Insurance	404,418.27	403,042.16
14,502.59	445.25	74 Other Expenses	2,556.80	253.70
$6,334,459.95	$5,596,608.14		$3,022,061.39	$3,278,511.71

Mr. DREW: How many captains and flight officers did you have in 1949?

The CHAIRMAN: You will find it in the column, Mr. Drew.

Mr. DREW: Are those the figures, Mr. McGregor?

Mr. MCGREGOR: I will give you that in just a minute as of the year end. North American services 130 captains and 126 first officers, totalling 256.

Mr. DREW: That is on the Atlantic services?

Mr. MCGREGOR: No, the North American service. The Atlantic services, 22 captains and 23 first officers.

Mr. FULTON: The other flight personnel flying in the Atlantic service are navigators?

Mr. MCGREGOR: Navigators, radio operators and cabin attendants.

Mr. DREW: Have you the total number of those?

Mr. MCGREGOR: Yes. Flight navigators 31, flight radio officers 18, stewards and stewardesses 25 and 24 respectively.

Mr. DREW: Now, there is an item here, flight equipment insurance $404,-418.27 for the Atlantic services and $296,183.29 in the North American services. How is that paid?

Mr. MCGREGOR: That is the total insurance charges levied against operating expenses. In the case of the Atlantic company accruals are still being made to the self insurance fund on the basis of premium charges that would be levied if we were outside insuring. In the case of the domestic company accruals to the self insurance fund ceased when that fund reached the established ceiling of $3 million. That ceiling was established by the Board of Directors.

The outside insurance premiums to which I referred in a previous answer are paid to the insurance companies involved.

Mr. FULTON: Mr. McGregor, how is it you have no stewards and stewardesses shown under other flight personnel in the Atlantic service?

Mr. MCGREGOR: We do. You did not ask for them.

Mr. FULTON: But there is no entry in the 1949 or 1948 report.

The CHAIRMAN: Item No. 24, Mr. McGregor.

Other flight personnel I believe is the item we referred to, Mr. Fulton?

Mr. MCGREGOR: The stewardesses and stewards come under the heading passenger service.

Right Hon. Mr. HOWE: It is an item in passenger service on page 20.

Mr. FULTON: I see. Under the Atlantic service you put them down under other flight personnel?

Mr. MCGREGOR: Only navigators and radio operators, are shown as other flight personnel.

Mr. FULTON: Yes, what I meant, Mr. McGregor, is, you were asked just now the number of other flight personnel included.

Mr. MCGREGOR: I did not give you the domestic as far as the stewards and stewardesses are concerned because I did not understand that I was asked for it. I was asked for the number of captains and first officers and I gave that for the domestic service and then I gave the same figure for the Atlantic services. Then I went on to give you other personnel including stewards and stewardesses in the Atlantic services. In the North American services we have 44 stewards and 120 stewardesses.

Mr. DREW: Just so that the record will be clear, what I understand is this that the reason they are not shown on the North American services under other flight personnel is that on the North American services there would just be the pilot and the co-pilot and steward? Is that right?

Mr. MCGREGOR: Yes, that is so, but the steward and stewardesses are shown under passenger service in both cases and under other flight personnel in the Atlantic services are navigators and radio officers.

The CHAIRMAN: Shall flight operations carry?

Carried.

Now we come to flight equipment maintenance.

5200 FLIGHT EQUIPMENT MAINTENANCE

North American Services Year 1949	North American Services Year 1948		Atlantic Services Year 1949	Atlantic Services Year 1948
$ 796,479.49	$ 526,346.05	25 Aircraft—Labour	$ 276,289.57	$ 342,834.85
864,295.56	575,652.69	26 Aircraft Engine—Labour	413,475.02	408,016.28
210,838.78	121,731.49	27 Aircraft Other Equipment—Labour.	73,860.86	36,100.40
667,842.29	485,125.19	46 Aircraft—Material, etc.	269,279.78	332,273.96
1,894,115.69	890,515.13	47 Aircraft Engine—Material, etc.	994,671.38	741,850.03
149,654.54	95,138.36	48 Aircraft Other Equipment—Material etc.	85,447.93	63,296.36
$4,583,226.35	$2,694,508.91		$2,113,024.54	$1,924,371.88

The CHAIRMAN: Shall flight equipment maintenance carry?

Carried.

Now we come to ground operations.

6100 GROUND OPERATIONS

North American Services Year 1949	North American Services Year 1948		Atlantic Services Year 1949	Atlantic Services Year 1948
$ 228,547.58	$ 210,527.74	21 General Officers and Superintendents.	$ 181,494.91	$ 199,482.18
259,569.85	205,592.62	22 Station Managers and Assistants	110,963.29	55,567.27
32,787.95	25,028.32	28 Training—Salaries	21,657.96	36,046.43
360,338.35	359,382.34	29 Ground Service Employees—Mechanical	171,122.19	115,841.34
700,248.69	495,710.55	29 Ground Service Employees—Cargo	161,556.98	104,423.14
147,212.84	132,727.20	30 Flight Dispatcher	85,190.47	79,002.21
310,559.68	287,306.74	30 Radio Operators	16,218.03	3,261.82
171,906.29	131,323.49	30 Teletype Operators	25,742.91	17,525.51
225,861.39	206,714.98	35 Other Employees	175,044.54	130,805.05
116,838.39	132,971.28	36 Travel and Incidental	110,936.33	136,610.52
199,847.18	204,469.22	37 Telephone, Telegraph and Teletype	76,067.42	49,969.97
48,002.87	64,567.41	38 Light, Heat, Power and Water	7,464.11	23,406.25
225,405.46	185,088.06	39 Cargo Expenses	154,292.27	148,619.22
95,711.92	75,078.66	40 Agency Services and Joint Facilities	33,744.31	19,635.08
180,139.22	190,806.48	43 Other Services	107,777.23	118,808.07
135,539.40	115,754.70	44 Airport, Building and Office Rentals	55,773.59	48,424.19
524,992.15	410,145.90	44 Airport Landing Fees	213,141.87	240,199.56
18,856.53	36,378.65	49 Servicing Supplies	17,546.66	43,182.30
55,136.27	73,688.81	50 Stationery, Printing and Office Supplies	40,822.62	46,325.78
49,030.22	39,832.56	53 Other Supplies	17,547.14	15,227.86
625.00	681.56	64 Memberships	—	—
41,751.49	39,242.21	74 Other Expenses	64,659.94	61,098.34
$4,158,908.72	$3,623,019.48		$1,848,764.77	$1,693,462.09

The CHAIRMAN: Shall ground operations carry?

Carried.

Mr. FRASER: Just a minute on ground operations. Your gasoline would come under that item would it not?

Mr. MCGREGOR: No, under flight operations.

Mr. FRASER: Well, your gas as you told us yesterday was supplied by the different companies using their own trucks and they fill your planes from their trucks. Is that found to be cheaper than having your own equipment in the way of tank wagons?

Mr. MCGREGOR: Yes, the charge made, what is called the nozzle charge for filling is cheaper than we could do it by having equipment standing at airports only for the pupose of filling our own aircraft.

The CHAIRMAN: Shall ground operations carry?

Carried.

Now we come to ground and indirect maintenance.

6200 GROUND AND INDIRECT MAINTENANCE

North American Services			Atlantic Services	
Year 1949	Year 1948		Year 1949	Year 1948
$ 160,654.54	$ 149,481.76	21 General Officers and Superintendents	$ 53,300.19	$ 54,102.59
555,734.81	378,601.65	22 Maintenance and Stores Supervision	295,276.93	258,373.40
241,512.09	212,234.48	27 Equipment and Facilities—Labour	135,894.24	97,294.52
21,786.20	23,982.16	28 Training—Salaries	20,720.86	32,719.64
276,759.13	310,396.97	28 Unallocated Shop Labour	178,251.67	180,930.71
207,227.31	174,631.15	29 Building Attendants	73,896.52	70,722.46
192,306.38	147,534.41	31 Stores Employees	111,856.24	102,349.60
204,210.07	219,502.88	35 Engineering Employees	130,193.38	115,926.66
386,433.23	207,484.15	35 Other Employees	257,001.92	237,083.06
99,707.63	101,691.78	36 Travel and Incidental	40,748.49	53,131.23
21,939.59	15,254.81	37 Telephone and Telegraph	16,382.34	15,877.24
115,522.54	88,809.79	38 Light, Heat, Power and Water	60,920.76	33,982.81
168,641.19	8,986.75	43 Other Services	98,201.56	10,859.33
43,307.75	26,771.02	44 Building and Office Rentals	11,946.20	32,343.43
258,043.34	218,067.90	48 Equipment and Facilities—Material, etc.	140,598.80	104,363.24
163,203.43	168,289.49	49 Shop Supplies	89,084.27	67,998.54
41,847.85	35,875.46	50 Stationery, Printing and Office Supplies	23,877.15	23,817.66
37,988.22	24,853.74	53 Other Supplies	15,313.79	9,202.29
14,301.23	17,733.24	54 Stores Inventory Adjustment	*14,868.31*	15,619.24
104.94	263.10	64 Memberships	10.04	3.00
78,052.06	36,304.55	74 Other Expenses	58,199.04	35,744.72
$3,260,681.07	$2,566,751.24		$1,796,806.08	$1,552,445.37

The CHAIRMAN: Shall ground and indirect maintenance carry?

Carried.

Now we come to passenger service.

6300 PASSENGER SERVICE

North American Services			Atlantic Services	
1949 Year	1948 Year		1949 Year	1948 Year
$ 34,327.25	$ 35,439.40	21 General Officers and Superintendents	$ 18,189.04	$ 18,741.77
398,964.65	289,576.20	24 Stewards and Stewardesses	169,158.82	150,615.94
7,320.04	6,178.19	28 Training—Salaries	4,685.18	2,832.38
6,681.51	5,512.44	35 Other Employees	3,158.48	2,768.61
103,595.65	112,461.26	36 Travel and Incidental	57,723.80	49,489.06
32,858.21	37,059.75	43 Other Services	22,825.92	13,150.30
1,115.29	578.24	50 Stationery, Printing and Office Supplies	514.27	593.43
542,477.94	414,842.20	51 Passenger Food Expense	120,802.42	127,612.40
128,164.24	133,773.32	52 Passenger Supplies	29,707.10	46,122.40
71,070.58	121,647.59	56 Passenger Liability Insurance	38,653.88	47,823.77
101,918.36	119,129.22	63 Interrupted Flight Expense	118,373.20	144,888.49
58,690.89	66,130.14	67 Customs Expense	11,811.84	13,746.24
20,813.54	4,352.51	74 Other Expenses	8,271.27	1,077.70
$,508,178.15	$1,346,680.46		$ 603,875.22	$ 619,462.49

The CHAIRMAN: Shall passenger service carry?

Carried.

Have you a question on passenger service, Mr. Fulton?

Mr. FULTON: No.

Mr. FRASER: On passenger service, you mentioned the fact that food now is put on board in a frozen state?

Mr. McGregor: In the case of the North Star aircraft.

Mr. Fraser: And as a result of that have you been able to give better meals than before?

Mr. McGregor: I think the standard of meals has gone up and the cost of a meal has gone down due to the lack of waste. If warm meals are put on aircraft and they were not used they would be thrown away at the end of the flight, whereas frozen food, not being heated, goes back into deep freeze storage.

Mr. Fraser: They only use what they need. For instance, if some passengers did not want food it could be returned to deep freeze storage.

The Chairman: Shall passenger service carry?

Carried.

Now we come to traffic and sales.

6400 Traffic and Sales

North American Services			Atlantic Services	
Year 1949	Year 1948		Year 1949	Year 1948
$ 122,158.07	$ 85,151.15	21 General Officers and Superintendents	$ 52,228.89	$ 50,073.80
174,524.69	129,603.30	22 Traffic Supervision	74,618.34	76,214.23
21,922.89	11,840.63	28 Training—Salaries	9,373.17	6,962.97
1,344.96	1,076.79	29 Building Attendants	575.04	633.12
462,518.21	355,169.18	32 Ticketing Employees	197,750.47	208,860.00
469,316.59	359,278.71	32 Reservations Employees	200,657.13	211,276.66
178,911.86	115,781.42	33 Traffic Solicitors	76,494.08	68,086.17
244,148.10	151,127.08	35 Other Employees	104,385.94	88,871.46
180,098.49	128,880.08	36 Travel and Incidental	77,001.42	75,788.93
205,481.37	166,664.51	37 Telephone, Telegraph and Teletype	87,853.92	98,008.37
11,655.00	8,061.16	38 Light, Heat, Power and Water	4,983.11	4,740.43
405,602.14	296,489.16	40 Agency Services and Joint Facilities	173,415.90	174,352.76
45,278.86	34,613.51	43 Other Services	19,359.05	20,354.75
143,976.33	112,581.00	44 Office Rentals	61,557.33	66,204.14
71,564.10	71,398.27	50 Stationery, Printing and Office Supplies	30,597.36	41,986.31
1,940.10	2,867.39	53 Other Supplies	829.50	1,686.19
2,938.06	3,155.04	64 Memberships	1,256.17	1,855.34
26,569.48	9,945.72	74 Other Expenses	11,359.83	5,848.66
$2,769,949.30	$2,043,684.09		$1,184,296.65	$1,201,804.38

The Chairman: Shall traffic and sales carry?

Carried.

Now, advertising and publicity.

6500 Advertising and Publicity

North American Services			Atlantic Services	
Year 1949	Year 1948		Year 1949	Year 1948
$ 21,352.19	$ —	21 General officers and other employees	$ 9,129.17	$ —
42,193.59	28,962.48	59 Timetables and Schedules	18,039.94	17,031.61
288,720.86	248,356.51	60 Advertising—Space	123,443.11	146,047.98
185,334.30	97,836.28	61 Advertising—Other	79,229.19	57,533.39
49,118.45	41,039.01	62 Other Promotional and Publicity Expense	21,000.68	24,133.32
$ 586,719.39	$ 416,194.28		$ 250,842.09	$ 244,746.30

The Chairman: Shall advertising and publicity carry?

Carried.

Now, general and administrative.

6600 GENERAL AND ADMINISTRATIVE

North American Services			Atlantic Services	
Year 1949	Year 1948		Year 1949	Year 1948
$ 71,296.45	$ 72,523.18	21 General Officers and Supervision .	$ 30,686.74	$ 45,785.43
61,188.77	23,192.85	22 Administrative Supervision—Other	26,336.29	14,642.15
358,755.44	243,309.72	35 Other Employees	154,429.21	153,925.10
164,685.50	19,059.65	36 Travel and Incidental	70,882.37	12,032.76
13,072.23	9,004.10	37 Telephone and Telegraph	5,626.43	5,684.45
5,649.16	—	38 Light, Heat, Power and Water	2,431.46	—
27,964.00	30,830.00	39 Affiliated Company Charge	12,036.00	19,170.00
11,795.34	7,814.25	41 Professional Fees and Expenses	5,076.84	4,933.28
34,912.58	18,591.28	44 Office and Equipment Rentals	15,026.74	11,737.01
34,803.16	26,656.11	50 Stationery, Printing and Office Supplies	14,979.65	16,828.54
45,685.86	31,683.09	55 Insurance—Public Liability and General	17,372.83	8,891.12
83,614.69	63,513.87	57 Insurance—Employees' Welfare	76,832.57	90,604.83
390,458.42	298,342.67	57 Pensions	156,947.20	149,386.93
15,287.12	10,983.96	64 Memberships	6,579.73	6,934.24
78,683.27	46,688.73	68 Taxes—Payroll	24,180.30	22,425.14
61,846.66	45,287.96	69 Taxes—General	29,135.33	16,836.36
44,669.52	27,154.33	74 Other Expenses	19,226.24	17,143.06
$1,504,368.17	$ 974,635.76		$ 667,785.93	$ 596,960.40

Mr. FULTON: I was going to ask a question with regard to your pension plan. How do you operate your pension fund in the Trans-Canada Air Lines?

Mr. MCGREGOR: It is partially contributory. The company matches the employee's contribution up to five per cent of the salary paid. It is deposited in a fund and the fund is invested.

Mr. FULTON: And you pay that into the fund as the years go by? It is different in the case of the Canadian National Railways, is it not, because I understand they do not pay into the fund until the employee retires. Then they put up the matching amount which they agreed to put up, whereas you build up the fund by paying the matching amount at the time the employee's contribution is made.

Mr. MCGREGOR: I am not familiar with the Canadian National Railways fund, but our fund is contributed to currently and is in actual being and is invested.

Mr. FULTON: How many ex-employees are now on pension?

Mr. MCGREGOR: No T.C.A. employee has yet gone on pension.

Mr. FULTON: Could you give me the total amount? I do not think it is in the balance sheet. Could you give me the total amount of your pension fund?

Mr. MCGREGOR: Yes, the balance in the pension fund is $4,794,878.35.

Mr. FRASER: By whom is that administered?

Mr. MCGREGOR: By a committee.

Mr. FRASER: How many representatives on the committee?

Mr. MCGREGOR: One representing the senior management—I had better give you the actual makeup of the committee; it is administered by a committee of seven, four of whom represent the company and three are representatives of the employees; and I might add that all members of the committee serve without any remuneration or allowances of any kind.

Mr. FRASER: And the committee have control of the investment of the funds?

Mr. MCGREGOR: No.

Mr. FRASER: Who has that control?

Mr. McGREGOR: The treasurer is responsible for the investment of the funds, and the investment of these funds is restricted to Canadian government and Canadian government guaranteed securities.

Mr. GILLIS: And that item of insurance, is that sick benefit?

Mr. McGREGOR: That is the employees liability fund, I believe.

Mr. FRASER: What about this item No. 68? Taxes, payroll?

Mr. McGREGOR: That is unemployment insurance.

The CHAIRMAN: Shall general and administrative carry?

Carried.

Mr. DREW: No, no, just a minute, I have a question on the first item there, general officers and supervision. Who are in that, Mr. McGregor?

Mr. McGREGOR: I think Mr. Harvey can answer that question for you, he is familiar with its makeup.

Mr. HARVEY: That is item 6621—office: That includes the President, and the officers reporting directly to him; such as the Director of Personnel and Organization Control; the Director of Research and Development; the Director of Facilities and Supply, Director of Public Relations, General Auditor and the staffs connected with these offices.

Mr. DREW: And I note that that item is down this year as compared to 1948.

Mr. McGREGOR: You mean, in reference to the Atlantic service?

Mr. DREW: Yes.

Mr. McGREGOR: The apportionment of the general and administrative account to the Atlantic service is down on the basis of the relative amount of operations going on in the two companies. The total cost of general and administration is going down.

Mr. DREW: This does not include any of the senior officers such as the vice-presidents of the company?

Mr. McGREGOR: No, those are shown under their respective departmental expenses.

Mr. DREW: Does it include the salary of the president and the senior officers?

Mr. McGREGOR: No, it does not, that salary is in the item 6621, which I detailed.

The CHAIRMAN: The president's salary, as I understand, is not included in that item.

Mr. McGREGOR: 6621, yes; 6600 indicates General and Administrative. The small figures directly below are the various accounts included in General and Administrative.

Mr. DREW: Oh, I did not realize that these were component figures, 6621 and on down.

The CHAIRMAN: Yes, that was in the item 6621.

Mr. DREW: But that does not include the payments which will be made to the secretary, to the controller or the treasurer?

Mr. McGREGOR: Yes.

Mr. DREW: It does?

Mr. McGREGOR: Yes.

The CHAIRMAN: Flight equipment depreciation:

5900 FLIGHT EQUIPMENT DEPRECIATION

North American Services				Atlantic Services	
Year 1949	Year 1948			Year 1949	Year 1948
$1,544,890.73	$1,370,951.01	75	Aircraft	$ 582,100.18	$ 669,417.96
393,724.08	265,045.52	76	Aircraft Engines	248,726.88	224,287.88
374,850.24	303,184.64	77	Aircraft Spare Parts	156,955.80	155,580.35
301,618.12	220,874.67	77	Aircraft Other Equipment	130,572.36	116,865.24

Carried.

Ground facilities depreciation.

6900 GROUND FACILITIES DEPRECIATION

North American Services				Atlantic Services	
Year 1949	Year 1948			Year 1949	Year 1948
$ 252,343.64	$ 214,029.80	78	Ground Property and Equipment	$ 109,013.80	$ 78,255.67
$2,867,426.81	$2,374,085.64			$1,227,369.02	$1,244,407.10

Carried.

Mr. FRASER: These are kept in separate accounts for that purpose?

Mr. MCGREGOR: Yes.

Mr. FRASER: So you would know what you have for replacements at all times?

Mr. MCGREGOR: Yes.

Mr. FRASER: On that new flight to New York, do you need have any additional maintenance or ground crew or equipment at La Guardia field?

Mr. MCGREGOR: No, I believe it is safe to say that there is no additional expense of that type. That is one of the most desirable features of that run, that we have an operation terminating at both ends of the new run, at an established terminal. I do not know of any additional cost involved.

Mr. FRASER: Your landings and take-offs would be arranged with the crews who are already there looking after it?

Mr. MCGREGOR: Yes.

COMPARATIVE OPERATING STATISTICS FOR THE DOMESTIC SERVICES OF TCA AND SIXTEEN MAJOR UNITED STATES AIRLINES YEARS 1949 AND 1948

—	T.C.A.			16 U.S. Trunklines		
	1949	1948	% Increase or *Decrease*	1949*	1948	% Increase or *Decrease*
Revenue Miles Flown	16,364,733	15,270,649	7·16	326,376,000	317,428,179	2·82
Revenue Passengers Carried	648,574	532,555	21·79	14,332,000	12,375,083	15·81
Revenue Passenger Miles	310,699,767	249,575,544	24·49	6,688,700,000	5,851,846,000	14·30
Available Seat Miles	459,842,123	367,355,955	25·14	11,234,200,000	10,016,286,000	12·16
Revenue Passenger Load Factor	%67·57	%67·92	0·52	%59·54	%58·42	1·92
Average Passenger Load Per Revenue Mile	18·99	16·34	16·22	20·49	18·44	11·12
Average Seats Available Per Revenue Mile	28·10	24·06	16·79	34·42	31·55	9·10
Average Passenger Journey—Miles	479·05	468·64	2·22	466·70	472·88	*1·31*
Express and Freight Ton Miles	1,938,108	1,412,982	37·20	121,698,000	100,206,694	21·45
Mail Ton Miles	3,403,810	2,294,088	48·37	40,972,000	37,509,922	9·23
Available Ton Miles	63,449,171	48,800,587	30·02	1,521,667,000	1,357,882,154	12·06
Revenue Ton Miles	35,843,949	28,195,275	27·13	815,523,000	706,247,233	15·47
Weight Load Factor	%56·49	%57·78	*2·23*	%53·59	%52·01	3·04

* December Estimated.

Mr. DREW: Just before we pass from that there is one thing about which I would like to get some information. I have not had an opportunity of examining these figures in detail, but I have this before me here; could we have the figures to show the total miles flown in 1949 by the DC-3's and the North Stars?

Mr. MCGREGOR: Not segregated. Revenue miles flown are shown by services on pages 6 and 10 of this report, however, the figures are not segregated as between one type and another of aircraft.

Mr. DREW: You have those figures, haven't you? You must have?

Mr. MCGREGOR: Yes, we have the figures, but on the hours of operation of the aircraft.

Mr. DREW: I think it would be very helpful in relation to this report if we had the total miles flown by the DC-3's and the North Stars. If that can't be given right away then you can forward it to this committee.

Mr. MCGREGOR: Are you prepared to accept the time extended by the cruising speed figures?

Mr. DREW: No. You certainly have in your records the actual air miles flown by each one of these aircraft.

Mr. MCGREGOR: No, I haven't.

Mr. DREW: But the log of each aircraft gives that.

Mr. MCGREGOR: No, I have no idea of the distance flown by aircraft, consider our training flights.

Mr. DREW: I am not thinking now of revenue miles, I am talking about the miles flown.

Mr. MCGREGOR: So am I.

Mr. DREW: The log of each aircraft would give it.

Mr. MCGREGOR: It would give the time in the air, that is why I am asking if it would be satisfactory to you if I extended the hours in the air on each aircraft by its cruising speed.

Mr. DREW: I see what you mean. You are talking about the fact that a man might have been up for some test work and he would have to take out the time used on that test flight, or something of that kind, and that would show in his logbook, wouldn't it? Quite distinct from that, would you not have a record of the actual operating flights flown by your DC-3's and your North Stars on the distance flown on any particular course?

Mr. MCGREGOR: Yes, we have; but we would not use it for any purpose because the aircraft might be airborne for three hours in flying a specified number of miles and two hours the next day flying the same number of miles. We are interested from the standpoint of the time the aircraft is in the air, in finding out where they stand in relation to certain check work, maintenance, overhaul, engine maintenance and so on. Our operation figures are set up by aircraft hours rather than by miles flown.

Mr. DREW: Now, isn't this correct—I am saying this having actually seen figures of this kind—is it not so that you would have a very fair record of the miles flown by each of the aircraft as distinguished from any test flights that were carried on simply for testing purposes or anything of that kind?

Mr. MCGREGOR: We have, in the matter of hours; yes.

Mr. DREW: I am not asking for it right now, but I think I am correct—you can correct me if I am wrong. As I understand it the logbooks carry the detail by flights for the aircraft; and these logbooks also distinguish between operating

runs and any flight that might be made to test out any piece of equipment or anything of that kind.

Mr. McGREGOR: Yes.

Mr. DREW: And there would be in that the total operation of that aircraft, the total operating miles; I mean the commercial operating miles as distinguished from these additional test flights?

Mr. McGREGOR: No, not in the logbooks.

Mr. DREW: No. I am talking about your records.

Mr. McGREGOR: If the logbook showed any aircraft flight let us say from Winnipeg to Toronto, it would show the number of hours it took to make that trip, and that would be over a known course, and we would figure that at so many miles. I mean, it is not a matter of recorded information so far as the air line is concerned, because the number of hours is the important thing; the airborne hours are divided into training flights and scheduled operation flights.

Mr. DREW: I am speaking of scheduled operation flights?

Mr. McGREGOR: An aircraft may be required to stack over La Guardia field for an hour, but that would not affect the distance record of the aircraft at all. However, it would be of great importance in connection with the time airborne.

Mr. DREW: But it would seem to me the figures you prepare are of necessity based on the fact that you have a record of the scheduled flights or operating flights, whatever you like to call them, as distinct from any other flights than an aircraft may carry out.

Mr. McGREGOR: I am saying that it is not a factor of recorded data so far as the air line is concerned. Certainly it could be developed if it has any meaning. The air hours are the things in which we are particularly interested and which we record meticulously. The flight record from point to point is also recorded and for that reason the figures could be developed.

Mr. DREW: It is the flight from point to point on the service in which I am interested. You must have the totals or they could be developed without too much trouble?

Mr. McGREGOR: It could be got.

Mr. DREW: Would you get that?

The CHAIRMAN: In the Easter recess. We have completed the report, does the auditor's report carry?

Mr. FULTON: No, just a minute. I wish to ask one or two questions on comparative operating statistics between our lines and the United States lines. I refer to the back of the book, page 27.

The CHAIRMAN: If you want to ask questions it is all right but it is not an item that we need to carry.

Mr. FULTON: There is one other question I would like to ask. I have not seen anywhere in this statement of flight operations and charges where payment was made into the maintenance fund which I understood you charge yourself with annually.

Mr. McGREGOR: No.

Right Hon. Mr. HOWE: T.C.A. set up a special fund to amortize the six North Stars it borrowed from the air force. The reason the fund was set up was that there was no depreciation charged on the aircraft—T.C.A. did not own them—and therefore did not set up depreciation on them then. However, we have set up a depreciation fund for aircraft T.C.A. does own.

Mr. FULTON: In the report it is stated "this amounted to $523,426 at December 31, 1949, and, considering the anticipated maintenance program, is sufficient for the nucleus of the reserve to which further accruals may be made."

Right Hon. Mr. HOWE: May be made.

Mr. FULTON: You do not necessarily make that each year? No payments were made in 1949?

Mr. MCGREGOR: Except that amount on which we gave you details.

The CHAIRMAN: We shall adjourn until 8 o'clock.

Mr. CARTER: I should like to table some corrections to my remarks as they appear on page 51 of the report?

The CHAIRMAN: Mr. Carter asks leave to table the corrections.

Agreed.

The meeting adjourned to meet again at 8.00 p.m. this evening.

EVENING SESSION

The committee resumed at 8.00 p.m. The Vice-Chairman, Mr. H. B. McCulloch, presided.

The VICE-CHAIRMAN: Gentlemen, the Chairman is going to be a few minutes late and he has asked me to carry on until he arrives. I understand that we are still on the last of page 22.

Mr. FULTON: Mr. Chairman, has Mr. McGregor any figures, in addition to those shown here, on the comparison between T.C.A. and the sixteen major United States air lines, which would show the average return on capital invested —figures which would show the comparison between T.C.A. and those sixteen American air lines?

Mr. MCGREGOR: No, I am sorry I have not.

Mr. FULTON: Would there be any way of getting that? You have fairly complete information about the other statistics of the sixteen United States air lines? Do they reveal the average return?

Mr. MCGREGOR: No, those statistics are in accordance with the returns which the air lines make to what is called the A.T.A., the central body of the air lines in the United States. They are performance statistics and financial statistics are excluded from that kind of return—as I have seen it.

Mr. FULTON: You gave us the figure here for the net deficit or surplus position of T.C.A., but have you reduced that to a percentage on capital invested?

Mr. MCGREGOR: Do you refer to the cumulative figure or the figure for any one year?

Mr. FULTON: No, the cumulative figure.

Mr. MCGREGOR: No, but it can be done quite quickly.

Mr. FULTON: Well, you have not got it. I will not press for it because there is nothing that we can compare it with on the United States lines?

Mr. MCGREGOR: There is not anything to compare it with because their figures are affected continually by this retroactive mail pay.

Mr. FULTON: You say their figure is affected by retroactive mail pay?

Mr. MCGREGOR: Yes.

Mr. FULTON: I am very much interested in that, can you enlarge upon it?

Mr. MCGREGOR: Well, as I understand it—and I think it is a quite well publicized arrangement in so far as the air lines are concerned—mail pay is regarded as the established method by which air line deficits south of the border are made up.

A mail pay agreement is reached prior to any year's operation and that year's business takes place with the mail remuneration on the basis of the agreement. If, at the end of the year, expenses have exceeded revenue the air line in that unhappy position makes application to the Civil Aeronautics Board to have its mail pay reviewed, and it makes application for a specific number of dollars of what is called retroactive mail pay to be given for that year's operation. Technically what happens is that the C.A.B. investigate the activities of the air line and reach a conclusion which, as far as I know, has always been in the affirmative, that the air line was efficiently operated. Having determined that fact, the retroactive mail pay is paid to the air line, resulting in a zero loss position.

(Mr. Cleaver took the Chair.)

It is so well established, that my understanding is that in some of the complicated reports the air lines produce they show retroactive mail pay as being financial revenue before it has been agreed that it be paid.

Mr. FULTON: Do I understand from what you say that the United States government practically subsidizes the domestic air lines by very substantial and adjustable air mail contract payments?

Mr. MCGREGOR: In the case of those air lines which need it, and, to the best of my knowledge, in the case of all international air lines.

Mr. FULTON: You are in a very different position with respect to our Post Office Department?

Mr. MCGREGOR: Very different.

Mr. GILLIS: With respect to the whole operation—instead of having to come before a committee to explain the details of the deficit, the American lines go to a board to have the deficit washed out by retroactive mail pay.

Mr. FULTON: There is a slight difference in that none of the American air lines are government owned and they would not have to appear before a congressional committee. However, I think the important factor is that the American air lines which may get into a deficit position are almost certain of having that taken care of by a retroactive mail pay adjustment?

Mr. MCGREGOR: That produces a condition in which some of the smaller lines with difficult routes are getting very, very, substantial mail pay. In the case of our friends, Colonial Air Lines, the figure is $13.72 per 'plane mile, I think.

Mr. FULTON: Over all the operations?

Mr. MCGREGOR: I beg your pardon, I think that is the per route mile between New York and Montreal. I have the figures if you would like to see them.

Mr. FULTON: I would be interested, because I am prepared to make a recommendation, when we come to our report, with respect to this post office matter.

Mr. GILLIS: The deficit problem is solved.

Mr. MCGREGOR: The Colonial figure on mail revenue per mail ton mile is $12·9301; T.C.A. on the same basis was $1·5865.

Mr. FULTON: $1.58 as against $12?

Mr. MCGREGOR: Yes, something like 8 times as much.

Mr. FULTON: That is on the basis of route miles?

Mr. MCGREGOR: No, on the basis of mail ton miles.

Mr. FULTON: You have given us the figure for the increased mail ton miles flown by T.C.A. over what you expected?

Mr. MCGREGOR: Yes.

Mr. FULTON: In going into some detail on the comparative figures that you have given on the back page of the report, as I analized the figures, your comparison with the American lines is favourable with possibly four exceptions. Those have to do with the increase in available seat miles as compared with revenue passenger miles and I would ask if I am correct in my understanding of those figures, which is that the American air lines have increased their available seat miles by a smaller percentage than you have? Their occupancy of those seats has been increased by a larger percentage? In other words, you increased your routing and your available seat miles very considerably but your occupancy of those extra seats has not increased in the same proportion as the American occupancy of their seats has increased?

Mr. MCGREGOR: Well, as I read the figures you are referring to, our increase of revenue passenger miles is considerably greater than for U.S. lines.

Mr. FULTON: Yes, on an absolute basis, but not percentage-wise?

Mr. MCGREGOR: Yes, I see what you mean. I think we already dealt with that condition earlier in the session where I referred to the effect of putting on three transcontinental flights in the spring and carrying it through the winter because three flights were slightly too much but two flights were definitely two few.

Mr. FULTON: I do not want to take direct issue with you again but do you attribute that entirely to increase on the domestic lines or do you attribute it partly to the Atlantic line?

Mr. MCGREGOR: No, I believe the Atlantic load factor was higher than the previous year.

Mr. FULTON: The mileage figure is higher.

Mr. MCGREGOR: Yes, but the passenger load factor is the measure of the proportion of the available seats filled. The fact that the load factor goes up indicates the proportional use of the available seats is better.

Mr. FULTON: I will look that up but in the meantime I would like to come to another comparison which has to do with the weight load factor. As I read the figures it has increased for the American lines and has slightly decreased for T.C.A.

Mr. MCGREGOR: There is the same effect again.

Mr. FULTON: Well your weight load factor for 1948 is shown as 57·78 per cent; for 1949 it is shown as 56·49 per cent—a decrease of 2·23 per cent?

Mr. MCGREGOR: That is right.

Mr. FULTON: The American load factor shows a figure for 1949 of 63·59 per cent—an increase over 1948 of 3·04 per cent. That compares with the decrease on the Canadian route of 2·23 per cent?

Mr. MCGREGOR: That is right.

Mr. FULTON: Then why do you say I am incorrect in my first statement?

Mr. MCGREGOR: Which was your first statement?

Mr. FULTON: That our weight load factor has decreased while the United States factor has increased?

Mr. MCGREGOR: You said passenger load factor—I thought we were talking about passengers.

Mr. FULTON: I am sorry; I said that I would have to look up the figures you gave me and that I would leave them and refer to the weight load factor. Then we misunderstood each other. I said our weight load factor has decreased while the American one has increased and I understood you to say I was incorrect?

Mr. MCGREGOR: I thought you were talking about passengers.

Mr. FULTON: The weight load factor, I understand, takes into account passengers, cargo, and mail?

Mr. MCGREGOR: That is correct.

Mr. FULTON: So a decrease in the weight load factor is your over-all measure of, what shall I say—?

Mr. MCGREGOR: Utilization.

Mr. FULTON: Utilization. I come back again to my first question. Have we not tended to over-expand our service in the light of our expected revenue and utilization of the service?

Mr. MCGREGOR: In the case of the transcontinental flights which are a major part of the company's operation, we are forced to go up by steps equal to one frequency and, when you are moving from two to three flights you can only increase capacity by 50 per cent, obviously. When you add a fourth flight—when that happy day arrives—we increase the capacity by 33 per cent. If you had a fifth flight you increase it by 25 per cent. That is one of the reasons why higher frequency makes for better efficiency.

Mr. FULTON: Not unless it is matched by an increase in occupancy.

Mr. MCGREGOR: Certainly. But you cannot closely relate the amount of capacity which you provide to the occupancy when frequency is low. There is no compromise between two flights and three flights. You cannot add half a flight because you have half a flight's worth of load.

Mr. FULTON: But surely you can add an inter-station flight. For the sake of argument, you can surely take an inter-station flight. Take the situation from Calgary to Winnipeg, and if your relative occupancy is higher, or the demand for seats is higher on that portion of your line, then why not extend that particular portion rather than put on a complete and new transcontinental flight.

Mr. MCGREGOR: If the load varied across the country that would be possible. But actually, the case you mentioned is the only light leg in the whole transcontinental operation.

Mr. FULTON: There was a chart of passenger loads between various points on the transcontinental operation. It did seem to me that some of the intermediate points had a very much higher loading than the over-all coast to coast points. You say that you are going to put in a fourth transcontinental service. Would it not be better to put on an intermediate service by local planes?

Mr. MCGREGOR: I think the appeal of the intermediate service is very low particularly to passengers desiring through service and fast service; and the servicing difficulties are high because the aircraft end up at other than established maintenance points. In the case of the fourth flight to which we referred, that is going in as a summer express service, so to speak, stopping only at Winnipeg between Toronto and Vancouver.

Carried.

Mr. DREW: No, no. Mr. McGregor, have you received any representations from the Air Lines Pilots Association as to ways in which the operations of Trans-Canada Air Lines could be improved?

Mr. MCGREGOR: No.

Mr. DREW: You have had no discussions with that association?

Mr. MCGREGOR: I have had several discussions with representatives of the association but not on that point.

Mr. DREW: And they have made no recommendations in regard to any details of operation or improvements that they have suggested?

Mr. MCGREGOR: Only in so far as their remuneration and working conditions are concerned.

Mr. DREW: Have you seen any recommendations or reports they have made to other officials dealing with any aspects of the operations of Trans-Canada Air Lines?

Mr. MCGREGOR: I have seen none. I cannot say that none has been made, but certainly none has been made with my knowledge.

The CHAIRMAN: Are there any further questions?

Now, the Auditors' Report.

Mr. FULTON: Mr. Chairman, I do not want to keep us too long, but while you were saying "carried" I was looking at the figures and I have one other comment.

The annual report at page 15 it reads:

> "Management will be in close contact with all trends in aircraft manufacture that offer promise of superior air transport at less cost."

As I read through the report I wondered whether that is a general observation or have you anything specific in mind?

Mr. MCGREGOR: No. It refers specifically to the very interesting developments going on in the aircraft manufacturing field.

The CHAIRMAN: Mr. McGregor has already mentioned it and dealt with it, Mr. Fulton.

Mr. MCGREGOR: That is right.

The CHAIRMAN: He referred to the three rather interesting types of new planes which were coming out but which were not tested by service. Do you not recall that, Mr. Fulton? Well, give him the answer over again, Mr. McGregor.

Mr. MCGREGOR: It is a particularly interesting time in aircraft development. There are two brand new types of transport power under active development and early stages of flight testing. I refer to the full jet and to the turbo-prop. And in addition, there are some advanced designs of piston powered aircraft also about to go on the market. The sense of that paragraph is to refer to the fact that the company is alive to these very interesting and very modern developments and is keeping a sharp eye on their progress.

Mr. FULTON: Last year I think you said that so far as you were aware, there were no aircraft which threatened or promised to outdo or outbid your present aircraft in service so as to take away, on the overseas and United Kingdom run, passengers who otherwise would go by your line. Does that situation still hold good?

Mr. MCGREGOR: So far as the North Star aircraft are concerned, yes. But the company is twelve months closer to the time when it will have to replace its DC-3 aircraft than it was then.

Mr. FULTON: Have you anything specifically in mind as to the replacements?

Mr. MCGREGOR: We have not. But we are very interested observers of the field.

Mr. FULTON: You have a fund of something over $4 million capital available for replacements from which to make your decision? It is in the neighbourhood of $4 million, is it not?

Mr. MCGREGOR: No. The available capital is in the neighbourhood of $2½ million now.

Mr. DREW: Mr. McGregor, I do not know whether you will prefer to answer this question when you are dealing with the present year or whether you prefer to answer it at this point. But I was wondering if you had projected estimates of passengers to be flown in the coming months of this year?

Mr. McGREGOR: Yes, we keep a continual projection of passengers twelve months ahead by quarters. It takes the form of passenger revenue.

Mr. DREW: You have that, then, for the present year?

Mr. McGREGOR: Yes.

Mr. DREW: And you have that for 1949 as well?

Mr. McGREGOR: The forecast?

Mr. DREW: Yes.

Mr. McGREGOR: Yes.

Mr. DREW: Could you furnish it to us at some appropriate time?

Mr. McGREGOR: Yes.

The CHAIRMAN: Carried. Now, the Auditors' Report.

Mr. FULTON: Just give us one moment, please.

Mr. McGREGOR: Mr. F. P. Turville of George A. Touche and Company will be the man to present the Auditors' Report.

The CHAIRMAN: Yes. Let him be seated next to you.

Mr. DREW: Are you going to adjourn at 9 o'clock, Mr. Chairman?

The CHAIRMAN: Well, if the auditors' report is cleared as promptly as the auditors' report for the Canadian National was cleared, I hope we might adjourn at 9 o'clock.

Mr. FULTON: Can we get that commitment? I recall that last night we went on to a quarter to eleven; and, speaking for myself, I do not think that all the questions were put with the clarity that one might desire.

The CHAIRMAN: Well, I am in your hands as to how long the auditors' report will take. Personally, since it contains no recommendations, and since we have covered the ground so thoroughly, I would expect that we would clear the auditors' report very shortly so that we can adjourn early.

Mr. FRASER: Is the auditor here?

The CHAIRMAN: Yes, he is here. Now, the Auditors' Report.

Mr. FRASER: Whom are we to hear from in that connection?

The CHAIRMAN: Mr. F. P. Turville will present the report. He is the representative from George A. Touche and Company.

Mr. FULTON: Are we going to have the report read?

Mr. GILLIS: Why?

Mr. FULTON: I just asked if we were going to have the report read.

The CHAIRMAN: We dispensed with the reading of the report in the case of the Canadian National and I presume you are willing to dispense with the reading of it now. However, if you wish, we can have it read.

Mr. FULTON: I would prefer to have it read because I think it gives a better understanding of the report.

The CHAIRMAN: Very well. Will you read it, please, Mr. Turville.

Mr. TURVILLE: The report reads as follows:

7th. March, 1950.

TRANS-CANADA AIR LINES

THE RIGHT HONOURABLE THE MINISTER OF TRADE AND COMMERCE,
OTTAWA, CANADA

Sir:—We have audited the accounts of the Trans-Canada Air Lines and its Subsidiary Company for the year ended the 31st. December, 1949, under authority of the Trans-Canada Air Lines Act, 1937 as amended and we now report, through you, to Parliament.

GENERAL SCOPE OF AUDIT

In brief, our audit of the Air Lines' accounts for 1949 included:

(*a*) Examination of major expenditure authorities in conjunction with the recorded Resolutions of the Directors, which in turn were related to Corporate By-Laws, Orders-in-Council and Acts of Parliament;

(*b*) Audit tests in the offices of the Air Lines, limited to cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting department of the Air Lines. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of Cash Receipts and Expenditures, Securities Held, Material Stores and Accounts Receivable of all types. The Air Lines are further protected by Fidelity Bond Insurance with outside Underwriters;

(*d*) Audit of the Income Accounts and the Consolidated Balance Sheet and certification thereof.

INCOME ACCOUNTS

Depreciation and Maintenance

Provision for depreciation on Capital Assets was made during the year on the following bases:

(*a*) Flight Equipment in service—

North Star M2—7 year estimated life from date of being put into service.
DC3—4 year estimated life from date of being put into service.

(*b*) Ground Facilities—estimated life, the period depending upon the type of asset.

We have received certificates from a responsible officer to the effect that all Flight Equipment and Ground Facilities have been maintained in a proper state of repair and in an efficient operating condition during the year, that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence have been made, and that notification of all such retirements has been given to the Accounting Department.

Interest on Capital Invested

The total charge for interest on Capital Stock and Capital advances during the year amounted to $761,000. Interest at the rate of 3 per cent was paid to the Canadian National Railway Company on its investment in the Capital Stock of the Company, and at the rate of 1½ per cent on Capital Advances by the Government through the Railway Company. The Capital Advances were repaid during the year.

Miscellaneous Income—Net

The net Miscellaneous Income of the North American Services is composed principally of cash discounts earned on purchases and premium on sale of U.S. currency. In the case of the Atlantic Services, the expense arose mainly from the devaluation of Sterling balances.

CONSOLIDATED BALANCE SHEET

Assets

Temporary Cash Investment consisting of Canadian National Railway 2⅞ per cent Guaranteed Bonds, due the 15th September, 1969, is based on cost, which approximates very closely the year-end market value.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual Debtors and Creditors.

A physical inventory of Material and Supplies was taken under direction of the Management late in 1949. We have received a certificate from the responsible officers to the effect:

(*a*) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and

(*b*) That the inventory pricing was based on latest invoice prices for new materials, and that proper allowance for condition has been made in pricing usable secondhand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory through a credit to Operating Expenses of $29,000.

Other Current Assets consist of Salvage Suspense representing inventory of spare parts formerly included in Material and Supplies. The figure is net, after applying the reserve of $100,000 created in prior years against loss on such inventory.

The Insurance Fund investments consist of securities of the Government of Canada and the Canadian National Railway System (Guaranteed by the Government of Canada) together with cash and sundry current assets. The year-end market value of the securities exceeded the book figure based on cost.

Capital Assets are carried on the basis of cost.

Reserves

The Insurance Reserve amounts to $3,660,000. The Directors are of the opinion that the maximum amount necessary in this Reserve is $3,000,000 each in respect of North American and Atlantic Services. This amount was reached in the North American Service Reserve during the year and the accruals were reduced accordingly. Accruals in full are still being made for Atlantic Services.

The Reserve for Overhaul relates to North Star M2 aircraft. This Reserve has been created from the residue of the North Star M1 Reserve not now required together with allowances in respect of engine and aircraft modifications, against which has been charged conversion costs of North Star M1 aircraft. We are informed by responsible officials of the Airlines that the conversion program covering North Star M1 aircraft was completed at 30th. November, 1949.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

(*a*) United States Currency—at the dollar par of exchange.

(*b*) Sterling Currency—at the rate of $3.0875 to the pound.

Dollar amounts stated in this Report are to the nearest thousand.

Yours faithfully,
GEORGE A. TOUCHE & CO.

The CHAIRMAN: Thank you, Mr. Turville. Income accounts.

Mr. FULTON: Just before we get to income accounts I would like to refer to the paragraph "general scope of audit" and particularly to sub-paragraph (*c*). I find exactly the same paragraph was incorporated into the auditor's report to parliament last year. I regret that I have not been able to look back further than that but I imagine something the same has been said in each year's report. Now, I would like to ask Mr. Turville whether he is satisfied with the internal audit.

Mr. TURVILLE: I am definitely satisfied with that, Mr. Fulton, and I would like to place this on record as the auditor of the company that the books and records of the Trans-Canada Air Lines are well kept.

Mr. FULTON: In other words, you would be prepared in addition to that to say that they do reflect actual conditions.

Mr. TURVILLE: Yes; and one indication of that may be that you will find that this report is dated the 7th of March 1950, which is before the date on which the Canadian National Railways' report was signed. That means that the accounts were ready for audit by a comparatively early date.

Mr. DREW: Who is in charge of the accounts of Trans-Canada Air Lines?

Mr. TURVILLE: In our firm, do you mean?

Mr. DREW: No, in the Trans-Canada Air Lines.

Mr. TURVILLE: Mr. Harvey.

Mr. FRASER: And has he other men that go from office to office to take care of that work? Has he other accountants?

Mr. TURVILLE: That is right. They have what they call a travelling audit staff themselves.

The CHAIRMAN: Income accounts?

Mr. FRASER: On income accounts I think I asked Mr. McGregor about these depreciation amounts. They are kept in a separate account entirely, are they?

Mr. TURVILLE: Yes, they are kept separately.

Mr. FRASER: For each plane?

Mr. TURVILLE: For each plane. Each plane is depreciated separately depending on the time which it has been in service.

Mr. FRASER: Yes, and with regard to depreciation on offices and things of that nature, on landing fields, what about that?

Mr. TURVILLE: Are you talking about ground facilities?

Mr. FRASER: Yes.

Mr. TURVILLE: That is also based on the estimated life.

Mr. FRASER: And that is kept separately?

Mr. TURVILLE: Yes.

Mr. FRASER: Is that kept separately for each place or generally over the whole thing?

Mr. TURVILLE: Yes, it is kept separately for each place.

Mr. FRASER: And that would include?

Mr. TURVILLE: Winnipeg, Montreal and so on.

Mr. FRASER: And in the United Kingdom also?

Mr. TURVILLE: As far as I know in the United Kingdom they only have an office which they rent.

The CHAIRMAN: Any further questions?

Mr. DREW: Where is your audit of the books conducted; in the T.C.A. office or in the Canadian National Railways' office?

Mr. TURVILLE: In the Trans-Canada Air Lines office.

Mr. HATFIELD: How long does the audit take?

Mr. TURVILLE: It is a continuous audit, Mr. Hatfield.

Mr. HATFIELD: You are paid on a yearly basis?

Mr. TURVILLE: Yes, we are.

Mr. HATFIELD: What does the audit cost?

Mr. TURVILLE: The audit fee is included in the Canadian National Railways' fee which is $55,000 in all.

Mr. DREW: What fee?

Mr. TURVILLE: The Canadian National Railway fee includes, as far as we as professional accountants are concerned, the fee for the Trans-Canada Air Lines audit.

Mr. DREW: You do not receive any payment separately from the Trans-Canada Air Lines?

Mr. TURVILLE: No, we do not.

Hon. Mr. CHEVRIER: I was going to say that there is a bill that is now before the House which provides for the payment to this company of a sum of money which is inclusive of the T.C.A. and the Canadian National Railways as well.

Mr. TURVILLE: I do not know if I am in order but I might call the attention to the committee the fact that the fee has not been changed since 1923 except in respect of a slight addition on account of the airlines.

Mr. FRASER: That covers the Canadian National Steamship lines as well?

Mr. TURVILLE: Yes.

The CHAIRMAN: The consolidated balance sheet.

Mr. FULTON: Interest on capital invested. I should point out that in your report you draw attention to the fact that interest is charged on the capital stock which amounted this year to $761,000. Did you make any enquiries as to the division of the capital equipment as between domestic and Atlantic services?

Mr. TURVILLE: It was not necessary for us to do that, Mr. Fulton. We know what the amount of the capital stock is, $25 million; we know the rate is 3 per cent; we also know that the capital advance of $1½ million was outstanding for a portion of the year, and bore interest at the rate of 1½ per cent. So, as far as the auditor is concerned, it is not necessary for us to go to the trouble of dividing the capital as between the Atlantic and North American services.

Mr. FULTON: You would not concern yourself in the annual statement with the amount of interest charged against the Atlantic and North American services?

Mr. TURVILLE: We should review that and if we found it was considerably out of proportion in respect to the two lines we would enquire very deeply into it, but we found that is not the case.

Mr. FULTON: You did review it and found it was a fair division?

Mr. TURVILLE: Yes.

Mr. FULTON: Who sets the rate of interest?

Mr. TURVILLE: The rate on the capital you mean?

Mr. FULTON: Yes.

Mr. TURVILLE: When the airlines were incorporated originally the rate was 5 per cent on the capital and I think it was in the year 1947 that the rate was reduced to 3 per cent which, I would take it, was the current rate on interest at that time.

Mr. FULTON: How about the 1½ per cent on capital advances?

Mr. TURVILLE: I beg your pardon?

Mr. FULTON: How about the 1½ per cent on capital advances?

Mr. TURVILLE: I would say that for a short term loan that is a fair rate.

Mr. HATFIELD: Is this common stock or preferred stock?

Mr. TURVILLE: Common stock.

Mr. HATFIELD: How do you pay this; as interest or dividends, or is there an agreement?

Mr. TURVILLE: I was rather expecting that question because it is not usual, of course, to pay interest on capital stock but I think that has been disposed of by Mr. McGregor during the meeting.

Mr. DREW: In what way?

Mr. TURVILLE: By saying that the rate of 3 per cent was the rate that was agreed upon.

Mr. DREW: Is there any provision to that effect either in the agreement or in the securities themselves?

Mr. TURVILLE: In the securities?

Mr. DREW: Yes.

Mr. TURVILLE: It is in the Act.

The CHAIRMAN: In the Act of incorporation.

Mr. DREW: Is there any provision that sets 3 per cent as the rate?

Mr. FULTON: Can you give us a reference to the section of the Act?

The CHAIRMAN: You say it was amended in 1937? I will look that up.

Mr. FULTON: I remember raising this question when the general annual report was before us. Does that not almost turn it into the category of preferred stock? It has an annual return?

Mr. TURVILLE: In the sense that the interest is payable annually despite the results of operation of the company, one could say that although it is not called preferred it is at least privileged.

The CHAIRMAN: It is even more than preferred. It is in the nature of a bond interest because even on a preferred stock where the amount of the interest is fixed you do not give any dividends unless the company makes a profit.

Mr. FULTON: Mr. Turville, does the government have any similar security in respect to the Canadian National Railways?

Mr. TURVILLE: No, we must never forget that Trans-Canada Air Lines is a separate limited company.

Mr. FULTON: It is a subsidiary of the Canadian National Railways?

Mr. TURVILLE: Yes, a separate corporation.

Mr. FULTON: And one would gather that it is in a better position with respect to the T.C.A. than the government is with respect to the Canadian National Railways because they receive interest payments on that stock.

Mr. TURVILLE: I cannot say that. If this money had not been put up in the form of capital stock it would have had to be put up in the form of loans of some kind.

Mr. FULTON: May I ask you this? In 1937 when the company was incorporated did the Canadian National Railways actually advance $25 million cash to the Trans-Canada Air Lines?

Mr. TURVILLE: No, it was advanced over a period.

Mr. FULTON: Cash payments were received over a period?

Mr. TURVILLE: Yes.

Hon. Mr. CHEVRIER: It was put in the estimates from time to time. Last year there was a sum of five or ten million dollars. From time to time it was five million; one year it was ten million.

Mr. FULTON: The question I was interested in is that the Trans-Canada Air Lines did receive in cash $25 million from the Canadian National Railways.

Mr. TURVILLE: That is correct.

The CHAIRMAN: Any further questions?

Mr. FRASER: On this miscellaneous income. On the North American services, according to your statement here there would be $91,000 that would be on account of cash discounts or premiums, I should say, on United States currency; is that right?

Mr. TURVILLE: You are talking about the miscellaneous income?

Mr. FRASER: Yes, there would be about $91,000 on that and on the Atlantic services there would be about $100,000 through exchange?

Mr. TURVILLE: Yes, that is roughly correct.

Mr. FRASER: What is the balance of that made up of?

Mr. TURVILLE: As I said in the report it is partly made up of discounts earned on purchases of materials in the North American services.

Mr. FRASER: Just a minute now. Discount earned on purchases. Just what do you mean by cash discount? That is a discount for paying cash?

Mr. TURVILLE: Yes. Some companies when they make purchases charge a discount as a reduction of purchases. In Trans-Canada Air Lines they keep that separately; and it is a good indication I would say of the efficiency of the treasurer's department in seeing that bills are paid and cash discounts taken promptly.

Mr. FRASER: I think that is a good answer.

Mr. DREW: Mr. Turville, would you say the practice of not showing a consolidated statement in regard to surpluses or deficits is a good one? Do you not think that in years when there was a net deficit or a net surplus that could have been carried forward in the statement? What would you say to that as an accounting practice?

Mr. TURVILLE: From an accounting point of view, without saying that I do not agree with it, it really was up to the department here, and the deficit was paid back to them and the surpluses were paid to the department and they were under no necessity of carrying it forward.

Mr. DREW: Where a surplus was earned. Would there be any surpluses?

Mr. TURVILLE: I understand there were.

Mr. DREW: And they were carried forward, according to this statement?

Mr. TURVILLE: I am wrong there; I am sorry, Mr. Drew; because they turned into a deficit eventually.

Mr. DREW: And if they were carried forward in each year as a deficit the surplus was applied against the deficit which was brought forward until it became a net deficit.

Mr. TURVILLE: I mean it is a fact, is it not, Mr. Drew; and therefore it has to be recorded in the accounts.

Mr. DREW: You see, as an accountant, you can determine the actual cost of operation of physical assets bought and capitalized which do not show against them, and that account is a figure which would include the deficit.

Mr. TURVILLE: I certainly say that you could account for an operating surplus or deficit, whichever it may be, irrespective of the fact that the account balances. These are accumulated, and that will be done annually.

Mr. DREW: Yes. Now, let us take such a situation as arises in connection with the Montreal to New York run. It has been quite frankly stated by certain officials of Trans-Canada Air Lines that aircraft are going to be put on that line which may not of themselves be as economical as other aircraft they could use and they are going to proceed to put these aircraft on because of the fact that it will encourage business on that line. Now then, if that is so, then they are building up a business asset which you might call goodwill, such as is ordinarily described as goodwill in a regular business of any ordinary company, and that

goodwill becomes capitalized in the statement of the company. As against that capitalization, which is something theoretical, there is the deficit set off against it, and that is created for the purpose of justifying that result. It seems to me from an accounting point of view you cannot properly assess the capital value of these things unless you balance that against the accumulated deficit, when you have incurred that at least, partly, for the purpose of seeking to create new business.

Mr. TURVILLE: I think perhaps we are working on different lines, Mr. Drew, because when I am looking at the balance sheet of Trans-Canada Air Lines or any other company I would view the situation by looking at their assets, both fixed and current, and looking at their liabilities, both fixed and current, and view the whole thing in its proper perspective. Now, in viewing one company's balance sheet, I see a large credit which represents the accumulated profit on the one side, and in another Company's balance sheet on the other side I find a large deficit which represents the accumulated deficit. I look at Trans-Canada Air Lines balance sheet and I find that the assets compared to the liabilities are equal, therefore the Trans-Canada Air Lines have no deficit, it is paid by the department.

Mr. DREW: At the end of the year parliament is presented with a bill for the deficit.

Mr. TURVILLE: Exactly, and that is the condition which exists.

Mr. DREW: What I am getting at is this: these accumulated deficits are not carried forward. In the case of an ordinary corporation if there is a deficit they must carry it forward, under the Companies Act.

Mr. TURVILLE: And the reason they are carried forward in an ordinary company is because the shareholders are not going to pay the money back.

Mr. DREW: That is right, and of course it must be accounted for.

Mr. TURVILLE: Right.

Mr. DREW: I am simply seeking to point out that in a case where with their eyes open—and I am not criticizing the procedure—in a case where with their eyes open any organization such as this undertakes an operation which is going unquestionably to involve a deficit for the purpose of building up long-term goodwill which will in turn come back, it seems to me that you achieve quite an unrealistic accounting position unless these deficits are accumulated to be set up against the goodwill you are building up in that way.

Mr. TURVILLE: Are you suggesting, Mr. Drew, that this company should show a large asset item of goodwill?

Mr. DREW: What we have been doing here is to build up a goodwill, and if it were the case of an ordinary company that item of goodwill would be shown as an asset on the balance sheet, and against that you would show your accumulated deficit; isn't that correct?

Mr. TURVILLE: I would say that it is true.

Mr. DREW: I think you will agree that this company would have operated with a considerable deficit if that practice had been followed, isn't that so?

Mr. TURVILLE: I agree.

Mr. DREW: Therefore, if they are able to build up some assets against which they can set off these operating deficits—I am suggesting this only from an accountancy point of view, not as to what actually happens—but if they were to set that up as an asset in their balance sheet they could show against that the accumulated deficits.

Mr. TURVILLE: I still think that when the committee or anybody else is reviewing the situation as far as Trans-Canada Air Lines is concerned they would

have to go back to the beginning in the year 1937, and they would have to take the profits and deduct the losses which have already been incurred, but that would not be recorded in the balance sheet of December, 1949.

Mr. DREW: No, but it should be.

Mr. MATTHEWS: Mr. Chairman, I agree with what Mr. Drew has said, but I think I should point out that any comparisons that are made between the operations of the private company and the operations of Trans-Canada Air Lines are not very valuable. I think you will recall, Mr. Drew, that in a study of the Canadian National Railways by the royal commission and the Minister of Finance in 1933—that was Mr. Rhodes—he definitely adopted the policy that deficits were not to be capitalized. Now, because of the fact that private enterprise must of necessity follow that practice, in my opinion, in following this situation carefully for twenty-five years, I think it is open to very serious question to attempt to establish the fact that the earning power of Trans-Canada Air Lines or of the Canadian National Railways for that matter can be determined in any way contrary to the sovereign rule of parliament; and to say that it is good accounting or bad accounting to set up or write off a deficit seems to me to be acting completely in opposition to what the Minister of Finance established in 1934, and what parliament itself established, as far as the operations of this company are concerned. And as to that matter of goodwill, Mr. Drew, as you know, that is based upon established earning power and established earning power only. Now then, what good would it be if the deficit of the T.C.A., contrary to the rule of parliament, was set up and established on a cumulative basis. In 1937 the capital structure of the Canadian National Railways was revised as between the shareholders and the company, and one of the things that was approved by parliament was the writing out of the then existing deficit and accumulated interest on the deficit, and so forth. And if you were interested in the situation at that time you will remember the public controversy. But I do suggest to you, Mr. Drew, that the comparison of Trans-Canada Air Lines in any shape, manner or form with business practice in regard to the accounting treatment of its capital is neither consistent nor reasonable.

Mr. DREW: I am sorry I cannot agree with you more, Mr. Matthews; I think there is a great deal in common with business practice and what we have with respect to this company, and I think the accounting system should be handled on a similar basis.

Mr. MATTHEWS: But you had this fact, Mr. Drew, that this accounting has been adopted in accordance with rule of parliament and on the advice of many authorities who have studied this question over the years, and who decided that it should be on the same basis as the Canadian National Railways, and you will find that the treatment now accorded Trans-Canada Air Lines is on a par with that throughout. The only difference is that the earnings of Trans-Canada Air Lines from 1940 to 1945 were accumulated, the surpluses were accumulated during those years, and because of that they were available to apply to a reduction of the deficit which made its appearance in 1946 and wiped out the accumulated surplus and brought us into the new deficit position. They follow the same procedure as was recommended by the royal commission in 1934 for the Canadian National Railways.

Mr. FULTON: But it seems to me that at least the deficits should be shown in some way.

Mr .MATTHEWS: Parliament voted to support that recommendation and that was the decision.

Mr. DREW: But it should be shown in the accounts of the company as an accumulated deficit.

Mr. TURVILLE: I do not agree with you on that score, Mr. Drew, because we have a situation here where the stockholders are making good the loss or deficit. In this case the stockholders undertake to pay the deficit, and how could a corporation expect its shareholders to meet a deficit of that kind.

Mr. FULTON: I would agree with you that ordinarily you would not find stockholders who would pay off a deficit in operations of that kind.

The CHAIRMAN: The problem as I see it from an accounting standpoint is this, that once the government does make the payment then from an audit standpoint the liability ceases. The only way I see, therefore, that the audit report would be made to include this information would be for the auditors, whether requested by the government or by the committee, to attach to their audit report a summarized statement of all the votes by parliament to this company.

Mr. FULTON: Or in the alternative, have them shown in the balance sheet.

THE CHAIRMAN: No. If you put a liability in the balance sheet that does not belong there no firm of auditors would sign the audit report.

MR. DREW: You see, that is completely different—

THE CHAIRMAN: Oh, I get your point.

MR. DREW: I am merely putting this forward in the hope that some recommendation will be made which will deal with it realistically. During the first few years of its operation the Trans-Canada Air Lines showed a surplus, and that later was absorbed and became a deficit. That deficit was shown in the accounts for the first few years and then the deficits were paid by the government with the approval of parliament in the usual way. These were not carried forward as an accumulated deficit and consequently in the very first year that a profit is made it shows as a surplus and the next year there is an accumulated surplus and the next year a further accumulated surplus, with the result that any uninitiated person who saw it would think that this company was being operated in the same way as an ordinary corporation and they would naturally say it is showing a good surplus when the fact is that surplus would not begin to offset the accumulated deficit over the years. For that reason do you not agree that a true picture of the deficit should be shown in the accounts?

Mr. MATTHEWS: That is right, Mr. Drew; and in our report for 1947 we made that very clear when we said in that year the net deficit applicable to the air lines up to 1947 covers the surpluses from the year 1940 to 1945, less all the deficit years 1946 to 1947. Prior to 1940 the annual deficits were voted by parliament in accordance with the Air Lines Act of 1937. That will be found at page 21 of that report.

Mr. DREW: That is what you stated then, and I am not questioning your statement at all, Mr. Matthews; you were merely doing what you had been instructed to do, but you will recognize that the other statements do not contain the extension of that account.

Mr. MATTHEWS: Which are those?

Mr. DREW: The statements of the other years when there were surpluses.

Mr. TURVILLE: May I interject that we have not been instructed to do anything as auditors. The balance sheet submitted to this meeting is signed by us and is a correct statement and could be shown in no other way.

Mr. DREW: Certainly it could be shown in another way if—

Mr. TURVILLE: That is an "if".

Mr. DREW:—if the terms under which you were required to audit specified that you would show the accumulated deficit. As has been pointed out the 1947 statement does show the accumulated position which relates to the early deficits, then the surpluses, and then further deficits.

I think the statement, at some point, should at all times show what the net position is in regard to this line's whole period of operation, so that anyone picking up the statement can see the position for T.C.A. over the years.

Mr. TURVILLE: Anyone can pick up the statement now and tell the exact position of T.C.A. at the 31st of December 1949.

Mr. DREW: Where, in this statement?

Mr. TURVILLE: In the statement as presented to the meeting.

Mr. DREW: Where abouts in this statement is there anything that reflects—

Mr. MATTHEWS: But Mr. Drew—

Mr. DREW: I want to find that out.

Hon. Mr. CHEVRIER: Just let the witness reply?

Mr. DREW: Mr. Matthews says there is not—

Mr. TURVILLE: I say there is.

Mr. DREW: Then fight it out between yourselves.

Mr. TURVILLE: The consolidated balance sheet for 1949 shows the true position of T.C.A. at that date. It lists the assets and liabilities and shows the deficit of the year has been charged to the government of Canada, and it shows on the asset side the amount of deficit still payable by the government in the sum of $603,283.

Mr. FULTON: I do not think that anyone is questioning that the balance sheet and the auditor's report shows the present position of T.C.A., but what is being pointed out is that under the accounting practice adopted—

Mr. TURVILLE: Which is sound accounting practice for any balance sheet—this one or any other.

Mr. FULTON: Reserving the right to comment on your statement later, under the accounting practice, what is being pointed out is the net over-all deficit or surplus position of T.C.A. is not reflected in the balance sheet and the auditor's report. I agree with you, that the present position under the accounting practice is reflected, but we are dealing here with another factor altogether—whether or not there should be appended either a liability factor showing an over-all net deficit position or, on the other hand, an asset figure showing the amount paid by the government of Canada; or whether, alternatively, the auditor's report each year might point out that there has been accumulated so much net deficit paid by the government, or, in other years so much net credit taken out by the government.

Mr. TURVILLE: As a matter of fact a schedule could be prepared and attached to the accounts themselves.

Mr. DREW: That would be a very simple thing to do.

Mr. TURVILLE: Yes, but as far as accounting procedure is concerned I wish to make this perfectly clear.

The CHAIRMAN: I think you are blaming the wrong man.

Mr. TURVILLE: I am not taking it that way, Mr. Fulton—but under the accounting practice followed the statement is prepared in accordance with the facts as they exist.

Mr. FULTON: In the situation you are dealing with.

Mr. DREW: Nobody is questioning the accuracy of the figures but I am certainly pointing out that no one picking up the 1949 report for the first time, would have any way of knowing what the accumulated result of the operations of T.C.A. is over the period since its inception—as you would in the case of the statement of an ordinary corporation. There is this very unusual fact in the consolidated balance sheet at December 31, 1949 there is shown as an asset, "government of Canada—balance of deficit, $603,283." Have you ever seen a deficit in a current asset?

Mr. TURVILLE: That question has been asked before, and I am surprised that you ask it, Mr. Drew.

Mr. DREW: I am surprised at it being shown in the current assets; I would not be surprised to see it being shown at the bottom.

Mr. TURVILLE: It is the amount of the deficit for 1949 which has not yet been paid to Trans-Canada Air Lines. It is an account receivable and it is current.

Mr. FULTON: There I am afraid I would have to take issue with Mr. Turville. It is not yet an account receivable. It is not an account receivable until it is passed by parliament in the supplementary estimates.

Mr. DREW: You are taking a lot for granted if you think parliament is going to pay something which is not yet before it.

Mr. TURVILLE: It is an account receivable under the authorization. If the government turns it down it will be a bad debt.

The CHAIRMAN: I think the suggestion made by Mr. Drew of a schedule being attached to the auditor's report indicating from year to year the gifts, grants, or votes of money or whatever you want to call it, which are made by the parliament of Canada to this company, would answer the purpose.

Mr. DREW: No, no, it should be a schedule showing the year by year result which produces the net position. Starting in the first years they were deficits; then they were years of surplus, and then years of deficits. We may hope that may not be a permanent situation and, if there were such a schedule, and if it were a cumulative schedule—even if it was not cumulative—it would be possible for a layman to pick up the report and see what the position was.

The CHAIRMAN: I think if you showed in that the years where there was a surplus—

Mr. DREW: There is no vote in the years where there was a surplus and it will not show the position unless the deficits and surpluses are brought together to bring a net result.

Mr. FULTON: I would like to point out one thing which arises from reading the Act in connection with the discussion which we have just had. As I read the Act it is not the C.N.R. which attaches the 3 per cent fixed interest to the capital advanced, it is the government itself—as I read the Act it is the governor in council.

The CHAIRMAN: The Act speaks for itself—that is why I got it for you.

Mr. TURVILLE: I think that is true.

Mr. FULTON: I was under the impression that the C.N.R. made that charge but I find that it is the government which fixes the charges.

Mr. HATFIELD: How can this $603,283 become an asset before it is income?

Mr. TURVILLE: Do we have to go through that again, Mr. Hatfield?

Mr. HATFIELD: I do not think it is an asset if it is something which you have not got.

Mr. DREW: What it really means is this, Mr. Hatfield. Unknown to us the position has been arrived at where it is assumed that any deficit is going to be an account receivable without question, and it is included there as an asset. That is the device by which this becomes an asset—which I must say is a thoroughly unique method of accounting.

Mr. TURVILLE: That is the same situation which exists with respect to the C.N.R.

Mr. DREW: I am not going to hold any brief for C.N.R. accounting.

The CHAIRMAN: Are there any further questions on miscellaneous income? Carried.

The consolidated balance sheet?

Mr. FULTON: In subparagraph (*b*) you say, with respect to materials and supplies, "that the inventory pricing was based on latest invoice prices for new materials, and that proper allowance for condition has been made in pricing usable second hand, obsolete and scrap materials."

In that case, Mr. Turville, are materials in use in connection with an aircraft and its operation normally dealt with in this way, or is it normal to depreciate those materials?

Mr. TURVILLE: No, they are taken on the basis of cost but, if through some condition of business the market price should be less than cost they would be written down to the present day value if it is lower than cost.

Mr. FULTON: Well, if the equipment was two years old and had been used extensively, is it an accurate reflection of the credit picture to put them in at cost?

The CHAIRMAN: There is no used item which stays in the inventory once the item is used. Once it is used it is out of inventory.

Mr. FULTON: Oh, I am sorry.

Mr. TURVILLE: If it has gone into equipment of some kind it is not in the inventory.

Mr. FULTON: Thank you.

Then, the next sentence reads: "Ledger values were brought into agreement with the physical inventory through a credit to operating expense of $29,000." In your 1948 report at page 319 of the proceedings, you have said that ledger values were brought into agreement with the physical inventory, through a charge to operating expense of $33,000. In other words you had a charge of $33,000 last year and a credit this year of $29,000. Can you tell me what has taken place there?

Mr. TURVILLE: May I first say that the credit of $29,000 represents the ·298 per cent—less than one-third of one per cent of the stores issued, and it shows that the stock records and requisitions have been very very carefully kept over such a large amount—$9,308,000, during the year.

Mr. FULTON: Where do you get the figure of $9,308,000?

Mr. TURVILLE: You will not have that—I am giving you the figure of the total stock issued out of stores during the year.

Mr. FULTON: Do I understand this is purely a bookkeeping entry to balance the accounts?

Mr. TURVILLE: The physical inventory which is taken during the year is compared with the book records and; at the date of the taking of the physical inventory it was $29,000 more than the book records which it were accordingly adjusted to the physical.

Mr. FULTON: The fact that last year it was $33,000 less does not mean that there was any transfer?

Mr. TURVILLE: No.

Mr. FULTON: I was wondering whether it meant any disposition of stores?

Mr. TURVILLE: No.

The CHAIRMAN: Shall we go on to reserves?

Mr. FULTON: No, I see in the next paragraph you say "the figure is net, after applying the reserve of $100,000 created in prior years against loss on such inventory." Once again the figure of $100,000 is the same reserve as shown last year.

Mr. TURVILLE: That is true.

Mr. FULTON: I was going to ask you whether you would care to say whether or not it is usual to build up such a fund and increase it from year to year?

Mr. TURVILLE: No, that is not the case in this instance. You have been looking at last year's report where provision was made for $100,000 for any loss that might take place in material and supplies. This year we mention it to call to your attention that the $100,000 was not required there, and it has been used to provide for any losses that might take place under salvage expense receivable. You will notice on the balance sheet that the salvage expense receivable is $32,000.

Mr. FULTON: On the balance sheet?

Mr. TURVILLE: $33,442. It is shown as "Other current assets" in the balance sheet.

Mr. FULTON: $33,442; so you have exhausted the reserve fund?

Mr. TURVILLE: We have transferred the reserve to that account. It would have been $133,442 if that reserve had not been applied.

Mr. FULTON: Would it be necessary to build that up again?

Mr. TURVILLE: No, I do not think so. From inquiries which we have made we are satisfied that at least $33,000 will be collected in respect of that item.

The CHAIRMAN: Does the item carry?

Carried.

Now, "Reserves".

Mr. FRASER: Could you tell me why you call this a Temporary Cash Investment—these bonds, September 1969, the item of $1,005,812.50?

Mr. TURVILLE: That, I think, was explained during the meeting. That is a temporary cash investment. It is invested in Dominion of Canada guaranteed bonds, and it has arisen through depreciation. It is money that was available and put into that fund. It will be used, presumably, during the year and it was segregated from general cash for that purpose.

Mr. FRASER: And thus it is in bonds?

Mr. MORRISON: It has been invested, and is earning interest for the term as a temporary investment.

The CHAIRMAN: "Reserves"?

Mr. FULTON: Have you any comment to make, Mr. Turville, on the adequacy of the $3 million reserve fund with respect to operations?

Mr. TURVILLE: I do not think that I am qualified to pass comment on the opinion of the president and directors or the management of Trans-Canada Air Lines on that subject. As you know, it has no direct relationship to the values which are shown on the balance sheet. It has been built up over a period of years and it is the considered opinion—and I can pass no comment on it other than to say that it is sufficient for the purpose for which it was created.

Mr. FULTON: When you have a fund of $3,660,000 over-all, would it be doing violence to accounting practice for you to apportion it equally in proportion to the capital involved in the two systems, and then to turn around and charge a large item to the other side?

Mr. TURVILLE: So far as the insurance fund is concerned, it was first of all started in the domestic service, and the Atlantic service started later when they started to build up a fund for it too.

Mr. FULTON: You had one company operating two different services. One company pays for the aircraft for both the services?

Mr. TURVILLE: Yes.

Mr. FULTON: Is it not rather a distortion of the picture to build up—just because there are twenty new aircraft and you put ten on the one service—I mean ten on this new service—and ten on the other service which is an old one—would it not be a distortion of the picture to charge the new service a large amount each year?

Mr. TURVILLE: I would not say that would be the case. The air line has got two services as you said and provision has been made on the one service up to the point where the management considers it is sufficient, and therefore they stop it. And the other service has not yet reached the point which they consider sufficient. So, in my opinion, it would not be proper to take out of the $3 million which has been created for the North American service and to put it over to the Atlantic service.

Mr. FULTON: The only figure I can suggest would be an amount bearing the same proportion to the total amount in the fund as capital equipment on the Atlantic service as compared to capital equipment on the domestic service.

Mr. TURVILLE: That will, in the course of time, happen.

Mr. FULTON: Your statement is that it has not?

Mr. TURVILLE: Not at this stage.

Mr. FULTON: And you think that is the sounder practice to follow?

Mr. TURVILLE: Yes.

The CHAIRMAN: Shall the report carry?

Mr. FULTON: No. Do you audit a pension fund?

Mr. TURVILLE: We audit the amount paid into the pension fund. And as you observed earlier the pension fund is not carried on the balance sheet of Trans-Canada Air Lines. It is administered outside. But we verify the investments which are included in the fund by actual count.

Mr. FULTON: In other words, you satisfy yourself that the values shown in the fund are correct?

Mr. TURVILLE: That is right.

Mr. FULTON: And do you make a separate report of that to the company or to the trustees of the pension fund?

Mr. TURVILLE: To the trustees of the pension fund.

Mr. FULTON: I have one final question. In view of your comment on the remuneration paid to your firm, may I ask who pays for this report?

Mr. TURVILLE: We pay for it in the first instance.

Mr. FULTON: I mean the printing and the preparation; is that part of your service?

Mr. TURVILLE: Yes. We pay for it.

The CHAIRMAN: Does the item carry?

Carried.

Now, gentlemen, that concludes our work in this reference with the exception of the tabling of the answers which were asked for today.

Mr. DREW: It concludes the witnesses?

The CHAIRMAN: Yes.

Mr. DREW: I shall indicate the witnesses whom I wish to have called presently.

The CHAIRMAN: I beg your pardon?

Mr. DREW: I shall indicate the names of the witnesses whom I wish to have called presently.

The CHAIRMAN: Have you some witnesses you wish to have called?

Mr. DREW: Yes, and we shall decide when we are to have them called.

Mr. FULTON: Do we review the budget?

The CHAIRMAN: It is not referred to us.

Mr. FULTON: Would this be a time to raise that question? We reviewed the budget of the Canadian National Railways. Is it included in the reference?

The CHAIRMAN: Yes, the C.N.R. budget is included in the reference.

Mr. FULTON: I raise the point for future discussion that this committee consider a recommendation that in future years we take up the budget of T.C.A.

The CHAIRMAN: Yes. When we are on the report I presume there will be that and other matters to come up.

Mr. DREW: You say that the budget is not included in the terms of reference?

The CHAIRMAN: No.

Hon. Mr. CHEVRIER: No, and it never has been, either.

Mr. DREW: I have not got the reference in front of me.

The CHAIRMAN: The order of reference is here, Mr. Drew.

Mr. DREW: Yes, certainly it includes the estimates. This is the reference:

"That a Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation to the voting of public monies; ....."

Hon. Mr. CHEVRIER: "Accounts and bills" refer to the Canadian National Railways.

Mr. DREW: Oh no, no.

Hon. Mr. CHEVRIER: Yes, yes, it does and that form of reference was used long before Trans-Canada Air Lines ever existed. The terms of reference were exactly then as they are today and as you have read them. T.C.A. was added afterwards so it could only include the "accounts and bills" relating to the Canadian National Railways.

As a matter of fact, it has been the practice in this committee to deal with the accounts, the reports, and the budget of the Canadian National Railways but not the budget of Trans-Canada Air Lines.

Mr. DREW: I am not concerned with what has been done. I am concerned with what the actual wording of this resolution is and I read it, and I do not think that English could be clearer and more simple. It reads:

> That a Sessional Committee on Railways and Shipping owned, operated and controlled by the government, be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines...

The CHAIRMAN: Yes. You are reading from the committee's appointment.

Mr. DREW: Certainly, and that is where the powers are.

The CHAIRMAN: Pardon me. The committee when appointed does not act until the House actively assigns certain duties to the committee. When the committee is set up it is given certain powers and if you will read down, you will find the order of the House referring different matters to this committee. And I say that in so far as I know—and I have asked the clerk to inquire—the House has not referred to us anything except what we have already covered.

Hon. Mr. CHEVRIER: It is clearly set out in the order which follows:

The CHAIRMAN: If you will read the order from the House to the committee, it is quite true that the powers given to the committee are very wide. But we do not exercise those powers until the House orders us to exercise them.

Mr. DREW: Of course, we will have to move in the House that this order which has been inaccurately drawn, should comply—

The CHAIRMAN: No, there is nothing inaccurate about it.

Mr. DREW: Certainly it is inaccurate. It is parliament that has the power. Parliament decides that the estimates be submitted to this committee, and the order does not conform with the resolution.

The CHAIRMAN: Pardon me a moment, I shall acquaint you with the practice in that regard. The practice is that if the committee finds that the House has not referred to it any subject which the committee thinks it should have, we then prepare a report and go to the House with the committee report asking that certain additions or authorizations should be extended to the committee.

And as to that type of report, we are required to move concurrence.

Mr. DREW: Then I shall move that the committee present a report for submission to the House tomorrow that there should be an order which is in accordance with the resolution setting up this committee and referring the estimates of Trans-Canada Air Lines, so that the terms will be consistent; so that the budget of Trans-Canada Air Lines will be referred to this committee.

The CHAIRMAN: Well, then, you started out, Mr. Drew, to indicate what witnesses you wished to have called.

Mr. DREW: Do you not want to deal with this motion first?

Hon. Mr. CHEVRIER: I think we should deal with a statement you made a moment ago.

The CHAIRMAN: I think a motion of that kind should be drafted in writing and drafted with reasonable care.

Mr. FRASER: Did I not understand Mr. Howe to say when he stated that he would have this committee set up, that he would have it set up next week; and did he not mention the fact that we should go into the estimates?

The CHAIRMAN: I could not tell you.

Mr. FRASER: I believe he mentioned the estimates.

The CHAIRMAN: I do not know.

Mr. FRASER: I have not got the *Hansard* report before me; but at that time I think I said there was only one committee which studied the estimates and that was the External Affairs committee; and he said, no, you are wrong.

Hon. Mr. CHEVRIER: What the Right Hon. Mr. Howe probably said was that the affairs of T.C.A. would be submitted to this committee in the same manner that had been followed in the past.

The CHAIRMAN: We shall not worry about that. Have you the names and addresses of the witnesses you want called, Mr. Drew?

Mr. DREW: I would like to have the following called: T. H. Cooper, Comptroller. W. F. English, Vice-President in charge of operations. W. H. Seagrim, Director of Flight Operation; and James Bain, Director of Engineering and Maintenance.

The CHAIRMAN: Mr. Drew, are any of these witnesses in attendance, or do you wish the committee to arrange for their attendance?

Mr. DREW: I do not think any of these people are in attendance. That is why I did not raise the question this afternoon. These are all officials of Trans-Canada Air Lines.

The CHAIRMAN: Yes. Mr. Cooper was before this committee when the Canadian National Railways were here.

Mr. FULTON: I wonder if I might add—I have Mr. Drew's consent to it—the names of Mr. Baldwin of the Air Transport Board and Mr. Turnbull the Deputy Postmaster General.

Hon. Mr. CHEVRIER: Well, that raises the point as to whether or not this committee wants to go outside the operations of the Trans-Canada Air Lines. I am not suggesting they should not be called but I think the committee must decide whether or not witnesses who have no official capacity or bearing with the T.C.A. should be called.

Mr. FULTON: In order to avoid confusion I am inclined to put that in a separate resolution so that we will not have this complication. I withdraw my request.

The CHAIRMAN: There will be no need for a resolution so far as the people indicated by Mr. Drew are concerned; they are officers of the corporation. I made inquiries as to whether any of them could be made available for tomorrow but I find it is very very doubtful.

Mr. DREW: It would be well then to set a date after the Easter recess.

The CHAIRMAN: I would think that it would be wise to do so.

Mr. DREW: I can assure you that these will not be long examinations so why not call them say the Monday after we come back? I think everybody will realize that on the Monday when we get back there will be various details to look after and so on. So why not arrange for that date which is an equally convenient date? Why not arrange for April 23rd?

The CHAIRMAN: I think you will find Mr. Drew that quite a number of the members who live at long distances will not be back on Monday.

Mr. DREW: That is why I suggested we should not have it on the Monday after the House reopens.

The CHAIRMAN: You suggest the week following?

Mr. DREW: Yes.

The CHAIRMAN: Then, with regard to Mr. Baldwin and Mr. Turnbull who are outside the company's services, the practice has usually been in committee work here that when a request is made for an outside witness the committee sets up a steering committee to decide as to whether the witness should be called. Now, if you feel it is important, Mr. Fulton, I will ask for the appointment of an agenda committee. Are you pressing for Mr. Baldwin and Mr. Turnbull? If you are I will ask that an agenda committee be appointed?

Mr. FULTON: Yes.

The CHAIRMAN: Will some one make a motion for the appointment of an agenda committee of this committee?

Mr. GILLIS: Mr. Chairman, would you tell me now just what is going on? It seems to be some kind of a secret arrangement among three people. Is it your intention now to adjourn this meeting tonight, and arrange to meet again after the recess and call more witnesses in here? Is that the idea?

The CHAIRMAN: It is my intention, Mr. Gillis, to do whatever the practice requires should be done subject only to one thing, namely, the wish of the committee. Mr. Drew has moved that Mr. Cooper, Mr. English, Mr. Seagrim and Mr. Bain, all of whom are officers or officials of the Trans-Canada Air Lines or the Canadian National Railways, should be called to give evidence. That is quite an ordinary and reasonable request. Then, Mr. Fulton has asked for two outside gentlemen to be called, one is Mr. Baldwin of the Air Transport Board and the

other is Mr. Turnbull, Deputy Postmaster General. As to the latter two witnesses I have indicated that before any witnesses outside the airlines service are called to a committee it is customary to appoint an agenda committee to determine whether the witnesses should be called.

Mr. GILLIS: We have already gone over the report and we have finished with the auditor's report. To all intents and purposes the reports are closed. Now, in what capacity are these other witnesses coming in? To go over these reports again?

Mr. FULTON: I might make a comment on that question. In the course of evidence given by Mr. McGregor we learned that certain representations were made in 1949 to the Post Office Department and the airlines had hoped that a new agreement would be reached which we were further informed has not yet been reached and we are further advised that the airlines requested an additional amount of $70,000 to cover, in their opinion, the increased cost of transporting mail over what they were originally called upon to transport the mail for. Taking that at its face value, it is the opinion of the airlines that they are losing $70,000 a month because that agreement has not been reached. I feel we should call the Deputy Postmaster General because I would like to have him here. I would like to move, in the absence of any evidence to the contrary, that this committee recommend in its report that the recommendation of the Trans-Canada Air Lines be implemented, and I would like to have the evidence of the Deputy Postmaster General in order to enable me and other members of the committee to make up our minds as to whether we should so recommend or not.

Hon. Mr. CHEVRIER: Why do you call the Chairman of the Air Transport Board?

Mr. FULTON: Because I am disturbed by the statement of Mr. McGregor in regard to the Air Transport Board setting rates and approving schedules in that the Air Transport Board does not take into account the cost to T.C.A. of providing the service. I did not feel it was proper to question Mr. McGregor as to details in that regard. I thought the committee could satisfy itself by calling a representative of the Air Transport Board to tell us just how they fix their rates.

Hon. Mr. CHEVRIER: Well, it is not up to me to say whether the witness should be called, that is for the committee to decide; but we had the same thing in going over the accounts of the Canadian National Railways and the Canadian National Steamships. The same point that you are raising indirectly now was raised then, namely, that the Canadian National Steamships had made certain representations to the government that that old account of $2½ million should be wiped out, and I stated that for certain reasons it was felt that that should not be done. On that basis, I suppose, you could have countered and said: well, let us call these officers in the Department of Finance who are opposing this and let us find out whether we can save this $2½ million for the Canadian National Steamships. On that basis you would have been justified in calling two, three or four officers of the Department of Finance to substantiate that point. Should there not be some finality to the calling of witnesses, and where do you draw the line? Do you draw the line by calling witnesses of T.C.A. or are you going to call witnesses from various departments to substantiate the claims of witnesses of the T.C.A. or the C.N.R.?

Mr. FULTON: I would draw the line in that connection here, that the matters to which you have referred—that is the wiping out of a debt of $2½ million—affect past relations, and are past history. What we are dealing with here is something that has a continuing influence on the operations of the Trans-Canada Air Lines and contributes to a deficit. Whether the deficit will be wiped out by the increased payments is what we can endeavour to find out. That is the difference that I see. As to the other question of the Air Transport Board I do

not really understand that they are actually officials of a department; they are a rate setting body, amongst other things, and I do not see why this committee should not have them before it.

Hon. Mr. CHEVRIER: Why not call the officers of the Board of Transport Commissioners?

Mr. FULTON: We were told that that matter is *sub judice*. They are a rate setting body for the railways and the Air Transport Board is a rate setting body fo the airways.

Hon. Mr. CHEVRIER: If I follow your argument correctly, then I put this to you that Mr. Donald Gordon in his statement to the committee said that he was very anxious to see the rates on mail increased so far as the Canadian National Railway claims were concerned and he said that negotiations were going on with the Postmaster General. There is a point exactly in relation with your position, and if you had been consequent in your thinking you would have then said: let us call Mr. Turnbull. Why call them for the purpose of substantiating the position of the Trans-Canada Air Lines and not call them for the purpose of substantiating the position of the Canadian National Railways?

Mr. GILLIS: The point that I take issue with is this, that we have concluded the report, and if you start and call a half a dozen more witnesses you have to open these reports all up again and go over this thing. Now, on this mail business I would like to say this to Mr. Fulton: I would like to see that settled also but I do not think the place to settle it is in this committee. It involves negotiations between Trans-Canada Air Lines and the Post Office Department and we have been told this before, and definitely, that as far as a standing committee of the House of Commons is concerned they have no authority to recommend anything to the government that involves an expenditure of money. In this particular case it does involve quite a large expenditure of money.

Mr. FULTON: We have not been told that.

Mr. GILLIS: Oh, yes. I have been told that quite often on several House of Commons committees, the Veterans Affairs Committee, for one, and the Industrial Relations Committee for another. We had it out pretty thoroughly on that last one and even had legal opinions on it but we were not permitted to do it. I am as anxious to get information as is anyone on this committee but as I see it now we have finished with this report. Now, does this committee intend to start all over again after the House resumes following the Easter recess and have these reports all gone into again? If that is so, it is all right with me but I do not think it is necessary. We have completed this thing. We have a lot of information. In the matter of the mail contract I think the place for us to go after that is in the House on the estimates of the Department of Transport, the Department of Trade and Commerce and the Post Office Department and pound the thing out there if we want to help the Trans-Canada Air Lines. In the meanwhile let them carry out their negotiations directly. There will be delay and confusion if we start and kick that around in this committee. With regard to the other witnesses Mr. Drew is asking for, I do not know what purpose they are intended to serve, but we should have kept this report open if we wanted to call more witnesses.

Mr. HATFIELD: It is open.

Mr. GILLIS: No, it is completed and finished with.

Mr. FULTON: On the point that Mr. Gillis makes as to whether we can make recommendations as to certain things or not, I cannot agree with him. It is not open to a member in the House to move something that will involve the expenditure of money but it is perfectly open to any member, or group of members, to move a resolution that in the opinion of this House the government should do so and so. Now, we have to make a report to parliament and as I

see it we have to make recommendations, but I do not think we are in a position yet to make any recommendations of that nature and will not be until we have the additional evidence that I suggested we could get by calling in the Deputy Postmaster General. That is the reason I would like to have him called before this committee. I do not think we are in a position at the moment to make up our minds as to whether we should recommend the calling of the additional witnesses who have been requested, and I therefore suggest that we adjourn to find out what can be done in that respect.

The CHAIRMAN: Now, I am ready for a motion to be put to the general committee. You will have the opportunity of consulting the committee. Would someone move the appointment of an agenda committee, say of four or five members? They are usually named by the chair after the motion passes.

Mr. FULTON: What was that, Mr. Chairman?

The CHAIRMAN: I have asked for a motion to appoint an agenda committee, and I suggest that it be composed of five members to be named by this chair—

Mr. JAMES: Pardon me, Mr. Chairman; what is an agenda committee?

The CHAIRMAN: The duty of an agenda committee is to bring in a report to the main committee as to the calling of witnesses or any other procedural matter which comes up.

Mr. GEORGE: Do I understand from that, Mr. Chairman, that any member who wishes to have a witness called would place his request before such an agenda committee?

The CHAIRMAN: I think they can do that as a matter of right. I think every member of this committee has the right to ask for the attendance of any officer of the company, or any official whom he desires to have called to give evidence. I think that has been the usual practice.

Mr. FULTON: And he would make his request to the agenda committee?

The CHAIRMAN: Yes, that is the usual procedure. I am in the hands of the committee.

Mr. KNIGHT: Is it within the power of the agenda committee to refuse a member's request to have a witness attend?

The CHAIRMAN: Once an agenda committee is appointed all matters pertaining to agenda are in the hands of the agenda committee.

Mr. KNIGHT: Would that mean that the agenda committee would have the power to refuse or reject a request for witnesses to appear?

The CHAIRMAN: I was just saying that once the agenda committee is appointed then all such matters will be in the hands of that committee; for instance, they could say whether Mr. Cooper or anyone else is to be called.

Mr. KNIGHT: It is entirely in the hands of that committee?

The CHAIRMAN: Oh, yes.

Mr. JAMES: I was wondering if we could have a statement from Mr. Drew similar to the one made by Mr. Fulton as to why he wants these men called before we come to any decision with regard to the appointment of an agenda committee. It seems to me that Mr. Drew or Mr. Fulton are the only ones who are interested in calling these men. Would Mr. Drew care to do that?

Mr. DREW: Certainly; I would be very happy to state that. These witnesses whom I have it in mind to call are the people who have the direct information and would be able to give evidence in regard to the technical operations of Trans-Canada Air Lines; and that is why I think they should attend before this committee.

Hon. Mr. CHEVRIER: May I ask this question, Mr. Drew?

Mr. DREW: Yes.

Hon. Mr. CHEVRIER: Is the information which you seek from these technical men not available from the witnesses who are here today?

Mr. DREW: No.

Hon. Mr. CHEVRIER: They have indicated to me that they have attempted to answer all the questions you have asked them and they feel that they had succeeded in doing so. It may be that you are not satisfied.

Mr. DREW: No, I am not satisfied, to my own knowledge of what information is available. I know perfectly well that there is information in the possession of the technical and operating staff which would not in the ordinary course of events be placed before the president of the company, quite obviously.

The CHAIRMAN: There is a motion before the chair; are you ready for the question?

Mr. FULTON: Mr. Chairman, I indicated earlier my reasons for calling certain witnesses, but after having talked the matter over I would be prepared to withdraw my motion, if I may be permitted so to do.

The CHAIRMAN: But the trouble is that in the meantime one of the members has indicated that he intends to move that no more witnesses be called. Let us do this thing in an orderly fashion and appoint an agenda committee and let the agenda committee report to the main committee.

Mr. FULTON: I said that I withdrew my motion.

Mr. DREW: Let us not have anything of this kind going on. The chairman said a short time ago that no motion is required for the purpose of calling these witnesses, and I am quite agreeable to an adjournment until the 23rd of April, if that is suitable to the committee. Let us understand quite clearly whether that is to be done or not.

Hon. Mr. CHEVRIER: I do not think there was any agreement arrived at; it is in the discussion stage.

Mr. DREW: Let us know clearly whether that is or is not to be done.

The CHAIRMAN: I am entirely in the hands of the committee and I hope that every member of the committee will feel that he has been fairly treated in every possible way. I think, in view of what has transpired since I expressed my opinion, that members of the committee generally would be satisfied if an agenda committee is appointed and then they would report to the main committee at a following meeting.

Mr. FULTON: Mr. Chairman, I withdrew my motion.

Mr. DREW: I understood you to say a short time ago, Mr. Chairman, that an agenda committee was not necessary for the purpose of having witnesses called. If the guillotine is going to be applied let us know right away.

Mr. HEALY: I was of the opinion, Mr. Gillis, that these points which are being brought up have already been disposed of by the report having been passed and closed.

Mr. DREW: But this is on Trans-Canada Air Lines.

The CHAIRMAN: The only motion before the chair is the point on the agenda committee.

Mr. FULTON: I point out that a motion is not before the chair.

Hon. Mr. CHEVRIER: There are one or two things I am not too sure about myself and I would like the Minister of Trade and Commerce, who is primarily responsible for T.C.A. affairs, to be here. The one thing that I am not too sure about is the position with reference to the desire of Mr. Drew to call four or five witnesses from T.C.A.—as to whether or not as of right they can be called. If that is a matter of right I suppose there should be no interference with it. I

do not know whether it is or not. I think possibly we should get some advice on that. All I can say is that it has certainly not been the practice over the years that I have been here, but because it has not been the practice does not mean that it should not be. My suggestion to the committee is that it might be advisable if we were to adjourn until the morning so as to have an opportunity of giving this matter more study.

Mr. FULTON: I think the terms of reference to this committee are sufficiently broad. This committee has power to send for persons, papers and records. I am not familiar with the full powers of the committee; therefore, I withdraw my motion, subject to my right to bring it forward again at a later stage.

Hon. Mr. CHEVRIER: May I interrupt? Are you withdrawing your motion with the intention of making it again after the other matter is disposed of?

Mr. FULTON: After the matter has been disposed of as to whether we can call or send for the officers of T.C.A. whose affairs we are investigating, which I think can be done as a matter of right. I reserve the right to resubmit my motion after that point has been decided with respect to the calling of witnesses. I submit that nothing will be necessary beyond the reading of the terms of reference. In case we have the power to send for the officers of T.C.A. for the purpose of a further examination of the affairs of the corporation, then it is my intention to resubmit my motion.

Hon. Mr. CHEVRIER: May I suggest that we adjourn until tomorrow morning and dispose of the matter before the chair.

Mr. GEORGE: I move that we adjourn until 11 o'clock tomorrow morning.

Mr. CARTER: Mr. Chairman, I was under a little misapprehension about procedure here. There are one or two questions which I had reserved relating to Gander and Goose Bay. I appreciate that the report has been passed, but I wonder if I might have the privilege of asking Mr. McGregor one or two questions.

The CHAIRMAN: Mr. McGregor:

Mr. DREW: You asked me if I would write out my motion. I have it here.

The CHAIRMAN: You could bring it up tomorrow morning.

Mr. DREW: All right.

The CHAIRMAN: All right, Mr. Carter. Will a quorum wait while Mr. Carter asks his questions.

Mr. CARTER: I do not think it will take more than one or two minutes.

The CHAIRMAN: We need eight members for a quorum.

Mr. CARTER: The point I am interested in particularly is the matter of accommodation at Gander for the employees. At the present time there seems to be a shortage of accommodation and rent is very high; they are being charged excessive rentals, as much as $100 a month for a quonset hut. I wondered if you have underway anything that would alleviate that condition?

Mr. MCGREGOR: Not that I know of, Mr. Carter. The maintenance of airport and accommodation for the people at Gander comes under the Department of Transport.

Mr. CARTER: Oh, I see.

Mr. FRASER: The Minister of Transport is here so why not ask him?

Mr. CARTER: Perhaps I will have another opportunity. I do not want to delay the committee.

The committee adjourned to meet again tomorrow, April 5, 1950, at 11 a.m.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
APRIL 5, 1950.

The Sessional Committee on Railways and Shipping met this day at 11:00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we now have a quorum and we shall carry on. Mr. Drew, have you your motion ready?

Mr. DREW: Yes.

> "Resolved that this committee request that the order of the House adopted on Thursday, March 23, be enlarged to include reference to this committee of the budget of the Trans-Canada Air Lines for 1950.

The CHAIRMAN: And may I add these words: that the clerk of the committee be instructed to prepare the necessary report to the House.

Mr. DREW: Yes.

The CHAIRMAN: The clerk has drawn to my attention the fact that the House order was on Friday, March 24 and not Thursday; so I shall make that correction.

Mr. DREW: The 23rd?

The CHAIRMAN: Yes, the House order was on Friday, the 24 respecting the TCA.

Mr. DREW: Well, I have before me the Votes and Proceedings of March 23.

The CHAIRMAN: The clerk will indicate it to you.

Mr. DREW: Well, I would only point out that whatever date is here, it was actually adopted according to Votes and Proceedings of the 23rd. However, I simply want to conform with whatever is required.

The CHAIRMAN: It is moved by Mr. Drew that this committee request that the order of the House adopted on Friday, March 24 be enlarged to include reference to this committee of the budget of the TCA for 1950 and that the clerk of the committee be requested to prepare the necessary report to the House.

Mr. GEORGE: Question?

Mr. DREW: I do not want to have to deal with any unnecessary argument. So, if there is any opposition, I would like to know about it now; and if there is not, then I need not say nything.

The CHAIRMAN: All those in favour of the motion will please signify.

Carried.

Now, there is another motion before the chair for the appointment of an agenda committee. This motion was not put last night but I shall put it now.

All those in favour of the appointment of an agenda committee will please signify?

Carried.

Mr. FULTON: Mr. Chairman, I think you will find that it is on the record of last night that I withdrew the motion for the reasons which I then stated.

The CHAIRMAN: That is true. But I would very much rather have an agenda committee. We, perhaps, should have appointed one in the first instance. I do not think it is fair that the chairman should have the entire responsibility for procedural matters.

Under that motion it was indicated that the chair should name the committee. Now, Mr. Drew and Mr. Fulton would you please indicate the name of the member of your party whom you would like to have on that committee?

Mr. DREW: Put Mr. Fulton on.

The CHAIRMAN: The members of the agenda committee will then be: Mr. Fulton, Mr. Gillis, Mr. McCulloch, Mr. James, and Mr. George.

I am ready for a motion to adjourn.

Mr. FRASER: I take it that the list of members of the agenda committee would indicate yourself, Mr. Chairman?

The CHAIRMAN: is a member ex officio.

Mr. JAMES: I move that we adjourn.

The CHAIRMAN: There is a motion to adjourn. Does it carry?

Carried.

I would draw to your attention the fact that there is a strong ministerial objection to our meeting on the 23rd because of it being a Sunday.

Mr. DREW: I think that is an excellent reason. I must confess that I thought it was Monday. I was not looking at the calendar at the time.

The CHAIRMAN: I hope you all have a very pleasant Easter holiday.

The meeting adjourned.

TRANS-CANADA AIR LINES

Passenger Flow Chart Summary—June, 1949

EXHIBIT "E"

From: / To:	Torbay	Gander	Sydney	Halifax	Moncton	Pennfield Ridge	Yarmouth	Boston	Montreal	Ottawa	Toronto	New York	Cleveland	Chicago	London	Windsor	North Bay	Porquis Junction	Kapuskasing	Sault Ste. Marie	Fort William	Winnipeg	Regina	Saskatoon	Swift Current	Medicine Hat	Lethbridge	Calgary	Edmonton	Vancouver	Victoria	Seattle	Brandon	Yorkton	Charter	Sightseeing	Total
Torbay		216	84	153	55	5		35	135	24	75					3												1		1							787
Gander	286		28	25	31	2		3	81	3	18										1									1							479
Sydney	100	37		131	69	25	4	85	100	1	35		2	1	1					2										2			1				596
Halifax	159	17	192		174	112	30	324	443	67	179			4	5	3				1		8	5					6		8		5					1,733
Moncton	45	16	53	167		20		74	308	30	106		1	2	1	2						4						3	1	2							835
Pennfield Ridge	11		12	119	11		27	135	165	8	88			1		7				1		8	1					2		6	1		1				604
Yarmouth	1		8	43	6	28		83	12	4	9					2						1											2				199
Boston	97	9	163	419	85	212	129																														1,114
Montreal	224	54	126	414	348	135	14			696	2,748	2	117	323	80	196	10	7	9	11	31	317	34	52	6	5	13	153	78	227	35		1	3				6,469
Ottawa	11	2	4	92	25	6	2		718		1,025	3	46	71	34	60		2	3	5	7	74	20	17	4	1	1	10	36	36	9	3	2	1				2,330
Toronto	74	20	47	185	97	70	4		2,713	758		3,146	606	1,017	137	477	159	42	47	266	345	874	122	127	2	7	11	332	168	367	41		9					12,270
New York										2	3,110				24		18	2		14	5	70	6				6	43	15	19	2							3,336
Cleveland		2	2	2					138	38	628				274		13			1	2	4		1				4	2	1								1,112
Chicago	5		4	9	5				505	101	1,063						7		6		1							2										1,708
London	2			13	4	3			82	31	125	11	312			31	1	1		3	12	15	4	10				3	16	9								688
Windsor	2		4	4	6	9	2		278	64	532				22		8	2		7		13	3	3				6	4	1			2	1				973
North Bay									8	3	158	1		1				7	10				1				2			2							193
Porquis Jct.									5	2	56						18		8			2															91
Kapuskasing			1						6	2	67	1		5			27	5				2								1							117
Sault Ste. Marie			2						12	6	266	15	1		2						110	32						3	4	7								460
Fort William				2	1				37	25	368	10	1		2	3				124		67						3	7	13								663
Winnipeg			1	10	6	4			232	77	814	71	1		25	11	1	1		29	94		287	162	8	7	21	354	202	384	31		37	21				2,891
Regina			1	12	1				35	20	106	8	1		3	8						319			21	8	38	71	25	136			23	75				911
Saskatoon				2	4	1			53	20	131	11			7	3						192					1	19	124	113	16							697
Swift Current									4		4											8	16			6	4	5	1	20								68
Medicine Hat									3		5										1	9	8		8		17	15	1	25				1				93
Lethbridge				2		1			7		18						1					22	34	1	1	17		236	90	71				1				502
Calgary				4	4	1			135	33	358	36	1		1						16	373	92	28	7	15	283		972	779	77			5				3,220
Edmonton				3	6		1		55	29	184	13	2	1	4	10					3	217	37	148	3	4	133	1,069		443	73							2,438
Vancouver	1			13	8	1			223	49	396	28			6	4		1		6	16	366	142	123	25	11	93	737	436		5,974	51		7				8,717
Victoria					1				41	10	46	2										23	11	18	7	3	9	82	68	6,043		787		2				7,153
Seattle									6		3									1		2						8	2	100	708							830
Brandon									2	2	4											39	11		1		2	4	3	4								72
Yorkton						3					4					1						29	70							2								109
Charter																																		502		502
Sightseeing																																			512	512
Total	1,009	373	732	1,824	947	638	213	739	6,542	2,105	12,729	3,358	1,091	1,426	628	821	263	70	83	471	644	3,090	904	690	93	84	634	3,171	2,255	8,823	6,972	841	74	121	502	512	65,472

TRANS-CANADA AIR LINES

Passenger Flow Chart Summary—January, 1949

EXHIBIT "E"

From:	To: Torbay	Gander	Sydney	Halifax	Moncton	Pennfield Ridge	Yarmouth	Boston	Montreal	Ottawa	Toronto	New York	Cleveland	Chicago	London	Windsor	North Bay	Porquis Junction	Kapuskasing	Sault Ste. Marie	Fort William	Winnipeg	Regina	Saskatoon	Swift Current	Medicine Hat	Lethbridge	Calgary	Edmonton	Vancouver	Victoria	Seattle	Brandon	Yorkton	Charter	Total
Torbay	...	200	100	65	33	8	2	30	135	24	51	...	...	...	...	...	...	...	...	...	...	1	1	...	...	...	...	...	1	...	...	...	...	...	651
Gander	224	...	29	...	5	1	...	1	45	7	17	...	...	...	...	2	...	...	...	...	...	1	...	...	...	...	...	...	...	28	1	...	...	...	373
Sydney	45	21	...	182	54	15	3	65	91	9	29	...	...	...	...	...	...	...	...	...	...	3	...	...	...	...	...	...	...	5	...	...	...	...	522
Halifax	65	6	126	...	121	46	56	197	304	44	121	...	...	4	...	8	...	...	...	...	1	8	...	1	...	...	1	1	2	2	2	1	...	...	1,117
Moncton	25	11	51	134	...	9	1	39	155	21	62	...	1	6	3	3	...	...	...	...	...	2	1	1	...	...	...	...	...	1	...	...	...	...	526
Pennfield	18	1	7	79	6	...	25	77	61	2	15	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	3	...	...	2	...	...	...	296
Yarmouth	3	...	3	40	7	11	...	95	7	1	4	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	171
Boston	24	...	48	176	29	63	70	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	410
Montreal	114	48	85	382	200	59	...	...	...	457	1,487	1	52	197	47	100	1	1	2	8	20	168	15	8	1	...	15	78	20	110	29	...	...	...	3,705
Ottawa	8	1	4	52	18	6	2	...	473	...	562	7	21	29	21	39	1	...	3	1	9	52	9	3	1	...	1	16	19	37	10	...	...	...	1,405
Toronto	...	...	3	100	55	29	...	...	1,314	565	...	1,783	377	363	79	309	65	26	35	136	201	565	60	37	2	9	9	197	97	254	45	...	2	8	6,725
New York	...	...	...	...	...	...	...	...	...	1	1,709	...	...	...	12	1	...	...	...	4	2	27	...	...	...	...	...	10	11	10	2	...	4	1	...	1,794
Cleveland	...	...	...	...	...	...	...	...	66	20	297	...	...	...	122	...	...	...	...	...	3	...	...	...	...	1	...	...	3	...	...	...	...	...	512
Chicago	...	...	...	...	1	...	...	...	170	34	304	...	...	...	18	12	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	539
London	...	...	...	3	2	...	...	...	37	29	78	14	100	32	...	28	...	...	...	1	3	4	1	...	...	...	...	2	...	4	1	...	...	...	339
Windsor	...	...	...	5	5	...	...	...	80	42	322	1	...	13	27	...	...	...	...	2	4	10	...	...	...	...	...	2	...	4	...	...	...	...	517
North Bay	...	...	...	...	...	...	...	...	2	1	87	2	...	2	...	...	4	12	...	...	...	...	...	...	...	...	...	...	...	1	...	...	...	...	111
Porquis Jct.	...	...	...	...	...	...	...	...	1	...	30	...	...	...	...	...	8	2	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	41
Kapuskasing	...	...	...	...	...	...	...	...	6	2	41	...	...	4	...	...	5	5	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	63
S. S. Marie	...	...	...	...	...	...	...	...	3	...	140	6	...	...	4	...	...	...	...	...	82	6	1	1	...	...	2	1	...	1	1	...	1	...	249
Fort William	...	...	...	...	1	...	...	...	30	6	212	7	2	...	1	1	...	...	...	78	...	63	5	5	...	2	...	6	7	10	1	...	1	...	438
Winnipeg	...	...	...	8	4	...	...	...	182	56	619	30	2	...	3	11	...	...	...	9	56	...	178	96	5	5	19	202	131	247	21	...	36	22	...	1,942
Regina	...	...	...	...	...	...	...	...	18	15	65	6	...	...	1	...	1	1	...	...	2	184	...	...	25	10	43	73	28	108	15	...	9	96	...	700
Saskatoon	...	...	...	...	...	...	...	...	12	9	37	...	...	...	...	...	...	...	...	...	3	83	...	...	...	...	...	...	70	...	...	...	...	...	216
Swift Current	...	...	...	...	...	...	...	...	...	1	5	...	...	...	...	...	...	...	...	...	...	2	25	...	...	1	3	4	1	13	4	...	...	...	59
Medicine Hat	...	...	...	...	...	...	...	...	1	...	3	...	...	...	...	...	...	...	...	...	1	8	5	...	2	...	11	37	6	10	2	...	...	1	...	87
Lethbridge	...	...	...	...	1	...	...	...	8	3	11	...	...	...	...	...	...	...	...	...	1	12	16	...	3	14	...	251	124	99	8	...	...	2	...	553
Calgary	...	...	...	3	...	2	...	...	44	28	167	21	...	...	3	1	...	1	1	3	...	205	74	...	5	40	245	...	896	537	75	1	4	7	...	2,363
Edmonton	...	...	...	1	1	...	...	...	35	23	96	8	...	...	...	1	...	...	...	1	2	146	44	68	1	5	145	753	...	180	24	...	...	...	...	1,534
Vancouver	...	...	...	3	2	2	...	...	105	46	286	16	...	...	4	1	...	...	...	6	6	238	99	...	4	5	75	549	181	...	2,907	4	13	1	...	4,553
Victoria	...	...	...	...	...	...	...	...	21	16	26	2	...	...	1	...	...	...	...	1	1	15	...	...	...	...	...	51	18	2,967	...	247	...	...	...	3,366
Seattle	...	...	...	...	...	...	...	...	1	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	1	1	16	243	...	...	...	...	262
Brandon	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	43	6	...	...	...	1	...	...	1	1	...	...	...	...	52
Yorktown	...	...	...	1	...	...	...	...	1	2	8	...	...	...	...	...	...	...	...	...	...	10	94	...	...	...	2	9	...	...	...	...	...	...	...	127
Charter	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	363	363
Total	526	288	456	1,246	545	251	159	504	3,408	1,464	6,891	1,904	555	650	346	517	81	37	55	250	400	1,856	634	220	49	91	573	2,246	1,616	4,645	3,394	253	69	139	363	36,681

EXHIBIT "B"

TRANS-CANADA AIR LINES—DOMESTIC SERVICE

INCOME STATEMENT

February 1949	January 1949		Aggregate Ending February 1949	Aggregate Ending February 1948
		OPERATING REVENUES		
		Transportation—		
$ 954,582.27	$1,047,789.20	3101 Passenger	$2,002,371.47	$ 1,433,545.40
450,000.00	450,000.00	3,102 Mail	900,000.00	629,909.38
		3,105 Cargo:		
38,252.76	46,617.65	Express	84,870.41	78,778.38
534.79	528.60	Diplomatic	1,963.39	687.17
14,239.78	14,133.07	Aircargo	28,372.85	2,307.08
8,084.95	8,923.04	3,107 Excess Baggage	17,007.99	11,765.10
		3,108 Non-Scheduled Transport Service:		
4,939.20	2,054,15	Passenger	6,984.35	4,630.95
		Aircargo	.....	.....
		3,109 Other Transportation	.....	.....
1,470,633.75	1,570,036.71		3,040,670.46	2,161,723.46
27,832.30	30,801.75	*Incidental Services—Net*	58,634.05	30,877.97
$1,498,466.05	$1,600,838.46	Total	$3,099,304.51	$ 2,192,501.43
		OPERATING EXPENSES		
$ 453,046.86	$ 458,314.96	Flight Operations	$ 911,361.82	$ 681,176.34
374,426.85	282,475.21	Flight Equipment Maintenance	656,902.06	297,927.34
203,838.91	206,099.09	Flight Equipment Depreciation	409,938.00	239,326.15
327,572.02	333,259.41	Ground Operations	660,831.43	532,700.82
272,797.76	256,850.73	Ground and Indirect Maintenance	529,648.49	335,293.95
95,836,34	103,802.41	Passenger Service	199,638.75	164,163.76
188,789.39	187,137.43	Traffic and Sales	375,926.82	336,222.87
30,965.27	18,639.91	Advertising and Publicity	49,605.18	46,656.30
97,651.81	95,518.65	General and Administrative	193,170.46	169,815.46
19,524.44	19,911.35	Ground Property and Equip. Depreciation	39,435.79	37,460.51
$2,064,449.65	$1,962,009.15	Total	$4,026,458.80	$ 2,840,743.50
$ *565,983.60*	$ *361,170.69*	Operating profit or *Loss*	$ *927,154.29*	$ *648,242.07*
		INCOME ACCOUNT		
$ 185.03	$ 138.70	Interest Income	$ 323.73	$ 173.32
3,077,33	3,542.59	Miscellaneous Income	6,619.92	6,588.21
		Miscellaneous Interest Charges	.....	8,035.62
283.11	*295.26*	Miscellaneous Income Charges	*578.37*	*244.57*
$ *562,438.13*	$ *357,194.14*	Net Operating Profit or *Loss*	$ *919,632.27*	$ *649,271.59*
$ 36,835.88	$ 37,375.75	Interest on Capital Invested	$ 74,211.63	$ 53,504.29
$ *599,274.01*	$ *394,569.89*	Surplus or *Deficit*	$ *993,843.90*	$ *702,775.88*

Comptroller,

T. H. COOPER.

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—DOMESTIC SERVICE

OPERATING STATISTICS

February 1949	January 1949		Aggregate Ending February 1949	Aggregate Ending February 1948
7,912	7,912	Route Miles Operated	7,912	7,759
1,053,025	1,190,751	Miles Scheduled	2,243,776	2,225,715
1,004,487	1,098,513	Miles Flown—Revenue—Scheduled	2,103,000	2,115,469
20,933	32,402	Miles Flown—Revenue—Other	53,335	52,552
73,194	44,503	Miles Flown Non-Rev. Excl. Training	117,697	126,004
1,098,614	1,175,418	Miles Flown—Total	2,274,032	2,294,025
95·4	92·3	Per cent of Scheduled Miles Flown	93·7	95·0
818,492	882,185	Gasoline Consumed—Gallons	1,700,677	1,147,188
0·30	$ 0.30	Average Cost per Gallon	$ 0.30	$ 0.28
10,434	10,672	Oil Consumed—Gallons	21,106	13,573
$ 0·90	$ 0.89	Average Cost per Gallon	$ 0.90	$ 0.85
		Scheduled Services		
34,616	36,318	Passengers Carried—Revenue	70,934	53,185
16,432,446	18,065,331	Passenger Miles Flown—Revenue	34,497,777	23,894,090
27,055,807	30,005,575	Passenger Miles Available	57,061,382	39,634,441
60·7	60·2	Passenger Occupancy—Revenue—Percent	60·5	60·3
16·0	16·0	Passenger Average Load—Revenue	16·0	11·0
26·4	26·5	Passenger Seats Available—Average	26·5	18·3
474·7	497·4	Passenger Journey—Average Miles	486·3	449·3
$ 34,092.22	$ 33,799.65	Average Daily Passenger Revenue	$ 33,938.50	$ 23,894.09
		Mail Ton Miles Flown—Air Mail	.....	208,880·9
		Mail Ton Miles Flown—First Class	.....	4,322·2
255,937·5	262,370·6	All Up Mail Ton Miles Flown	518,308·1	
255,937·5	262,370·6	Total Mail Ton Miles Flown	518,308·1	213,203·1
$ 16,071.43	$ 14,516.13	Average Daily Mail Revenue	$ 15,254.24	$ 10,498.49
		Cargo:		
136,591	138,834	Express Carried—Pounds	275,425	253,774
50,785·0	48,709·4	Express Ton Miles Flown	99,494·4	90,682·1
1,664	1,736	Diplomatic Carried—Pounds	3,400	2,878
251·1	227·4	Diplomatic Ton Miles Flown	528·5	268·2
108,022	103,149	Aircargo Carried—Pounds	211,171	6,389
44,407·4	45,061·1	Aircargo Ton Miles Flown	89,468·5	4,743·7
39,462	43,502	Excess Baggage Carried—Pounds	82,964	55,187
12,151·4	14,086·4	Excess Baggage Ton Miles Flowm	26,237·8	17,071·1
3,633,393·8	4,045,235·5	Revenue Ton Miles Available	7,678,629·3	4,579,072·9
2,006,777·1	2,177,038·0	Revenue Ton Miles Flown	4,183,815·1	2,715,377·1
55·2	53·8	Percent Utilization	54·5	59·3
		Chartered Services		
401	363	Passengers Carried—Revenue	764	589
97,087	41,116	Passenger Miles Flown	138,203	71,331
		Aircargo Carried—Pounds	.....	.....
		Aircargo Ton Miles Flown	.....	.....
3,649,746·3	4,051,928·0	Revenue Ton Miles Available All Svcs	7,701,674·3	4,592,404·9
$ 844,373.82	$ 819,102.45	PAYROLL—Chargeable to Operating Exps.	$1,663,476.27	$1,281,730.58

EXHIBIT "B"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

INCOME STATEMENT

April 1949	March 1949		Aggregate to April 30th 1949	Aggregate to April 30th 1948
		OPERATING REVENUES		
		Transportation—		
$1,494,359.00	$1,199,531.00	3101 Passenger	$4,696,261.47	$ 3,302,308.94
450,000.00	450,000.00	3102 Mail	1,800,000.00	1,214,542.69
		3105 Cargo:		
55,048.80	52,611.30	Express	192,530.51	154,662.90
441.66	459.92	Diplomatic	1,964.97	1,476.64
43,869.35	22,181.94	Aircargo	94,424.14	21,062.23
11,094.86	10,316.21	3107 Excess Baggage	38,419.06	25,228.72
		3108 Non-Scheduled Transport Service:		
8,746.00	12,394.40	Passenger	28,124.75	26,362.05
		Aircargo	.....	4,249.60
		3109 Other Transportation	.....	.....
2,063,559.67	1,747,494.77		6,851,724.90	4,749,893.77
42,018.41	34,368.96	Incidental Services—Net	135,021.42	79,769.94
2,105,578.08	1,781,863.73	Total	6,986,746.32	4,829,663.71
		OPERATING EXPENSES		
484,228.36	483,107.60	Flight Operations	1,878,697.78	1,460,039.92
328,381.64	330,068.43	Flight Equipment Maintenance	1,315,352.13	547,328.97
203,825.54	206,029.36	Flight Equipment Depreciation	819,792.90	485,866.09
340,756.78	343,958.08	Ground Operations	1,345,546,29	1,105,129.10
258,090.44	239,006.73	Ground and Indirect Maintenance	1,026,745.66	732,347.60
124,797.87	121,456.81	Passenger Service	445,893.43	335,621.80
201,547.67	192,087.59	Traffic and Sales	769,562.08	673,909.24
40,999.67	52,196.57	Advertising and Publicity	142,801.42	115,928.51
104,156.13	109,611.63	General and Administrative	406,938.22	339,662.33
19,363.63	19,471.41	Ground Property and Equip. Depreciation	78,270.83	75,407.13
2,106,147.73	2,096,994.21	Total	8,229,600.74	5,871,240.69
569.65	*315,130.48*	Operating Profit or *Loss*	*1,242,854.42*	*1,041,576.98*
		INCOME ACCOUNT		
619.94	286.45	Interest Income	1,230.02	342.84
3,557.54	4,070.35	Miscellaneous Income	14,247.81	13,470.10
		Miscellaneous Interest Charges		17,106.96
219.53	407.06	Miscellaneous Income Charges	*390.84*	1,239.81
3,827.36	*311,180.84*	Net Operating Profit or *Loss*	*1,226,985.75*	*1,046,110.81*
36,951.76	37,400.66	Interest on Capital Invested	148,564.05	92,097.60
33,124.40	*348,581.50*	Surplus or *Deficit*	*1,375,549.80*	*1,138,208.41*

Comptroller

T. H. COOPER

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

OPERATING STATISTICS

April 1949	March 1949		Aggregate to April 30th 1949	Aggregate to April 30th 1948
7,912	7,912	Route Miles Operated	7,912	7,856
1,127,465	1,166,274	Miles Scheduled	4,537,515	4,596,734
1,111,662	1,126,366	Miles Flown—Revenue—Scheduled	4,341,028	4,356,702
135,057	62,891	Miles Flown—Revenue—Other	251,283	289,149
45,295	75,892	Miles Flown Non-Rev. Excl. Training	238,884	288,533
1,292,014	1,265,149	Miles Flown—Total	4,831,195	4,934,384
98·6	96·6	Per cent of Scheduled Miles Flown	95·7	94·8
936,204	920,711	Gasoline Consumed—Gallons	3,557,592	2,484,701
$ 0.30	$ 0.30	Average Cost per Gallon	$ 0·30	$ 0.28
12,575	11,588	Oil Consumed—Gallons	45,269	30,722
$ 0.87	$ 0.89	Average Cost per Gallon	$ 0.89	$ 0.83
		Scheduled Services		
$ 53,322	$ 46,314	Passengers Carried—Revenue	170,570	127,463
$ 23,533,212	$ 20,681,569	Passenger Miles Flown—Revenue	78,712,558	54,955,149
32,149,242	30,837,372	Passenger Miles Available	120,047,996	85,163,667
73·2	67·1	Passenger Occupancy—Revenue—Percent	65·6	64·5
18·9	17.4	Passenger Average Load—Revenue	17·1	11·8
25·8	25·9	Passenger Seats Available—Average	26·1	18·3
441·3	446·6	Passenger Journey—Average Miles	461·5	431·1
$ 49,811.97	$ 38,694.55	Average Daily Passenger Revenue	$ 39,135.51	$ 27,291.81
		Mail Ton Miles Flown—Air Mail		431,335·2
		Mail Ton Miles Flown—First Class		8,784·8
278,624·5	288,690·8	All Up Mail Ton Miles Flown	1,085,623·4	
278,624·5	288,690·8	Total Mail Ton Miles Flown	1,085,623·4	440,120·0
$ 15,000.00	$ 14,516.13	Average Daily Mail Revenue	$ 15,000.00	$ 10,037.54
		Cargo		
178,752	184,132	Express Carried—Pounds	638,309	535,962
73,734·3	67,351·1	Express Ton Miles Flown	240,579·8	191,948·0
1,607	1,954	Diplomatic Carried—Pounds	6,961	6,271
210·2	226·9	Diplomatic Ton Miles Flown	965·6	583·1
284,527	200,631	Aircargo Carried—Pounds	696,329	91,424
138,141·4	73,785·6	Aircargo Ton Miles Flown	301,395·5	74,806·6
49,166	51,174	Excess Baggage Carried—Pounds	183,304	119,896
15,282·7	16,301·9	Excess Baggage Ton Miles Flown	57,822·4	37,928·9
4,482,313·3	4,168,749·6	Revenue Ton Miles Available	16,329,692·2	10,047,598·9
2,859,314·4	2,514,513·0	Revenue Ton Miles Flown	9,557,642·5	6,240,901·5
63·8	60·3	Percent Utilization	58·5	62·1
		Chartered Services		
$ 625	707	Passengers Carried—Revenue	2,096	1,162
113,647	248,447	Passenger Miles Flown	500,297	391,348
		Aircargo Carried—Pounds		4,205
		Aircargo Ton Miles Flown		3,443·7
4,500,124·0	4,204,436·2	Revenue Ton Miles Available All Services	16,406,234·5	10,138,779.9
$ 864,553.85	$ 850,632.40	PAYROLL—Chargeable to Operating Exps.	$3,378,662.52	$ 2,642,821.71

EXHIBIT "B"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

INCOME STATEMENT

June 1949	May 1949		Aggregate to June 30th 1949	1948
		OPERATING REVENUES		
		Transportation—		
$2,093,281.84	$1,761,664.45	3,101 Passenger	$8,551,207.76	$ 6,330,115.34
450,000.00	450,000.00	3,102 Mail	2,700,000.00	1,948,775.41
		3,105 Cargo:		
59,880.50	49,746.08	Express	302,157.09	256,751.04
429.37	561.16	Diplomatic	2,955.50	2,140.63
40,611.73	31,970.16	Aircargo	167,006.03	123,112.66
16,457.56	13,833.78	3,107 Expess Baggage	68,710.40	51,840.31
		3,108 Non-Scheduled Transport Service:		
5,621.20	15,254.00	Passenger	48,999.95	35,987.05
	588.00	Aircargo	588.00	4,249.60
		3,109 Other Transportation		
2,666,282.20	2,323,617.63		11,841,624.73	8,752,972.04.
22,826.87	27,844.46	*Incidental Services—Net*	185,692.75	145,616.05
2,689,109.07	2,351,462.09	Total	12,027,317.48	8,898,588.09
		OPERATING EXPENSES		
579,600·85	565,263.03	Flight Operations	3,023,561.66	2,540,819.80
446,283.28	407,521.37	Flight Equipment Maintenance	2,169,156.78	993,601.33
219,928.83	221,276.89	Flight Equipment Depreciation	1,260,998.62	854,259.94
364,492.61	352,485.99	Ground Operations	2,062,461.89	1,691,498.19
279,348.40	270,178.31	Ground and Indirect Maintenance	1,576,272.37	1,146,669.98
151,738.52	139,936.35	Passenger Service	737,568.30	552,447.21
236,946.73	224,073.61	Traffic and Sales	1,230,582.42	1,034,667.01
51,266.63	34,622.43	Advertising and Publicity	228,690.48	168,455.29
112,314.37	110,478.81	General and Administrative	629,731.40	475,145.13
20,799.09	20,623.93	Ground Property and Equip. Depreciation	119,693.85	110,769.18
2,462,656.31	$2,346,460.72	Total	13,038,717.77	$9,568,333.06.
226,452.76	5,001.37	*Operating Profit or Loss*	*$1,011,400.29*	$ *669,744.97*
		INCOME ACCOUNT		
962.81	464.29	Interest Income	2,657.12	450.12
3,138.49	4,235.22	Miscellaneous Income	21,621.52	19,154.54
		Miscellaneous Interest Charges		22,213.71
274.25	*274.40*	Miscellaneous Income Charges	*939.49*	435.84
230,828.31	9,975.28	Net operating Profit or *Loss*	*986,182.16*	*672,789.96*
40,103.63	40,634.56	Interest on Capital Invested	229,302.24	181,859.68
190,724.68	*30,659.28*	Surplus or *Deficit*	*1,215,484.40*	*854,649.54*

Comptroller

T. H. COOPER.

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

OPERATING STATISTICS

June 1949	May 1949		Aggregate to June 30th 1949	Aggregate to June 30th 1948
8,084	8,084	Route Miles Operated	8,084	8,280
1,410,526	1,396,893	Miles Scheduled	7,344,934	6,944,258
1,404,150	1,381,716	Miles Flown—Revenue—Scheduled	7,126,894	6,655,801
83,752	74,899	Miles Flown—Revenue—Other	409,934	714,920
42,988	56,729	Miles Flown Non-Rev. Excl. Training	338,601	512,691
1,530,890	1,513,344	Miles Flown—Total	7,875,429	7,884,412
99·5	98·9	Per cent of Scheduled Miles Flown	97·0	95·8
1,173,390	1,171,848	Gasoline Consumed—Gallons	5,902,830	4,497,896
$ 0.29	$ 0.30	Average Cost per Gallon	$ 0.30	$ 0.29
13,975	14,837	Oil Consumed—Gallons	74,801	58,061
$ 0.88	$ 0.86	Average Cost per Gallon	$ 0.88	$ 0.83
		Scheduled Services		
64,458	58,461	Passengers Carried—Revenue	293,489	231,606
32,204,336	27,528,457	Passenger Miles Flown—Revenue	138,445,351	105,180,066
42,218,778	41,240,016	Passenger Miles Available	203,506,790	156,786,569
76·3	66·8	Passenger Occupancy—Revenue—Percent	68·0	67·1
21·6	18·9	Passenger Average Load—Revenue	18·4	14·3
28·4	28·3	Passenger Seats Available—Average	27·0	21·3
499·6	470·9	Passenger Journey—Average Miles	471·7	454·1
$ 69,776.06	$ 56,827.89	Average Daily Passenger Revenue	$ 47,244.24	$ 34,780.85
		Mail Ton Miles Flown—Air Mail	.....	669,720·1
		Mail Ton Miles Flown—First Class	.....	29,823·9
268,494·0	272,599·3	All Up Mail Ton Miles Flown	1,626,716·7	
268,494·0	272,599·3	Total Mail Ton Miles Flown	1,626,816·7	699,544·0
$ 15,000.00	$ 14,516.13	Average Daily Mail Revenue	$ 14,917.13	$ 10,707.56
		Cargo:		
202,241	183,326	Express Carried—Pounds	1,023,876	884,611
86,408·9	80,358·6	Express Ton Miles Flown	407,347·3	335,416.2
1,725	1,887	Diplomatic Carried—Pounds	10,573	9,406
268·1	333·8	Diplomatic Ton Miles Flown	1,567·5	861·5
240,883	203,118	Aircargo Carried—Pounds	1,140,330	998,704
111,631·8	91,463·8	Aircargo Ton Miles Flown	504,491·1	395,411·9
70·146	59,339	Excess Baggage Carried—Pounds	312,789	243,981
24,294·8	19,080·9	Excess Baggage Ton Miles Flown	101,198·1	79,272·8
5,745,536·6	5,732,192·5	Revenue Ton Miles Available	27,807,520·3	19,854,814 7
3,550,509·6	3,079,039·8	Revenue Ton Miles Flown	16,187,191·9	11,777,388·3
61·8	53·7	Percent Utilization	58·2	59·3
		Chartered Services		
1,014	719	Passengers Carried—Revenue	3,829	2,034
111,036	252,633	Passenger Miles Flown	863,966	522,462
	1,000	Aircargo Carried—Pounds	1,000	4,205
	268·0	Aircargo Ton Miles Flown	268·0	3,443·7
5,767,539·8	5,774,364·8	Revenue Ton Miles Available All Svcs	27,948,139·1	19,974,898·7
$ 921,982.80	$ 906,948.27	PAYROLL—Chargeable to Operating Exps.	$5,207,593.59	$ 4,063,784.88

EXHIBIT "B"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

INCOME STATEMENT

August 1949	July 1949		Aggregate to Aug. 31st 1949	Aggregate to Aug. 31st 1948
		OPERATING REVENUES		
		Transportation—		
$2,118,701.85	$2.118,981.63	3101 Passenger	$12,788,891.24	$9,628,330.94
450,000.00	450,000.00	3102 Mail	3,600,000.00	2,848,775.41
		3105 Cargo:		
60,061.86	49,821.07	Express	412,040.02	350,354.45
385.13	485.19	Diplomatic	3,825.82	2,946.20
22,162.35	30,585.24	Aircargo	219,753.62	144,650.79
16,523.58	18,052.36	3107 Excess Baggage	103,286.34	79,409.52
		3108 Non-Scheduled Transport Service:		
5,203.00	2,709.00	Passenger	56,911.95	46,209.05
		Aircargo	588.00	4,249.60
		3109 Other Transportation	.....	479.20
2,673,037.77	2,670,634.49		17,185,296.99	13,105,405.16
41,255.18	37,535.74	Incidental Services—Net	264,483.67	200,186.29
2,714,292.95	2,708,170.23	Total	17,449,780.66	13,305,591.45
		OPERATING EXPENSES		
559,849.41	624,173.89	Flight Operations	4,207,584.96	3,623,357.85
416,123.01	405,671.88	Flight Equipment Maintenance	2,990,951.67	1,547,710.70
226,698.46	230,765.52	Flight Equipment Depreciation	1,718,462.60	1,333,701.22
341,105.35	324,995.48	Ground Operations	2,728,562.72	2,311,801.46
283,127.28	283,275.45	Ground and Indirect Maintenance	2,142,675.10	1,578,172.23
136,504.17	157,157.77	Passenger Service	1,031,230.24	825,053.20
258,373.91	251,175.09	Traffic and Sales	1,740,131.42	1,376,861.58
49,366.68	52,157.00	Advertising and Publicity	330,214.16	238,127.87
131,211.71	120,399.93	General and Administrative	881,343.04	632,729.45
21,287.02	21,597.53	Ground Property & Equip. Depreciation	162,578.40	142,372.42
$2,423,647.00	$2,471,369.54	Total	$17,933,734.31	$13,609,887.98
$290,645.95	$236,800.69	Operating Profit or *Loss*	*$483,953.65*	*$304,296.53*
		INCOME ACCOUNT		
1,475.45	1,210.06	Interest Income	5,342.63	995.73
3,343.99	3,093.09	Miscellaneous Income	28,058.60	25,050.61
		Miscellaneous Interest Charges	.....	24,781.66
18.69	53.30	Miscellaneous Income Charges	*904.88*	144.49
$295,484.08	$241,050.54	Net Operating Profit or *Loss*	*$449,647.54*	*$303,176.34*
$41,342.63	$41,682.26	Interest on Capital Invested	$312,327.13	$270,605.69
$254,141.45	$199,368.28	Surplus or *Deficit*	*$761,974.67*	*$573,782.03*

Comptroller,

T. H. COOPER.

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

OPERATING STATISTICS

August 1949	July 1949		Aggregate to August 31st 1949	Aggregate to August 31st 1948
8,084	8,084	Route Miles Operated	8,084	8,044
1,512,774	1,550,121	Miles Scheduled	10,407,829	9,630,872
1,508,799	1,539,459	Miles Flown—Revenue—Scheduled	10,175,152	9,319,203
70,902	102,634	Miles Flown—Revenue—Other	583,470	960,462
48,184	46,455	Miles Flown Non-Rev. Excl. Training	433,240	618,162
1,627,885	1,688,548	Miles Flown—Total	11,191,862	10,897,827
99·7	99·3	Per cent of Scheduled Miles Flown	97·8	96·8
1,258,969	1,308,482	Gasoline Consumed—Gallons	8,470,281	6,671,676
$ 0·30	$ 0·30	Average Cost per Gallon	$ 0·30	$ 0·29
14,413	13,943	Oil Consumed—Gallons	102,437	86,780
$ 0·82	$ 0·84	Average Cost per Gallon	$ 0·87	$ 0·83
		Scheduled Services		
66,659	66,051	Passengers Carried—Revenue	426,199	344,535
32,595,413	32,597,305	Passenger Miles Flown—Revenue	203,638,069	159,814,676
45,874,833	47,674,892	Passenger Miles Available	297,056,515	235,592,556
71·1	68·4	Passenger Occupancy-Revenue-Percent	68·6	67·8
20·6	19·9	Passenger Average Load—Revenue	18·9	15·5
29·0	29·0	Passenger Seats Available—Average	27·6	22·9
489·0	493·5	Passenger Journey—Average Miles	477·8	463·9
$ 68,345.22	$ 68,354.25	Average Daily Passenger Revenue	$ 52,629.18	$ 39,460.37
		Mail Ton Miles Flown—Air Mail	.....	669,720·1
		Mail Ton Miles Flown—First Class	.....	29,823·9
267,704·0	257,023·3	All Up Mail Ton Miles Flown	2,151,444·0	408,021·8
267,704·0	257,023·3	Total Mail Ton Miles Flown	2,151,444·0	1,107,565·8
$ 14,516.13	$ 14,516.13	Average Daily Mail Revenue	$ 14,814,81	$ 11,675.31
		Cargo		
165,887	202,887	Express Carried—Pounds	1,392,650	1,195,238
73,551·1	65,474·8	Express Ton Miles Flown	546,373·3	451,902·1
1,736	1,705	Diplomatic Carried—Pounds	14,014	12,506
251·5	299·4	Diplomatic Ton Miles Flown	2,118·4	1,264·8
203,553	209,831	Aircargo Carried—Pounds	1,553,714	1,144,612
77,204·7	86,274·1	Aircargo Ton Miles Flown	667,969·9	466,251·0
72,845	68,917	Excess Baggage Carried—Pounds	454,551	371,897
23,249·7	23,060·2	Excess Baggage Ton Miles Flown	147,508·0	122,530·5
6,380,762·1	6,593,656·4	Revenue Ton Miles Available	40,781,938·8	30,827,664·2
3,538,525·2	3,528,875·7	Revenue Ton Miles Flown	23,254,592·8	17,606,684·1
55·5	53·5	Percentage Utilization	57·0	57·1
		Chartered Services		
410	666	Passengers Carried—Revenue	4,095	2,284
83,468	57,382	Passenger Miles Flown	1,004,816	707,363
		Aircargo Carried—Pounds	1,000	4,205
		Aircargo Ton Miles Flown	268·0	3,443·7
6,394,540·1	6,602,203·7	Revenue Ton Miles Available All Services	40,944,882·9	30,978,461·7
$ 947,654.15	$ 960,340.63	Payroll—Chargeable to Operating Exps	$7,115,588·37	$ 5,525,779·13

EXHIBIT "B"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

INCOME STATEMENT

October 1949	September 1949		Aggregate to October 31st 1949	Aggregate to October 31st 1948
		OPERATING REVENUES		
		Transportation		
1,842,997.21	2,110,938.70	3101 Passenger	16,742,827.15	12,733,998.32
450,000.00	450,000.00	3102 Mail	4,500,000.00	3,748,775.41
		3195 Cargo:		
59,576.30	51,537.19	Express	523,153.51	434,087.62
218.30	219.99	Diplomatic	4,264.11	3,870.70
29,338.77	26,700.22	Aircargo	275,792.61	172,311.12
14,446.53	17,494.21	3107 Excess Baggage	136,227.08	104,153.70
		3108 Non-Scheduled Transport Service:		
7,972.10	13,470,25	Passenger	78,354.30	58,328.75
		Aircargo	588.00	4,249.60
		3109 Other Transportation	.....	479.20
2,405,549.21	2,670,360.56		22,261,206.76	17,260,254.42
31,799.39	35,519.35	*Incidental Services—Net*	331,802.41	260,146.00
2,437,348.60	2,705,879.91	Total	22,593,009.17	17,520,400.42
		OPERATING EXPENSES		
544,001.01	539,025.64	Flight Operations	5,290,611.61	4,630,430.11
410,458.21	393,947.51	Flight Equipment Maintenance	3,795,357.39	2,089,419.78
218,539.03	227,940.65	Flight Equipment Depreciation	2,164,942.28	1,834,290.04
358,381.63	347,518.30	Ground Operations	3,434,462.65	2,942,422.23
287,295.13	267,794.86	Ground and Indirect Maintenance	2,697,765.09	2,058,232.10
124,393.16	128,854·17	Passenger Service	1,284,477.57	1,102,673.71
253,781.43	257,590.50	Traffic and Sales	2,251,503.35	1,706,815.05
49,829.84	49,303.78	Advertising and Publicity	429,347.78	312,164.39
184,466.34	131,886.74	General and Administrative	1,197,696.12	784,150.76
23,406.97	20,963.70	Ground Property and Equip. Depreciation	206,949.07	178,434.00
2,454,552.75	2,364,825.85	Total	22,753,112.91	17,639,032.17
17,204.15	341,054.06	Operating Profit or *Loss*	*160,103.74*	*118,631.75*
		INCOME ACCOUNT		
1,284.92	1,294.26	Interest Income	7,921.81	1,281.76
3,675.84	2,523.08	Miscellaneous Income	34,257.52	32,443.00
	659.37	Miscellaneous Interest Charges	*659.37*	24,781.66
6,146.08	*42,472.65*	Miscellaneous Income Charges	*37,231.45*	*172.92*
18,389.47	388,003.42	Net Operating Profit or *Loss*	*80,033.59*	*109,515.73*
39,106.38	41,100.45	Interest on Capital Invested	392,533.96	351,594.19
57,495.85	346,902.97	Surplus or *Deficit*	*472,567.55*	*461,109.86*

Comptroller,

T. H. COOPER.

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

Operating Statistics

October 1949	September 1949		Aggregate to October 31st 1949	Aggregate to October 31st 1948
8,085	8,085	Route Miles Operated	8,085	7,694
1,402,130	1,426,554	Miles Scheduled	13,236,513	12,081,955
1,385,150	1,408,072	Miles Flown—Revenue—Schedules	12,968,374	11,703,980
66,669	94,453	Miles Flown—Revenue—Other	744,592	1,216,169
69,443	58,539	Miles Flown Non-Rev. Excl. Training	561,222	717,096
1,521,262	1,561,064	Miles Flown—Total	14,274,188	13,637,245
98·8	98·7	Per cent of Scheduled Miles Flown	98·0	96·9
1,228,326	1,184,017	Gasoline Consumed—Gallons	10,882,624	8,655,642
$ .32	$ .30	Average Cost per Gallon	$ .30	$ .29
14,975	14,987	Oil Consumed—Gallons	135,241	112,132
$ ·85	$ ·83	Average Cost per Gallon	$ .86	$ .83
		Scheduled Services		
58,365	65,242	Passenger Carried—Revenue	549,806	542,349
28,849,754	32,475,980	Passenger Miles Flown—Revenue	264,963,803	211,575,799
42,137,475	42,941,615	Passenger Miles Available	382,135,605	305,650,868
68·5	75·6	Passenger Occupancy-Revenue-Percent	69·3	69·2
19·9	21·6	Passenger Average Load—Revenue	19·3	16·4
29·0	28·6	Passenger Seats Available—Average	27·9	23·7
494·3	497·8	Passenger Journey—Average Miles	481·9	467·7
$ 59,451.51	70,364.62	Average Daily Passenger Revenue	55,075.08	41,750.81
		Mail Ton Miles Flown—Air Mail	.....	669,720·1
		Mail Ton Miles Flown—First Class	.....	29,823·9
282,098·2	272,501·2	All Up Mail Ton Miles Flown	2,606,043·4	860,014·1
282,098·2	272,501·2	Total Mail Ton Miles Flown	2,706,043·4	1,559,558·1
$ 14,516.13	$ 15,000.00	Average Daily Mail Revenue	$ 14,802.63	$ 12,291.07
		Cargo		
209,767	191,967	Express Carried—Pounds	1,794,384	1,506,601
76,489·5	80,888·5	Express Ton Miles Flown	703,751·3	568,464·7
1,736	1,571	Diplomatic Carried—Pounds	17,321	15,986
194·3	177·3	Diplomatic Ton Miles Flown	2,490·0	1,723·8
247,074	200,313	Aircargo Carried—Pounds	2,001,101	1,435,692
91,150·2	74,995·2	Aircargo Ton Miles Flown	834,115·3	560,248·8
64,028	73,727	Excess Baggage Carried—Pounds	592,306	494,185
20,870·8	24,290·2	Excess Baggage Ton Miles Flown	192,669·0	164,483·3
5,838,407·2	5,963,200·7	Revenue Ton Miles Available	52,583,546·7	40,324,714·3
3,355,778·4	3,538,070·5	Revenue Ton Miles Flown	30,148,441·7	23,349,208·5
57·5	59·3	Percent Utilization	57·3	57·9
		Chartered Services		
1,099	617	Passengers Carried—Revenue	6,621	2,987
148,270	190,361	Passenger Miles Flown	1,343,447	992,470
		Aircargo Carried—Pounds	1,000	4,205
		Aircargo Ton Miles Flown	268·0	3,443·7
5,862,260·7	5,992,843·7	Revenue Ton Miles Available All Services	52,799,987·3	40,515,005·6
$ 977,316.45	$ 948,424.74	Payroll—Chargeable to Operating Expenses	$9,041,329.56	$ 7,025,669.81

EXHIBIT "B"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

INCOME STATEMENT

December 1949	November 1949		Aggregate to December 31st 1949	1948
		OPERATING REVENUES		
		Transportation—		
$1,338,382.77	$1,379,184.60	3101 Passenger	$19,460,394.52	$14,869,577.63
450,000.00	450,000.00	3102 Mail	5,400,000 00	4,648,775.41
		3105 Cargo:		
67,597.75	58,248.85	Express	648,982.11	537,755.97
280.41	185.95	Diplomatic	4,730.47	4,881.31
43,178.56	33,119.61	Aircargo	352,090.78	221,537.90
9,232.72	10,349.27	3107 Excess Baggage	155,809.07	124,742.89
		3108 Non-Scheduled Transport Service:		
5,124.50	19,716.90	Passenger	103,195.70	95,072.30
1,761.92	712.30	Aircargo	3,062.22	4,249.60
		3109 Other Transportation		479.20
$1,915,540.63	$1,951,517.48		$ 26,128,264.87	$20,507,072.21
$ 38,870.61	$ 25,031.36	Incidental Services—Net	$ 395,704.38	$ 359,864.12
$1,954,411.24	$1,976,548.84	Total	$ 26,523,969.25	$20,866,936.33
		OPERATING EXPENSES		
521,013.50	522,834.84	Flight Operations	6,334,459.95	5,596,608.14
358,535.03	429,333.93	Flight Equipment Maintenance	4,583,226.35	2,694,508.91
231,912.95	218,227.94	Flight Equipment Depreciation	2,615,083.17	2,160,055.84
361,576.07	362,870.00	Ground Operations	4,158,908.72	3,623,019.48
293,060.10	269,855.88	Ground and Indirect Maintenance	3,260,681.07	2,566,751.24
111,082.23	112,618.35	Passenger Service	1,508,178.15	1,346,680.46
251,113.36	267,332.58	Traffic and Sales	2,769,949.30	2,043,684.09
102,307.70	55,063.91	Advertising and Publicity	586,719.39	416,194.28
133,088.23	173,583.82	General and Administrative	1,504,368.17	974,635.76
24,022.85	21,371.72	Ground Property and Equip. Depreciation	252,343.64	214,029.80
$2,387,712.03	$2,433,092.97	Total	$ 27,573,917.91	$21,636,168.00
$ 433,300.79	*$ 456,544.13*	Operating Profit or *Loss*	*$ 1,049,948.66*	*$ 769,231.67*
		INCOME ACCOUNT		
2,447.98	1,977.24	Interest Income	12,347.03	1,650.64
4,654.15	3,459.05	Miscellaneous Income	42,370.72	39,444.44
6,223.50	.....	Miscellaneous Interest Charges	5,564.13	29,676.06
$ 10,240.26	*$ 4,564.20*	Miscellaneous Income Charges	*$ 52,035.91*	*$ 692.66*
$ 422,181.90	*$ 446,543.64*	Net Operating Profit or *Loss*	*$ 948,759.13*	*$ 757,119.99*
$ 39,116.56	$ 39,034.25	Interest on Capital Invested	$ 470,684.77	$ 425,902.17
$ 461,298.46	*$ 485,577.89*	Surplus or *Deficit*	*$ 1,419,443.90*	*$ 1,183,022.16*

Comptroller,

T. H. COOPER.

EXHIBIT "B-1"

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

Operating Statistics

December 1949	November 1949		Aggregate to December 31st 1949	Aggregate to December 31st 1948
8,085	8,085	Route Miles Operated	8,085	7,912
1,402,130	1,356,900	Miles Scheduled	15,995,543	14,454,260
1,278,996	1,281,417	Miles Flown—Revenue—Scheduled	15,528,787	13,887,336
51,093	40,261	Miles Flown—Revenue—Other	835,946	1,383,313
53,802	74,611	Miles Flown Non-Revenue excluding Training	689,635	855,600
1,383,891	1,396,289	Miles Flown—Total	17,054,368	16,126,249
91·2	94·4	Per cent of Scheduled Miles Flown	97·1	96·1
1,096,889	1,113,461	Gasoline Consumed—Gallons	13,092,974	10,496,670
$ 0.32	$ 0.32	Average Cost per Gallon	$ 0.30	$ 0.30
12,819	14,330	Oil Consumed—Gallons	162,390	135,240
$ 0.83	$ 0.84	Average Cost per Gallon	$ 0.86	$ 0.88
		Scheduled Services		
44,435	46,054	Passengers Carried—Revenue	640,295	528,617
21,643,805	22,302,397	Passenger Miles Flown—Revenue	308,909,805	248,079,042
38,184,494	37,732,062	Passenger Miles Available	458,052,161	365,959,453
56·7	59·1	Passenger Occupancy—Revenue—Per cent	67·4	67·8
16·3	16·9	Passenger Average Load—Revenue	18·9	16·3
28·7	28·5	Passenger Seats Available—Average	28·0	24·0
487·1	484·3	Passenger Journey—Average Miles	482·5	469·3
$ 43,173.64	$ 45,972.82	Average Daily Passenger Revenue	$ 53,316.15	$ 40,627.26
		Mail Ton Miles Flown—Air Mail	.....	669,720·1
		Mail Ton Miles Flown—First Class	.....	29,823·9
393,580·1	304,186·7	All Up Mail Ton Miles Flown	3,403,810·2	1,594,544·2
393,580·1	304,186·7	Total Mail Ton Miles Flown	3,403,810·2	2,294,088·2
$ 14,516.13	$ 15,000.00	Average Daily Mail Revenue	$ 14,794.52	$ 12,701.57
		Cargo		
186,812	198,754	Express Carried—Pounds	2,179,950	1,840,797
99,816·6	80,544·2	Express Ton Miles Flown	884,112·1	708,151·4
1,645	1,503	Diplomatic Carried—Pounds	20·469	19,677
210·4	166·9	Diplomatic Ton Miles Flown	2,867·3	2,248·9
296,588	275,730	Aircargo Carried—Pounds	2,573,419	1,869,944
117,139·3	98,529·1	Aircargo Ton Miles Flown	1,049,783·7	701,387·0
42,114	46,564	Excess Baggage Carried—Pounds	680·984	578,674
12,749·9	14,250·2	Excess Baggage Ton Miles Flown	219,669·1	192,870·9
5,324,529·6	5,241,201·0	Revenue Ton Miles Available	63,149,277·3	48,528,469·3
2,787,856·9	2,727,916·8	Revenue Ton Miles Flown	35,664,215·4	28,043·800·6
52·4	52·0	Per cent Utilization	56·5	57·8
		Chartered Services		
408	1,250	Passengers Carried—Revenue	8,279	3,938
108,448	338,067	Passenger Miles Flown	1,789,962	1,496,502
12,536	2,655	Aircargo Carried—Pounds	16,191	4,205
3,127·6	816·4	Aircargo Ton Miles Flown	4,212·0	3,443·7
5,348,530·7	5,300,652·8	Revenue Ton Miles Available All Services	63,449,170·8	48,800,587·1
$ 969,900.37	$ 993,211.00	Payroll—Chargeable to Operating Expenses	$11,004,440.93	$ 8,619,856.88

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

MONDAY, APRIL 24, 1950

WITNESSES:

Mr. G. R. McGregor, President;
Mr. T. H. Cooper, Comptroller;
Mr. W. F. English, Vice-President, Operations;
Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

ORDER OF REFERENCE

MONDAY, 24th April, 1950.

Ordered,—That the name of Mr. Dechene be substituted for that of Mr. Macdonald (*Edmonton East*) on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORTS TO THE HOUSE

TUESDAY, April 4, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government begs leave to present the following as its

SECOND REPORT

Your Committee has considered and approves of the following estimates referred to it on March 23, 1950:

Vote 493—Maritime Freight Rates Act, Canadian National Railways;

Vote 494—Maritime Freight Rates Act, railways other than Canadian National;

Vote 558—Prince Edward Island car ferry and terminals, deficit 1950;

Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

MONDAY, April 24, 1950

The Sessional Committee on Railways and Shipping, Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members Present: Messrs. Bourget, Carter, Cleaver, Drew, Fraser, Fulton, George, Hatfield, Helme, Howe, Knight, McCulloch, McLure, Mutch, Pouliot Thomas.

In attendance: Mr. G. R. McGregor, President, Mr. T. H. Cooper, Comptroller, and Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

The Committee proceeded to consideration of the budget of Trans-Canada Air Lines for the year 1950.

Mr. Cooper was called and questioned.

Messrs. McGregor and Harvey were called and questioned.

Messrs. Cooper and Harvey retired.

The Chairman presented the First Report of the sub-committee on agenda which is as follows:

> Your sub-committee on agenda has held three meetings and has agreed that the next meeting of the main Committee be held on Monday, April 24, and that Messrs. T. H. Cooper, Comptroller, and W. F. English, Vice-President, Operations, Trans-Canada Air Lines, be called for that meeting.
>
> The sub-committee also considered a request that Mr. W. J. Turnbull, Deputy Postmaster General, Mr. J. R. Baldwin, Chairman, Air Transport Board, and Messrs. H. W. Seagram, Director of Flight Operations, and James Bain, Director of Engineering and Maintenance, Trans-Canada Air Lines, be called. It was agreed that these witnesses be not called and your sub-committee so recommennds.
>
> Your sub-committee also recommends that the Committee ask the House for authority to print from day to day such additional copies of its minutes of proceedings and evidence as may be ordered by the Committee.

Mr. George moved that the First Report of the sub-committee on agenda be adopted.

Discussion followed.

At 1.05 o'clock p.m. the Committee adjourned until 4 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4 o'clock p.m., the Chairman, Mr. Cleaver, presiding.

Members present: Messrs. Bourget, Carter, Cleaver, Drew, Fraser, Fulton, George, Hatfield, Helme, Howe, James, Knight, McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

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In attendance: Mr. G. R. McGregor, President, Mr. W. F. English, Vice-President, Operations, and Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

The Committee resumed consideration of the motion of Mr. George that the first report of the sub-committee on agenda be concurred in.

Mr. Drew moved in amendment thereto that Messrs. H. W. Seagram, Director of Flight Operations, and James Bain, Director of Engineering and Maintenance, Trans-Canada Air Lines, be called before the Committee.

After discussion, the said motion and amendment were allowed to stand.

Consideration of the budget of Trans-Canada Air Lines for the year 1950 was resumed.

Examination of Mr. McGregor was continued.

Mr. English was called and questioned.

At 6 o'clock p.m. the Committee adjourned until Tuesday, April 25, at 11 o'clock a.m.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
April 24, 1950.

The Sessional Committee on Railways and Shipping met this day at 11.00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

Mr. POULIOT: Have we a quorum, Mr. Chairman?

The CHAIRMAN: Yes, we have a quorum, Mr. Pouliot. If the committee is willing, we should change our usual practice and call Mr. Cooper first. Mr. Cooper is here at the request of the committee and he is very urgently required in connection with other work that he is carrying on. So if it is satisfactory to the committee, he would like to be called and have his evidence taken and then be released.

Mr. POULIOT: Before Mr. Cooper is called, I have one or two questions I would like to ask Mr. McGregor.

The CHAIRMAN: Mr. McGregor will be here with us until the work is completed; and in view of the urgency of Mr. Cooper's need in other quarters, if the committee is willing, I would very much rather that you met the first request and withheld your questions of Mr. McGregor until after Mr. Cooper has been released.

Mr. POULIOT: As you like.

The CHAIRMAN: Thank you. If it is agreeable to all of us, we shall now hear from Mr. Cooper.

Mr. T. H. Cooper, Comptroller of Trans-Canada Air Lines, called:

Mr. POULIOT: Mr. Chairman, as the report is quite voluminous and as No. 5 of the report of our proceedings is not yet available, may I request that when members put questions of Mr. Cooper they refer to the page of the report or to the particular exhibit.

The CHAIRMAN: Yes. Thank you, Mr. Pouliot.

Mr. POULIOT: It would make it clearer for us.

Mr. GEORGE: Part 5 of the report of our proceedings is out this morning. It is in the post office.

Mr. FRASER: I think Mr. Cooper should first state, for the purpose of the record, who he is and the position he occupies. It is true that we all know him, but I am thinking of the record.

The CHAIRMAN: Mr. Cooper has already given evidence before the committee.

Mr. POULIOT: I saw an error in the report where he was described as "Mr. Copter". Are you Mr. Cooper?

Mr. COOPER: Yes, sir, and I occupy the position of comptroller of Trans-Canada Air Lines, in addition to my association with the Canadian National Railways.

Mr. DREW: Mr. Cooper, have you the description of your duties with Trans-Canada Air Lines available with you here?

Mr. COOPER: The comptroller is the chief accounting officer of the company. He is responsible for the accounts of Trans-Canada Air Lines.

Mr. DREW: Is that covered by the minutes of a directors' meeting?

Mr. COOPER: My appointment is covered by a minute.

Mr. DREW: I am asking you if the actual definition of your duties as comptroller is covered by the minutes of a directors' meeting?

Mr. COOPER: I do not think so.

Mr. DREW: Then, would you give us in whatever detail is necessary what those duties are so that we may understand fully what your office carries? Would you explain what your duties are?

Mr. COOPER: I am the chief accounting officer. I am in charge of the accounting of Trans-Canada Air Lines, having a general supervision over the work and the staff, seeing that the work is done, preparing income statements and balance sheet, and giving the management whatever information they require from the accounting department. The accounting department, protect the revenue of Trans-Canada Air Lines, audit the expenditures, see that no expenditures are paid which should not be paid, and generally I act as does the comptroller of any other corporation.

Perhaps I should add that because of my association with the Canadian National Railways my services for Trans-Canada Air Lines are on a part-time basis, and that latterly I have been acting more or less in a consulting capacity.

Mr. DREW: You have been acting more or less how?

Mr. COOPER: In a consulting capacity. Nevertheless, I am fully responsible for the accounts of the air line, and I certify the accounts with that sense of responsibility.

I have grown up with Trans-Canada Air Lines. Mr. English and I are probably the two oldest employees of Trans-Canada Air Lines. I designed the accounting system of Trans-Canada Air Lines and have developed it to the point where it is today; and I take this opportunity of saying that it is a very complete system, and I do not know of any air line which publishes the details of its operations in such a complete form as we do.

Mr. DREW: Then you are fully responsible not only for the accounting as a matter of record, but you are responsible for the method of keeping the accounts, are you not?

Mr. COOPER: Yes, sir.

Mr. DREW: If in your opinion any new system of accounting were desirable, would it go into effect on your direction without any further decision being required?

Mr. COOPER: It would depend on the degree of change. If it were a small affair, I would decide it on my own responsibility. It it were a serious matter, I would discuss it with the president and in some cases it would be a matter for report and decision by the board of directors.

Mr. DREW: Could you give us types of cases which would call for those different procedures?

Mr. COOPER: Well, if I wanted to institute machine accounting instead of manual accounting, I would do that on my own responsibility. If I wanted to appoint one of the senior supervisory officers of the accounting department, I would take it up with the president and get his concurrence. If it were a matter of more importance such as deciding the life expectancy of aircraft for the purpose of depreciation, then that matter would be taken up with the board of directors.

Mr. DREW: If you were considering the question of the life expectancy of aircraft, would you obtain your information from the officials who were particularly concerned with the operation?

Mr. COOPER: It would be a matter first of discussion with Mr. McGregor, then Mr. McGregor would present the matter to the board of directors and ask for their concurrence.

Mr. DREW: Then, to take a particular case: suppose you were concerned about the cost of any particular operation in any part of the combined TCA services, would your practice be to seek information in regard to it from some official who was directly handling that particular task?

Mr. COOPER: You mean by that: if the costs in some department, or in some phase of operations were out of line, that I would track it down to the particular personnel involved?

Mr. DREW: Yes.

Mr. COOPER: No. I would not consider that to be part of my duty.

Mr. DREW: How could you be satisfied then that the accounting system is one which adequately assured your supervision over the cost?

Mr. COOPER: I am not the controller of Trans-Canada Air Lines. I am the comptroller, and I think there is a difference.

Mr. DREW: Let me get that again. You say you are not what?

Mr. COOPER: I am not the controller of Trans-Canada Air Line operations. I am the comptroller. I am an accountant.

Mr. DREW: Well, you are the comptroller, and you have explained that your duties are to supervise all methods of accounting. But methods of accounting are not simply matters of arithmetic. There are matters of procedure as well.

Mr. COOPER: Accounting procedures, yes.

Mr. DREW: Matters of accounting procedures.

Mr. COOPER: But not operating procedures, or maintenance procedures, or traffic procedures, or purchasing procedures, and things of that sort.

Mr. DREW: Let us suppose for the sake of argument, that in this deficit of over $4½ million you were impressed by the fact that deficits were being made by any particular part of the activities of Trans-Canada Air Lines, what steps would you take to see if there was any way of more effectively meeting that situation in terms that could be discussed by the board of directors?

Mr. COOPER: I am not sure that I fully understand what you have in mind. But, for example, if what you have in mind, pertains to a deficit in regard to the Atlantic service, our accounts would show what the result of that operation is; the management would be supplied with that information and the board of directors also. It is not for me, in my interpretation of my duties, to go and press the matter with the directors or with the management.

Mr. DREW: Well, Mr. Cooper, I think you will agree with me that one of the very important developments of corporate organization in the past few decades has been the emphasis which has been placed on cost accounting in all corporate activities. Is not that so?

Mr. COOPER: It depends on the particular corporation you have in mind. If you are thinking of an ordinary business, then I think cost accounting is in fairly general use today. In the case of an ordinary business the selling price must be related to the cost of production; and the selling price will vary from time to time accordingly as production costs increase or decrease. If one line of goods is not selling at a profit, then it may be discontinued; if the operation as a whole is not making a profit, then the plant can be closed down. On the other hand, in the case of a state-owned public utility such as Trans-Canada Air Lines, those conditions do not apply. I think that in the case of a business, an ordinary business, the profit motive is dominant; but in the case of a state-owned enterprise, such as Trans-Canada Air Lines, I think the profit motive is subordinate to a sense of service or what is described as public convenience and necessity. Trans-Canada Air Lines is such an enterprise. It was organized by the state to

serve the state. It is flying routes only which are designated by orders-in-council. Its rates are fixed by the Air Transport Board. It is not free to come in or to go out of a particular line of operation in the same way that an ordinary business can, such as you may have in mind. For that reason I do not think you can draw a parallel between an ordinary business and Trans-Canada Air Lines. Such a parallel does not exist.

Mr. DREW: Do you suggest that it is not equally desirable for a public-owned enterprise to know whether each department of the operation is being operated as economically as possible.

Mr. COOPER: Well, I think that is known in the case of Trans-Canada Air Lines. Perhaps the difference between us may be this: you think that that information should be developed as a matter of ordinary accounting routine; that is to say, that cost figures should be a by-product of routine accounting procedures. That is where I differ from you. I think there are other ways of getting the information. I think there are less expensive ways. It would be a very expensive affair for the accounting department of Trans-Canada Air Lines to produce cost figures by routes. I think that in matters of that sort, more accurate information, certainly less expensive information, can be produced by special studies, by trained personnel, if and when required, for specific cases.

That is what is done in the case of the railways, for instance, the Canadian National Railways; the Canadian Pacific Railways, and in the case of Trans-Canada Air Lines. I am not suggesting for one minute that the management of Trans-Canada Air Lines because it does not have what you call a cost accounting system is not informed of what is going on in the operations of Trans-Canada Air Lines, and that it does not know by routes approximately whether individual routes are operating in the red or in the black. There are other ways and means of finding out.

Mr. DREW: Do I understand from what you say that you are in a position to determine what the profit and loss is on each route of Trans-Canada Air Lines?

Mr. COOPER: I do not say that the accounting department would know it, but I do say that the other departments of management would.

Mr. DREW: If you are responsible for the method of accounting, it would not be through you that the information would be obtained by the management?

Mr. COOPER: No. The basic data which the research people require in order to make their special studies in connection with a specific case would be furnished by the accounting department. We would furnish them with the revenues, for example. They are easily determined. And we would furnish them with the costs which are exclusive to that particular operation. But then you come to the common expenditures; and, I refer to expenditures for the system such as, administration, supervision, traffic solicitation, shop overhead, aircraft maintenance, ground maintenance and operation, interest, depreciation, and insurance; those things are not assigned to a particular operation or to a particular route and they must be broken down, on bases which are determined as a result of considerable study. We furnish to the management or to the specialists engaged in this sort of work the basic figures on which they make their analysis. I may say, Mr. Drew, that in my opinion, if we inform the management what the earnings per plane-mile on any particular route are, the management has a very good idea of whether that operation is in the red or the black.

Mr. DREW: As the official in charge of accounting you are, I am sure, well aware of the procedure followed in the case of an ordinary corporation doing business, and you understand the method of cost accounting. Now, if you will just let me outline what I understand that procedure to be, I will then ask you why that procedure would not be a suitable procedure for Trans-Canada Air Lines

to follow. One of the reasons that the system of cost accounting has developed so much in the past few years is the fact that quite contrary to the suggestion you have just made it was found that you could not just close a particular branch of industry without determining the cost on a more accurate basis than had been accepted in years gone by, and the system of cost accounting now employed in any corporate activity of substantial size is to segregate in a very simple way the costs of that particular operation, and then in the case of the general overhead costs, such as you have referred to, to allocate those on a proportionate basis so that the net profit or loss position of any department can be determined. Is that not correct?

Mr. COOPER: Well, I do not think I can speak with any wide experience in ordinary corporate accounting, but I would go along with you on what you say as a generalization, yes.

Mr. DREW: Well, then, if that is so, why is it not practicable and desirable to employ precisely the same method in the case of Trans-Canada Air Lines?

Mr. COOPER: It is a question of degree, Mr. Drew. We do, at the request of the management, separate the Trans-Canada system operations into three main groups. We separate them as between the domestic services and the overseas services, and we separate the overseas services as between the services to the United Kingdom and the overseas services to the south. In connection with that work we have a great deal of experience in the allocation of system expense, that is, system common expense. We use a large number of bases in our effort to break down the different classifications of costs to the three services. I could tell you, if you were interested, just how we go about it. We have had to consider which would be the most correct method of allocation of the different categories of expense and I must confess we have changed our minds from time to time in the light of our experience. That is about as far as we go, that is as far as we have been asked to go. I think the allocations we make are reasonably accurate. they are reasonably accurate for managerial purposes, and we always keep in mind that these kind of things are very expensive, and there is no sense in spending a lot of money in deciding the particular column into which an expense should go, provided it does not affect the overall result. I say we have had a great deal of experience in that. I can also tell you that other airlines have the same problem which you are talking about. The authority in the United States, known as the C. A. B., does not ask the airlines of the United States to break down their operation results by routes, nor do they do it. We have been asked to break down our operations as I say into three services and that is what we do. I think that is as far as we should go. When you attempt to break down the system by routes you would get into such a mass of detail that I think it would be impossible, certainly it is impracticable. It can be done only at tremendous expense and then it would be something in between a considered opinion and an informed guess. It could not be a precisely accurate figure, and what good it would be to management I do not know. I say: they already have a good idea of the results of any particular route, because of their knowledge, their intimate knowledge of the detailed operations. I do not consider that the ordinary cost accounting methods used in general business are applicable to public utilities or railroads, as you have suggested.

Mr. DREW: Do you suggest that no public utilities operate on that basis?

Mr. COOPER: No, I do not say that. I say that certainly the Canadian National Railways, the Canadian Pacific Railway, Trans-Canada Air Lines, the Canadian Pacific Air Lines and the other airlines do not do it.

Mr. DREW: Well now, when you found out that you were confronted with a $4,317,000 deficit for 1949, what steps did you take to ascertain where savings could be made or where economies could be practised in relation to that figure?

Mr. COOPER: I did not make such investigation. I did not think that was part of my duty. That would be the duty of management, and I know enough about the management to know that they are searching diligently all the time for economies in operation.

Mr. DREW: Well then, the management, seeking economies in operation, would come to you, would they not, to ask you if you could ascertain for them where the costs might be regarded as out of line as compared with their anticipated figures?

Mr. COOPER: No, they would come to us and ask for costs on some particular detail of operation. They would ask me what the labour cost was, of some detail of operation, and what the material cost was. In our shops we assign to a repair job a work order number and so we get the costs separately. Things of that sort we know and we furnish them to management, as they want them. We furnish to management the information they ask for to enable them to carry out their managerial functions.

Mr. POULIOT: But you have no suggestions to make? You give the facts and you cannot make any suggestions?

Mr. COOPER: I do not admit or believe there is anything deficient or defective with the Trans-Canada accounting set up.

Mr. DREW: That is not what Mr. Pouliot had asked.

Mr. COOPER: I think his suggestion that I make a suggestion as to how economies might be obtained implies that there are opportunities for economy, and I do not know of them.

Mr. POULIOT: Thank you.

Mr. DREW: Well then, Mr. Cooper, under whose direction was the forecast for 1950 prepared?

Mr. COOPER: It would be made by the staff attached to the president.

Mr. DREW: And would you be called in in regard to the figures that interpret their expectations of business and costs of operation?

Mr. COOPER: I personally was not called but I have not the slightest doubt that Mr. Harvey, the general auditor, was called in to furnish all the information management needed.

Mr. DREW: Well, the thing I am trying to clear up in regard to procedure is the fact that you are responsible for the accounting system, and, obviously, any forecast as well as analysis of previous operations rests on the accounting system. I merely ask you if in the preparation of the forcast you are not called in to determine whether those figures accurately interpret the estimates of the various departments of T.C.A. in accordance with your system of accounting?

Mr. COOPER: The budget forecast of Trans-Canada operations is primarily a forecast of traffic and it would be the traffic department rather than the accounting department that would make that forecast. There would not be very much use going to an accountant and asking him to give his opinion as to the amount of traffic that might be expected out of Montreal or any other stations from which Trans-Canada operates.

Mr. DREW: Well, is not an estimate of cost essentially a part of the accounting department's work as an estimate of traffic is the work of the traffic department?

Mr. COOPER: Yes, and we furnish the management with information with respect to costs, so that they can apply them against the figures for gross revenue.

Mr. POULIOT: If you will bear with me, Mr. Drew: Mr. Cooper, you understand and realize that your duty as an accountant is to look over the past, not the future.

Mr. COOPER: As a general statement you are correct, Mr. Pouliot. We are there to record transactions which have taken place.

Mr. DREW: And, according to what you have said, to design, to use your own terms, from time to time the method of accounting that may best meet the situation?

Mr. COOPER: To design the best record for transactions which have taken place, yes.

Mr. DREW: That is right.

Mr. COOPER: In addition we do, as I say, give service to management. We give them all the help we can.

Mr. DREW: In the preparation of that statement, then, who is the official who would be primarily responsible for the preparation of the material?

Mr. COOPER: I think you should ask Mr. McGregor.

Mr. DREW: Well, you are in charge of the methods of accounting?

Mr. COOPER: I beg your pardon, speaking of information—

Mr. DREW: Speaking of information in relation to accounting which involves every cent of expense—

Mr. COOPER: Well, the general auditor, Mr. Harvey, is the one who would furnish that information. He has the knowledge of the detailed accounts, and he is the one who gives detailed information of that nature to the management.

Mr. DREW: Well, Mr. Cooper, do you not agree with me that there is quite a difference between the functions of an auditor and the functions of an accountant? As I understand it, the function of an auditor is to check the actual details of accounting that are carried out by officials of any organization. Might I ask who is the official of Trans-Canada Air Lines who would be in charge of the preparation of information of this kind?

Mr. COOPER: I answered you when I said Mr. Harvey, the general auditor, who is under my supervision. He is the officer who has charge of the actual accounting work. He would furnish those figures to the management.

Mr. DREW: Well, then, Mr. Harvey is an employee of Trans-Canada Air Lines?

Mr. COOPER: Certainly. Let me clear this up, Mr. Drew, I think perhaps you have in mind that the government auditors, George A. Touche and Company, are somewhere in this picture?

Mr. DREW: When you used the expression auditor I was naturally thinking of the term auditor in relation to audit.

Mr. COOPER: I thought so. As far as the government auditors are concerned they have nothing to do with the preparation of the accounts of T.C.A., the preparation of the income statement or of the balance sheet. That is the responsibility of the accounting department. We perform the accounting work, and when it is completed we turn it over to them to check. They are there to check the figures as representatives of the shareholders. It is not their function to make figures; that is our function. We do not share that responsibility with the government auditors.

Mr. POULIOT: You have two sets of checks?

Mr. COOPER: I would put it this way, it is a double check. There is our own internal audit system, and then on top of that, to make doubly sure, the government or the minister has engaged a firm of outside auditors to come in and verify what we have done.

Mr. DREW: Then, Mr. Cooper, in analyzing the general operating situation let us assume that there is a new projected line under consideration; do they come to you and ask you to give them information, any information that you can, in regard to the anticipated financial result of such an operation?

Mr. COOPER: The management would not come to us, they would ask the traffic department for that and that department would give them the estimate of traffic. Having that they would be in a position to estimate the cost of operation, and then if there was any information needed of an accounting nature they would come to us and we would furnish it.

Mr. DREW: And they would consult you with regard to that?

Mr. COOPER: They would consult our department.

Right Hon. Mr. HOWE: May I point out that new lines are not initiated by Trans-Canada Air Lines, they are set up by government order in council based on instructions from the government to Trans-Canada Air Lines to operate them.

Mr. DREW: They would be the ones who would propose the operation, I suggest; it would not be by order-in-council that the decision would be made. I hope you are not suggesting that decisions are made without information from Trans-Canada Air Lines as to whether the operation will be a profitable one or not?

Right Hon. Mr. HOWE: The government obtains its information from Trans-Canada Air Lines but it makes its own decisions.

Mr. DREW: So in the case of opening up a new route that decision rests with the government rather than with Trans-Canada Air Lines?

Right Hon. Mr. HOWE: Yes.

Mr. DREW: Then, in that case, is it to be taken that Trans-Canada Air Lines is in the position where they continue to operate a route without expressing any opinion as to whether it should be operated or not?

Right Hon. Mr. HOWE: They may express an opinion, but if the government directs them to operate it, they operate it.

Mr. FRASER: Whether it is profitable or not?

Right Hon. Mr. HOWE: Yes, they operate it if they are told to operate it.

Mr. DREW: Well then, Mr. Cooper, what percentage of your salary is paid by Trans-Canada Air Lines?

Mr. COOPER: This question of salaries has been a matter for consideration by the committee on a number of occasions. I do not feel that I should set a new precedent.

Right Hon. Mr. HOWE: I think not; the committee decided not to disclose salaries.

Mr. FULTON: But this is a question of percentage.

Right Hon. Mr. HOWE: We do not disclose salaries or proportions of salaries.

Mr. DREW: Well, Mr. Chairman, I know that that is an important point, and in any event the committee on a divided vote decided that an answer could not be given as to the amount of salary. With that decision I disagree but nevertheless I realize that it must be accepted; but this is a percentage of salary, and, unless this committee is in a position to know what percentage of Mr. Cooper's salary is paid by Trans-Canada Air Lines then this committee has no sense of the responsibility Mr. Cooper assumes in respect to Trans-Canada Air Lines.

Mr. COOPER: As I have already told you, I assume all responsibility with respect to Trans-Canada accounting.

Mr. DREW: But that does not answer the question as what percentage of your salary is paid by Trans-Canada Air Lines.

Mr. COOPER: I am in the hands of the committee.

The CHAIRMAN: I would think, Mr. Drew, that you would accomplish the end you seek to accomplish if you were to ask the witness whether in his opinion a reasonable percentage of his salary is borne by T.C.A.

Mr. DREW: I know, Mr. Chairman; the witness is asked to give facts, and it is for the committee to determine whether they have any views in regard to that on the facts brought out. I would point out that Mr. Cooper has stated that he is carrying on these duties and that he occupies a corresponding position with the Canadian National Railways, and I think it is of very considerable importance to know the relationship on a percentage basis without disclosing in exact figures of the amount of the salary, that being a matter which has already been dealt with by a resolution of this committee.

Mr. MUTCH: Might I make a suggestion, Mr. Chairman? Mr. Cooper might indicate whether in his opinion the percentage of his salary paid is adequate to compensate him for the work he does for Trans-Canada Air Lines. I take it that the purpose of the committee at the present time is to obtain facts in respect to the operation of the T.C.A. I think what we have to deal with here is the report of the estimates now before us.

Mr. DREW: Mr. Chairman, to carry that through to its logical conclusion then the meeting of this committee could be as short as anyone could possibly desire if it is not the desire to have any information come out. It would only be necessary for Mr. McGregor to present his report and for us to ask Mr. McGregor: in your opinion are the operations of Trans-Canada Air Lines satisfactory? And the answer he would give would be yes; and then all the committee would have to do would be to approve the report—that is if we carry it through to that absurd degree—and that would be the principle to apply in view of what was just said.

Mr. MUTCH: Is that your interpretation of what I said?

Mr. DREW: If I misunderstood you—

Mr. MUTCH: I do not know whether you did or not. A moment ago the chairman suggested as a means of meeting the question raised by yourself that it might meet your purpose if the answer would be given as to whether or not in his opinion (Mr. Cooper's) the percentage of his salary paid by T.C.A. was adequate or otherwise; and to that I replied that the opinion of the witness as to whether the allowance paid to him by the T.C.A. had anything to do with his job—whether he got too much or too little by way of salary paid to him by T.C.A.—that that was irrelevant and had no bearing on the matter before us. That is not my opinion, that was an interpretation I placed on an observation made by the chairman. Personally, as a member of this committee, I am not interested in whether or not the witness feels that the percentage of his salary paid by T.C.A. is too low, too high, or just right.

Mr. DREW: I did misunderstand your observation. I agree with you it would be a different proposition. I simply misunderstood what you said.

Mr. MUTCH: O.K.

The CHAIRMAN: The witness having indicated that he is in the hands of the committee I would suggest that we follow the customary practice; that you make a motion and that we would deal with that at the end of the meeting today and not waste any more time over it now. We have already taken up seven or eight minutes discussing it. Perhaps you would be good enough now to continue your examination of Mr. Cooper.

Mr. DREW: Well then, Mr. Cooper, what percentage of your time is devoted to the work of Trans-Canada?

Mr. COOPER: It varies, Mr. Drew, anywhere from a few minutes to a few hours at a time. When any accounting policy problem in respect to Trans-Canada comes up I take care of it. The actual amount of time I spend on such work is a little difficult to estimate. particularly during a period of more than normal activity. Last year, for example, I made an analysis of the pension plan of Trans-Canada Air Lines and I spent a considerable amount of time on that. It is more in connection with major or new matters that I am consulted and which takes up my time. The amount of my time which is devoted to Trans-Canada depends a great deal on what takes place throughout the year; and, of course, there are periods when not a great deal of my time is required.

Mr. POULIOT: But all of your time is not given to Trans-Canada; you do not want to give all of your time to this committee meeting here today?

Mr. COOPER: I was hoping it would not be required. I was hoping that this afternoon I could get over to the Royal Commission on Transportation.

Mr. DREW: That seems to be the common sentiment in regard to all requests for information. The thing I would like to get at—

Mr. COOPER: May I interrupt there, Mr. Chairman? Don't think I do not like to be here. I do. I would like to be here for as long as you need me, but we do have this royal commission sitting and I am under pressure from our counsel to get over there as quickly as I can.

Mr. DREW: Well then, Mr. Cooper, so that we may understand it, would it be possible for you to give us an estimate of the allocation of your time; would it be 1 per cent, 2 per cent, 10 per cent of your time that would be devoted to Trans-Canada Air Lines as comptroller?

Mr. COOPER: That is a matter which I must leave to the committee. I have no objection to giving an estimate of my time, or an expression of opinion as to whether the proportion of my salary assumed by Trans-Canada Air Lines is reasonable or otherwise.

Mr. DREW: You spoke of an allocation of time.

Mr. COOPER: Yes, and as I said, it varies. Let me take 1949 and break it down for you. My estimate would be that about one-twelfth of my time, that is a full month, would be given over to the work of Trans-Canada Air Lines. I do not say that is exact, but it indicates in a general way the proportion which is devoted to the work of Trans-Canada Air Lines. On occasion I may be asked to give an hour or two; on another it may be a matter of half a day or a day; and at other times when a more involved problem is up for consideration it may be a matter of more than a day.

Mr. DREW: I realize that it is a minor accounting matter, Mr. Cooper, but I feel sure that you have some approximation of the percentage of time which you spend with Trans-Canada Air Lines.

Mr. COOPER: I answered that by saying about one-twelfth.

Mr. DREW: Could you also inform the committee as to whether or not in your opinion your salary is reasonable in view of the major duties which you perform?

Mr. COOPER: I am still an accountant, Mr. Drew.

Mr. MUTCH: That is good.

Mr. DREW: I refer to the proportion of your salary.

Mr. MUTCH: He has already given that figure.

Mr. POULIOT: Do you have to do any work at night in looking after the Trans-Canada Air Lines end of the work?

Mr. COOPER: Now, Mr. Pouliot—

Mr. DREW: Let us not get into personalities, Mr. Chairman.

Mr. POULIOT: Well, Mr. Chairman, I want to be safe. I know that Mr. Cooper works a good deal at night for Trans-Canada Air Lines as well as for Canadian National Railway, which is his joy and pride.

Mr. DREW: Now then, referring back to the question which has already been asked, and I appreciate that it is for the chair to decide whether it should be allowed or not, may I ask you this: Having regard to the proportion of time you devote to it would you say that the proportion of your salary paid by Trans-Canada Air Lines, on the percentage you have indicated to us, namely one month, is fair and adequate?

Mr. COOPER: The answer is yes, Mr. Drew.

Mr. DREW: So we may take it that it does bear a proper relationship to the time you spend on it; is that right?

Mr. COOPER: Yes.

Mr. MUTCH: I should think it would be the quality of the service rendered rather than the amount of time spent doing it that would really determine the worth of the service rendered.

Mr. DREW: Now, Mr. Cooper, having regard to what you have said as to the proportion of your time necessarily devoted to Trans-Canada Air Lines, if we decided to put in a cost accounting system of the type used in a similar ordinary corporation, would it be your opinion that it would be necessary to get some other officials to do that work?

Mr. COOPER: We would have to increase our staff, not only in numbers but also in quality. This type of work is highly specialized and we could not do it with the usual accounting clerks. It would be an expensive operation, I am quite sure of that, Mr. Drew. I would say that the end result would not be worth the expense.

Mr. DREW: Well, Mr. Cooper, I feel sure that, from your relationship with other corporations of other natures, and your activities, you do know the procedure followed in setting up cost accounting systems in other kinds of businesses?

Mr. COOPER: I would not agree with that, Mr. Drew. My work is with the C.N.R. and I am associating generally with railway people. We do not have cost accounting systems on the railways.

Mr. DREW: Have you at any time considered the advisability or otherwise of installing a cost accounting system?

Mr. COOPER: We did in the beginning. I put it to Mr. Philip Johnson, the first president of Trans-Canada Air Lines, and asked whether he wanted us to make an effort to keep the accounts of Trans-Canada Air Lines on a route basis. Mr. Johnson, was of course, a very experienced air line operator. He said that he did not want it; he said he could get the information in another way; and that was my direction.

Mr. DREW: At that time were you called upon to estimate or arrive at any cost of establishing a cost accounting system?

Mr. COOPER: No.

Mr. DREW: How are you so sure that it would cost a great deal of money to install such a system?

Mr. COOPER: That is an expression of opinion based on my knowledge and judgment.

Mr. DREW: That is what I assume, but if you have any knowledge of cost accounting you obviously have had to make inquiries of the cost of establishing a cost accounting system?

Mr. COOPER: I do not think it follows. When I say knowledge I mean my knowledge of the difficulties in respect of Trans-Canada detailed operations.

Mr. DREW: After all there is no use enshrouding us with any mystery. You, like all of us, have occasion to discuss matters of this kind in ordinary personal conversation and I feel sure that, among your personal friends in Montreal, this question of cost accounting has come up in comparison with ordinary business.

Mr. COOPER: Cost accounting in ordinary business is, as I have tried to say, a very different thing from cost accounting over an operation such as Trans-Canada Air Lines.

Mr. DREW: How do you know if you have not made any inquiries?

Mr. COOPER: Well that is my answer—it is based on my best judgment.

Mr. POULIOT: And experience?

Mr. COOPER: Yes.

The CHAIRMAN: Of course the witness—

Mr. DREW: Well, Mr. Cooper, you have indicated that you have no experience in cost accounting methods?

Mr. COOPER: I have no experience in cost accounting in outside business. However, I would dread the responsibility of instituting a cost accounting system in Trans-Canada Air Lines, if, by that, I was expected to produce the results by individual routes.

Mr. DREW: Why would you dread it?

Mr. COOPER: I would dread it first for the amount of difficulty and expense, and for the small value which would emerge as the result of the effort.

May I say this. We have similar problems on the railway. If we have a belief that a particular branch line operation is too expensive, and, if we are satisfied there are alternative means of serving the public interest, a study is made for the purpose of going to the Board of Transport Commissioners for permission to abandon that line. This is the way we would determine whether a particular operation was paying or not. We would assemble the actual revenues and the out-of-pocket costs of the branch line. That is not work done by the accounting department—it is done by the bureau of research. Then they go before the Board of Transport Commissioners and expose their figures; and explain how public need and convenience can be met by alternative methods of transportation.

When you speak of the cost of operating a particular route, one must have in mind what it is you are thinking of. Are you thinking of the all inclusive cost, or the out-of-pocket cost? You may feel that an operation, bearing its full share of overhead expense, is a losing proposition but, if you imagine by cutting out that operation you will save that amount of money, you are very much mistaken—the saving you are going to make is the actual out-of-pocket expense only.

Generally, the overhead would go on just the same. Then you have to consider the feeder value of the branch line. It may be that standing on its own feet a branch line shows up in the red, but, if you take into consideration the contribution it makes to the main line traffic, you get a different figure. Then, you have to take into consideration the value of the service to the community and in the over-all economy of Canada. Those are thinges that need special study. They are not things which you can turn over to routine accounting procedure and expect, merely by grinding a machine, it will produce the results you are looking for. It just does not happen that way.

Mr. DREW: Who is in charge of the bureau of research?

Mr. COOPER: Mr. Cottrell, I think.

Mr. DREW: You know, do you not?

Mr. COOPER: I know of him but I do not know his duties.

Mr. DREW: Is he in charge of the bureau of research?

Mr. MCGREGOR: Of Trans-Canada Air Lines?

Mr. DREW: Is it the same bureau for your organization, Mr. Cooper?

Mr. COOPER: No, Mr. Fairweather is in charge of the railway bureau of research.

Mr. DREW: Who is in charge of the bureau of research for Trans-Canada Air Lines?

Mr. MCGREGOR: Mr. Cottrell.

Mr. DREW: What are his initials?

Mr. MCGREGOR: H.C.

Mr. DREW: Mr. Cooper, you spoke of the amount of your time that was involved at various stages of the activities of Trans-Canada Air Lines, and you spoke of the amount of time that was devoted to the task in connection with Trans-Canada Air Lines acquiring the North Stars. What was the nature of your activity in connection with that acquisition?

Mr. COOPER: That was more particularly with respect to the allocation of costs as between the domestic and Atlantic services. It was understood that the North Stars would be interchanged—not like the DC-3's which are restricted to the domestic operation—the North Stars would fly both services. It was because of that that we had to make studies as to the method of distributing the North Star expense as between the Atlantic and the domestic services. In addition we had to change our depreciation rates and things of that sort.

Mr. DREW: In the case of the North Stars you were then getting to the point of setting up a system which would make it possible for you to divide the cost as between the domestic operation and the external operation, is that correct?

Mr. COOPER: That is so.

Mr. DREW: Then, in that case, is there an allocation of general overhead costs of the two services as well?

Mr. COOPER: Yes.

Mr. DREW: So that in that case you are able to allocate overhead expense without any exorbitant cost?

Mr. COOPER: Yes.

Mr. DREW: Why would that not be a simple thing throughout the other lines?

Mr. COOPER: The one application is on very broad lines, but the other would have to be for very small segments.

Mr. DREW: You are referring to the overseas operation?

Mr. COOPER: No, to the number of classifications that have to be dealt with. For example, speaking of administration. We had to allocate administration as between the Atlantic service and the domestic service. We had to consider which was the best method. The costs to be allocated are administration, supervision, aircraft maintenance, shop overhead, ground operations, interest, depreciation, insurance, and all other things which are common. In addition, we might have an Atlantic aircraft—an aircraft assigned to the Atlantic service—flying temporarily on the domestic service. It might go on from Montreal to Toronto. We had to find some basis of charging the domestic service with a reasonable cost of its use of an aircraft assigned to the Atlantic service. Those are the sort of things I had in mind.

Mr. DREW: Does that work out satisfactorily?

Mr. COOPER: Well, I am satisfied that the allocation of costs between the two services is satisfactory and sufficiently accurate for all purposes that I can think of.

Mr. DREW: A proportion of the head office cost, advertising cost, and other cost, is allocated to the two services in accordance with the rules you have set up within the organization?

Mr. COOPER: Yes. A man selling tickets in Seattle has a portion of his salary charged to the Atlantic service.

Mr. DREW: Is that not a method of cost accounting?

Mr. COOPER: You might say so.

Mr. DREW: Would you not?

Mr. COOPER: I am differentiating between the system of allocating costs between the three major services and of breaking them down to route operations, which I think you have in mind.

Mr. DREW: Why would it be any more difficult to segregate under precisely the same rules, each separate operation?

Mr. COOPER: I do not think the operations of the domestic and overseas services intermingle anything like the extent which they do by routes on the domestic runs.

Right Hon. Mr. HOWE: Who would be interested in that information if you did get it? No one.

Mr. POULIOT: Mr. Cooper, may I be permitted to ask this? You spoke of a ticket being bought in Seattle for London—

Mr. COOPER: Not for London. I said a proportion of the cost of the ticket seller's wages in Seattle would be charged to the Atlantic service and, likewise, the expense of our ticket office in London is apportioned in part as a charge to the domestic service.

Mr. POULIOT: Yes, but it is impossible, from what I understand of it, or at least difficult, to separate the money that you get for a ticket—a long distance ticket—over the various airports? For instance, someone may buy a ticket on the plane at Vancouver for a trip to Halifax. You cannot divide that revenue between Edmonton, Winnipeg, Montreal, and Halifax?

Mr. COOPER: No, we could do it, it would cost money, but the information would not be of any use.

Mr. POULIOT: No. In the case of a railway ticket, is the money credited from station to station? Suppose one buys a railway ticket in Vancouver for Halifax? Is each station credited with some portion of the ticket? I mean the stations between the departure and the destination?

Mr. COOPER: No. We divide it by regions. We divide it between the Western region, the Central region, and the Atlantic region. When you ask for a general allocation by regions that it is one thing, but to break it down by districts, divisions, or subdivisions is impossible.

Mr. POULIOT: You could not divide it between each train stop?

Mr. COOPER: The cost of doing so would be staggering.

Mr. DREW: Just take for example the line from Toronto to Kapuskasing. Are you in the position to inform the directors at any time as to the operating position of that particular line?

Mr. COOPER: No. We can tell management what the revenue is—they can take some rough and ready means of applying what the expense is, and they would have a very good idea—whether that operation is in the red or black. However, the precise operating result is not available. Moreover, I may say we have operated since 1937 and we have not been asked for such information —nor have we ever been asked for it in this committee.

Mr. DREW: You have never been asked for it?

Mr. COOPER: It cannot be such a vitally urgent need if we have operated for thirteen years and the information has never been asked for.

Mr. DREW: I mean, it has never been asked for by your directors?

Mr. COOPER: No, and neither has it been asked for in the committee.

Mr. DREW: Yes.

The CHAIRMAN: I understand you wanted to say something about the deficit, Mr. Cooper?

Mr. COOPER: Oh yes. With respect to the figure of the deficit which seems to be a matter of great concern, may I give this information to the committee. The accumulated deficit is in the order of some $9 millions. Now, we have a self-insurance fund, which has been built up out of operating revenues. And at the end of 1949 it is in the order of some $3,600,000.

In my opinion, if you are considering the amount of the deficit as money which has been lost you should deduct $3,600,000 from the $9 millions because the $3,600,000 is in our hands. It is invested in gilt edged securities; and upon a wind-up of the company it would be transferred to surplus.

Mr. POULIOT: It is a liquid asset?

Mr. COOPER: Yes, it is a liquid asset, and as such is not taken into account when determining the deficit of the company.

Mr. FRASER: Would a business firm in looking after insurance and coverage on their property put it down as an asset, for insurance?

Mr. COOPER: No. But we have not paid out this money. It is still in our hands, and is free.

Mr. FRASER: You put it in a pocket to look after these planes when they are obsolete?

Mr. COOPER: If they are lost. But as of the date of the balance sheet, the money is still there, it has not been lost. If the assumption is that the $9 million has been lost, then it is not true in so far as $3,600,000 is concerned—and I can go on like that. For example, since 1937 we have been building up a trained personnel, and it is an expensive proposition to train captains, first officers, navigators, radio operators, and ground personnel.

It is my estimation that at the end of 1949 we have an investment in trained personnel of not less than $2,500,000. That is an expense which has been charged to our operations, nevertheless it has resulted in creating something which is an asset of the company and will be of benefit to future operations, although the cost appears in the $9 millions. If I were asked for my opinion as to whether the deficit of $9 millions should be reduced in considering the amount of money lost, I would certainly insist that the $2,500,000 be deducted. So that you have $3,600,000 here and $2,500,000 there; and I take the view, as well, that to some extent some of the money which the government has advanced towards the deficits of the Trans-Canada Air Lines has been turned back to the post office for the carriage of mail at less than the rate we think we should get.

Right Hon. Mr. HOWE: And there is another factor. While there is only $25 millions invested by the government in the airlines, the actual assets of the airlines amount to about $31 millions.

Mr. COOPER: We have built up good will. The name of Trans-Canada is favourably known all over the world. The line carries the Canadian flag. It has a trade name and goodwill value. The goodwill of Trans-Canada Air Lines is worth money. It has been built up out of expenses yet it is not carried in the accounts as having any value. In addition, I would like to mention the value of service to the communities served by Trans-Canada Air Lines, and its value in the over-all economy. I think something would have to be added for the

value of Trans-Canada in the case of a national emergency. I do not consider it is anything near correct to assume the deficit of $9 millions as far as Trans-Canada Air Lines is concerned is a loss. It is not a loss.

Mr. POULIOT: And it serves a good purpose?

Mr. DREW: Why do you say that the $2,500,000 should not be regarded as part of this figure?

Mr. COOPER: I said it is in the figure. I think it is properly in the figure, but I say again that against the expenditure we have an asset representing the know-how of a very efficient airline operation.

Mr. DREW: You referred to $2,500,000 and to what figure in the statement?

Mr. COOPER: It is not in the statement. I say that in this $9 millions, that $2,500,000 represents the cost of securing a trained personnel but that the present value of the asset is not shown in the balance sheet. It costs a great deal more than that but some portion of it would have to be considered as having been chargeable to the operations of the past ten years; but as to the value which will be of benefit today in future operations, it could not be less than $2,500,000.

Mr. DREW: Have you some account to show that figure?

Mr. COOPER: The training expenditures are shown in 1949 in the published figures, yes.

Mr. DREW: So you are referring to training expenditures in that connection?

Mr. COOPER: I am referring to training expenditures in that connection, yes, sir. It is a prepaid expense.

Mr. FRASER: No business firm in the country would ever make such a claim as that.

Mr. COOPER: I do not agree. I say there is plenty of precedent for taking prepaid expenditures and amortizing them over future operations.

Mr. FRASER: Well prepaid expenditure, but not the training of machinists?

Mr. COOPER: Many companies take that kind of expenditure and capitalize it. They treat it as part of building up the business and as a capitalizable expenditure.

Mr. POULIOT: I have been told that the modernization of machines is something stupendous and that a pilot who was familiar with the kind of airplanes used some years ago would be at a loss to operate the machines which you have now.

Mr. MCGREGOR: He has to be re-trained.

Mr. POULIOT: To a certain extent; and he must keep up with the times and be informed as to progress of science in that field. Is not that true?

Mr. MCGREGOR: That is correct

Mr. FULTON: You have been dealing with what would be a sort of consolidated balance sheet, and with what would be a sort of accumulated deficit in that figure of $9 millions?

Mr. COOPER: Yes.

Mr. FULTON: And in your opinion there are certain expenditures which could be set against that which are not reflected in the balance sheet figures?

Mr. COOPER: That is true:

Mr. FULTON: But when you are dealing with the current operations of an airline, whether it be a publicly owned or a privately owned airline, I do not think either criterion is there. This is a measuring of results by looking at current surplus or deficits in the year's operations?

Mr. COOPER: I was looking at the cumulative figure rather than for the operation for the one year 1949.

Mr. FULTON: But you stated in reply to a line of questioning that you had never been asked before either by your directors or by this committee for a cost accounting system, or for the cost of operating any particular line; and then it was said in answer to that that we have never had a deficit like this before. And it was then that you went into the consolidated balance sheet position.

Would you agree that that is a fair observation: that we have never had a deficit like this before, when we are considering a year's operations?

Mr. COOPER: Well, I think the deficit in 1949 was the worst experience we have had.

Mr. FULTON: Or, perhaps when we are faced with that operating result, there is some merit to the suggestion that we should look into the question of operations and that we should examine each particular route on a cost accounting basis?

Mr. COOPER: I understood that you developed this idea here with me this morning and asked for my views. I have expressed my views with respect to cost accounting. I have explained them and I do not think I need to repeat.

Mr. FULTON: But you would agree that we are dealing, so far as 1949 is concerned, with a position which we have never had to face before with respect to the deficit.

Mr. COOPER: Yes; but I have said to the committee that in considering the over-all deficit of $9 million, there are considerations which should be kept in mind.

Mr. FULTON: But it seems to me you must keep the two separate. You are dealing with an over-all or accumulated deficit. But if the experience of this year were to be repeated—and I must say that it is the hope of everyone on this committee that it will not be repeated—but if it were to be repeated, we would have a very much greater cumulative deficit next year.

Mr. COOPER: You will be able to judge, as to that when the year's forecast for 1950 is considered.

Mr. POULIOT: Mr. Cooper has explained that the cloud has a silver lining.

Mr. FULTON: He was considering the cumulative deficit position; but we are considering what the outlook would be having regard to the 1949 operations.

Mr. MUTCH: Some portions of the assets which have been mentioned ought to be—if they are accepted—attributed to the position of 1949; and only to that extent is there any relationship.

Mr. DREW: In the case of the insurance fund of which you have spoken, I believe that it has already been explained that this insurance fund was set up as an alternative to paying ordinary premiums for insurance outside.

Mr. COOPER: Yes. For a while we did pay outside premiums but later we decided to establish our own self-insurance fund.

Mr. DREW: Do you pay any premiums outside now?

Mr. COOPER: Yes.

Mr. DREW: What do they amount to?

Mr. COOPER: In 1949 we paid insurance to outside underwriters to the amount of $139,126.

Mr. DREW: And you do not treat that as an asset, do you?

Mr. COOPER: No.

Mr. DREW: Well, why would that be less an asset than what you paid out to the fund which you think is adequate to your insurance?

Mr. MUTCH: The difference would become apparent if you had to liquidate the company.

Mr. COOPER: We have the $3,600,000 in hand. As far as the $139,126 paid to outside underwriters is concerned, they have it in hand.

Mr. DREW: And that is a contingent liability, is it not?

Mr. COOPER: No.

Mr. DREW: Let me put it this way: there must at all times be regarded, as a possibility, contingent liabilities against that.

Mr. COOPER: As of the future, but taking the position as of December 31, 1949, the balance in the fund is free surplus.

Mr. DREW: Not free surplus because it is surplus charged with a particular responsibility.

Mr. COOPER: Many events could happen but the directors of T.C.A. as of December 31st, could have moved that $3,600,000 back into surplus account. It would have been permissible but in that event we would not have protection against future risks.

The CHAIRMAN: Might I interject just one question here: if you were operating an insurance company that would constitute an earned surplus, would it not?

Mr. COOPER: It certainly would.

Mr. DREW: Not of the insurance company.

The CHAIRMAN: At the termination of the policy risk if the company has on hand $3,600,000, that is $3,600,000 profit.

Mr. DREW: You will find under the Insurance Act that premiums paid in must be regarded as premiums allocated to a separate account held against possible payments, and must be treated in that way under the law.

Mr. COOPER: But the $3,600,000 is the amount of premium paid for coverage of risks up to December 31, 1949; it does not cover the risks of 1950, for which the premiums will be paid in 1950.

The CHAIRMAN: Let me put this question to you, Mr. Cooper. If on January 1, 1950, the directors had decided to do away with the self insurance principle and decided to insure with outside companies what would be the possibility of your $3,600,000?

Mr. COOPER: It would move back to the reduction of the deficit account.

Mr. DREW: And you would be immediately called upon to start a system of outside insurance.

Mr. COOPER: Yes.

Mr. MUTCH: Which would be chargeable against 1950 revenue.

Mr. FRASER: What would that amount to?

Mr. DREW: Which is saved under this system.

Mr. MUTCH: We are going all around a very simple proposition. The value of assets are what you can realize when you liquidate, and had you liquidated as of the date of the balance sheet, you would not have had a deficit of $4,317,000, it would have been less than three quarters of a million dollars. If you project that into the future the risks will be met presumably by the premiums charged against the revenues for 1950, and that asset will remain there. Of course, if you have unusual expenditures, you would have that in reserve, but it is still there on tap.

Mr. POULIOT: We do not want you to liquidate. We want you to go on.

Mr. KNIGHT: Mr. Chairman, there is one asset here, the accumulated skill of personnel, which Mr. Cooper has characterized as an asset. Of course, in the

case of the liquidation of the company, that asset would be in the hands of the personnel rather than in the company. You characterize that accumulation of skill as an asset. What annual expenditure will be necessary to preserve that asset? I want to get it straight. I think it is a fair question.

Mr. COOPER: The cost of replacement of personnel would have to be paid for, but to the extent that this skill is available, built up, existing, at December 31st., it has been paid for. Future operations will get the benefit of that.

Mr. KNIGHT: Yes, there will be some expenditure, I see, to preserve it at its present level. Have you any estimate of about what that would be.

Right Hon. Mr. HOWE: That is a more proper question for Mr. McGregor to answer.

Mr. MCGREGOR: The personnel training expenses per annum, as Mr. Cooper has said, is negligible beyond the requirements of replacement, and the company is in the happy position of not being required for the present to take on additional people of the type requiring expensive training and that will remain the case for some time, as the tendency is to replace aircraft with faster and larger equipment which produces a great deal more transportation work for the same amount of pilotage. I would say that for some time, perhaps in the order of three years or, so the expense to the company to maintain that condition of a large group of highly trained personnel would be negligible.

Mr. MUTCH: I do not like to let Mr. Knight's suggestion pass that this asset we have been talking about, the skills of employees, would pass into the hands of the employees in case of liquidation. I am not suggesting that we sell T. C. A. but undoubtedly in the case of liquidation the price which you could get,—I am talking about selling it, not junking it, but selling it to somebody else, and I think we could find a purchaser all right,—the value of that asset, the value of the whole asset would be materially increased by the fact that there would be in it a group of highly skilled personnel who would be glad to keep their jobs under the new management. Actually that asset is realizable even in liquidation.

Mr. KNIGHT: I made that remark in passing, perhaps I was a little facetious, but, personally, I am interested in this government owned enterprise, and I am glad to hear from Mr. McGregor that all these skills have already been built up, the personnel built up to such a condition that very little training expenditure will be necessary in the next three years unless operations are expanded. That is certainly a satisfactory condition of affairs as far as I am concerned. I want that point brought out.

Mr. MUTCH: Well I brought it up to get it clear because people do read these proceedings.

Mr. POULIOT: It was a wise move and Mr. Knight would have done the same, I am sure.

Mr. KNIGHT: Perhaps.

Mr. FULTON: Looking at this budget or forecast of revenues and expenditures, Mr. Cooper, I think you said in one of your earlier answers that when this is being prepared the management asks you to provide them with figures particularly with respect to the anticipated expenditures.

Mr. COOPER: I said they would ask the general auditor, Mr. Harvey, for that. They would not ask me personally but my department.

Mr. FULTON: Do they ask you or your department for the figures? Do they ask you to bring in detailed figures of forecasts by departments of T.C.A., that is the same departments which are reflected in this annual statement, or do you just bring in an over-all estimate?

Mr. COOPER: I am sorry, Mr. Fulton, but I have not even seen that forecast.

Mr. FULTON: In the forecast we have here, operating expenses are all just lumped together.

Right Hon. Mr. HOWE: You were asking Mr. Cooper about these forecasts. Mr. Cooper does not make the forecasts, that is done by the general manager, with the help of his research bureau.

Mr. FULTON: I understood Mr. Cooper to explain to us before that his department was asked for figures, and I am just asking him upon what basis those figures were compiled?

Mr. COOPER: I will ask Mr. Harvey to answer that question; he is the one who actually furnishes the figures.

Mr. HARVEY: The research department might come down and ask questions regarding the price of gas and oil; they might ask us for information about fees for landing fields and matters of that kind; or, they might want information about insurance rates; or, possibly any change in the depreciation schedule such as was done effective January 1, 1950. When they were preparing that forecast they came to us and asked us for any possible changes that through the accounts could be anticipated. We can give them only the details of what has happened in the past. We do not do forecasting for them. We give them the information on which they can project, and beyond that we do not furnish them with anything else.

Mr. FULTON: Did you examine into their basis of total operating expense in this forecast of $30,000,000? After you supplied them with the figures or the information on which you say they base their forecast, did they report to you a breakdown of their forecast by items and ask you to check it?

Mr. HARVEY: No, that is none of our business. We supply them with certain basic information, and what they do with it is not a matter for us.

Mr. FULTON: Does your department see these forecasts before they are officially approved?

Mr. HARVEY: No.

The CHAIRMAN: You have noticed doubtless, Mr. Fulton, from the general statement of services, how extremely accurate the operating report has been.

Mr. FULTON: I want to refer to that in a moment, Mr. Chairman; but I was wondering, as I understand the procedure, whether the accounting department or the internal audit officials see the thing between the time they supply the basic information and the time this forecast is completed; I understood you to say you do not?

Mr. HARVEY: No, we do not.

Mr. FULTON: Then, from your experience in previous forecasts, Mr. Cooper, can you or Mr. Harvey say how this comes about? I notice that the forecast for 1949 of operating revenues and actual operating revenues shows a variation of only $200,000 out of $26,500,000; in the light of that, can you tell us whether this is a normal result or was it an exceptional result for 1949?

Mr. HARVEY: You are speaking of revenue?

Mr. FULTON: Yes.

Mr. HARVEY: Perhaps I should explain that as far as revenues are concerned that is for the traffic department; the accounting department enters into the picture only in so far as it can be of assistance in providing assistance as to what operating expenses have been.

Mr. FULTON: May I direct this question then to Mr. Cooper? In your previous experience have they been sufficiently accurate to have such a close result as is shown for 1949?

Mr. COOPER: I take it you are now referring to the increase in the North American service?

Mr. FULTON: For the North American service.

Mr. MCGREGOR: That is perhaps a little more accurate as to actual performance and forecast than it has been in other years, but not much.

Mr. DREW: But it did have to be more accurate than on many other occasions?

Mr. MCGREGOR: There were other occasions when it has been that accurate; as a matter of fact, that degree of accuracy has been included in the 1950 experiences to date, so far as we have figures.

Mr. DREW: But you said this was one of the most accurate forecasts that you have been able to make?

Mr. MCGREGOR: I said it might be a little more accurate, but it is not exceptional.

Mr. DREW: Then, Mr. Harvey, would you answer this question: Do you assume any responsibility for the system of accounting, or is that entirely under Mr. Cooper?

Mr. HARVEY: I think Mr. Cooper covered that in his statement. I work under his direction, under his supervision.

Mr. DREW: So that under the method of accounting employed he lays down the principles to be followed and you simply carry out his instructions?

Mr. HARVEY: No, I do not think it is quite fair to put it that way. What we do on occasion is this: if we can make any improvements, short cuts, or time savings to arrive at the figures required, we do that; but as far as procedure goes, that is his responsibility.

The CHAIRMAN: Is it the wish of the committee now that we should release Mr. Cooper?

Mr. FULTON: I have just one further question.

The CHAIRMAN: Perhaps then we can clear that up and release Mr. Cooper when we adjourn at 1 o'clock.

Mr. FULTON: Would you explain to me, Mr. Cooper, the significance of this property and equipment item?

Mr. COOPER: That simply means the capital budget.

Mr. FULTON: What about these new acquisitions, provision for acquisitions and new equipment?

Right Hon. Mr. HOWE: I think that question would be better asked of me. They are not necessarily altogether new acquisitions; that is an estimate of the expense which is properly capitalized as a sinking fund charge against operating expense.

Mr. FULTON: And then, your maintenance figures?

The CHAIRMAN: Are there any other questions? I believe you had a question you wanted to ask, Mr. Fraser?

Mr. FRASER: I wanted to ask Mr. Cooper about this matter of cost accounting. I understood him to say that if they were to go into this matter of cost accounting they would have to have a better quality of staff than they have at the present time, and I would like to know what he meant by that.

Mr. COOPER: I think cost accounting is a highly specialized field and it would require the employment of people with a greater knowledge of the subject than we now have on the staff, and it might possibly mean that we would have to take on the services of one or two chartered accountants.

Mr. FRASER: Have you no chartered accountants there now?

Mr. HARVEY: No, we have one certified general accountant in our organization, and we also have a man who is writing for his C.A. But as to what Mr.

Cooper is saying, I do not believe our accounting staff has a sufficient background in cost accounting or that it would be in a position to take on that work. I think rather that it would involve the setting up of a separate department.

Mr. FRASER: Are you a chartered accountant?

Mr. HARVEY: No.

Mr. DREW: Well then, since you raise that point, you apparently are informed as to how cost accounting procedure operates, are you not?

Mr. HARVEY: No, I am not.

The CHAIRMAN: Are there any other questions for Mr. Cooper? If not, thank you very much for coming, Mr. Cooper.

We are now twenty minutes from our adjournment hour and there is a report of the agenda committee to be dealt with. Shall we have that now?

Some Hon. MEMBER: Agreed.

The CHAIRMAN: Would you read that please, Mr. Burgess?

(Report of agenda committee read by the clerk; see minutes of proceedings).

Mr. FULTON: Mr. Chairman, I presume the motion is now that the report be concurred in?

The CHAIRMAN: Yes.

Mr. FULTON: That being so, Mr. Chairman, I should like to point out in regard to the motion that I did not concur in the motion made in the agenda committee that the last four witnesses named should not be called; and I have indicated to the steering committee, and I repeat to this committee, that I do not agree with that motion. I think they should be called, and I would just briefly outline my reasons, particularly with respect to Mr. Turnbull; and I will repeat that one of the reasons for that is that we are carrying mail at less than cost, as related by Mr. Cooper, the comptroller. We had him stating that the income received from that source does not meet the expense of carrying the mail, and so far as we have been informed the government has not yet concluded a new agreement in this respect with the post office department. That is a matter to which I think we should refer in our report and we should in fact make some recommendation on it; and I think we should have further information on which to base our recommendation; and for that reason I would like to have Mr. Turnbull explain the position of his department.

With respect to Mr. Baldwin, much the same applies. It arises out of the way in which T.C.A. rates were set, where cost of operations, we were informed, were not considered by the Transport Board in setting the rates; and there, again, it seems to me that we should consider that as a matter which is incurring debts; that we should consider ways and means by which we can recommend steps which will help to meet the deficits or reduce them, and that we should make some recommendation in that regard as well. It seems to me almost incomprehensible that rates should be set without reference to what it costs to operate the services. That is why I thought these two men should be called.

As for Mr. Seagrim and Mr. Bain, we have had a great deal of detailed information here and many questions have been asked as to details of the operations of the company and details of the cost of maintenance and so on. Those questions, in my view, have given rise to further questions, and I feel that the best way to get that information is to have people here who are immediately concerned so that if we had anything on these matters we would be able to get direct evidence and not indirect evidence as to costs and so on; also, the answers given would undoubtedly give rise to further questions; and should that happen we will have the witnesses here to whom we can direct our further questions and

receive immediate answers and that will save a good deal of time for the committee and avoid a good deal of wasting of time. For those reasons I think the report of the agenda committee should not be adopted.

Mr. DREW: Mr. Chairman, before the resolution is dealt with, I must express more than surprise that the agenda committee should have come to this conclusion.

The CHAIRMAN: I wonder if I might just interrupt for a moment, Mr. Drew. It occurs to me that these four witnesses are in two separate categories and perhaps they should be dealt with separately. If you would care to do so, we can deal with Mr. Turnbull and the chairman of the transport board separately. We will do so if you prefer to deal with the matter in that way, but, if you prefer one motion we will do that.

Mr. DREW: I would prefer that it should be dealt with in accordance with your suggestion—by two separate motions.

The CHAIRMAN: I would think so.

Mr. DREW: For a reason which relates to the discussion on the last day we met—appearing at pages 448 and 449 of the proceedings.

The CHAIRMAN: If you will direct your remarks first to the two witnesses referred to by Mr. Fulton, we will clear that matter up and then go along to the other two.

Mr. DREW: You will recall that I made a motion for the calling of witnesses which did not include these two. In mentioning them I did not suggest they should not be called—on the contrary I thought they should be called but it was on a different basis and it was Mr. Fulton who asked for these two witnesses. There is perhaps this difference in the situation, which will be indicated by what I propose to read from the *Hansard* record. If you wish to deal separately with Mr. Turnbull and Mr. Baldwin that can be done but I was going to indicate that I am particularly surprised by this report as relating to Mr. Seagrim and Mr. Bain, and I will proceed by reference to what took place at that meeting. At page 448 I am quoted as saying "I would like to have the following called: T. H. Cooper, comptroller, W. F. English, vice-president in charge of operations, W. H. Seagrim, director of flight operation, and James Bain, director of engineering and maintenance."

And then, some discussion arose as to the fact that they were not in attendance but no question arose as to the propriety or desirability of calling them. On the contrary, at page 449 the chairman is reported as follows: "There will be no need for a resolution so far as the people indicated by Mr. Drew are concerned; they are officers of the corporation. I made inquiries as to whether any of them could be made available for tomorrow but I find it is very doubtful."

It was subsequent to that statement that the question of calling Mr. Baldwin and Mr. Turnbull arose. In returning to the discussion at the bottom of the page the chairman is reported to have stated as follows: "It is my intention, Mr. Gillis, to do whatever the practice requires should be done subject only to one thing, namely, the wish of the committee. Mr. Drew has moved that Mr. Cooper, Mr. English, Mr. Seagrim and Mr. Bain, all of whom are officers or officials of the Trans-Canada Air Lines or the Canadian National Railways, should be called to give evidence. That is quite an ordinary and reasonable request."

Now, I do regard it as quite an ordinary and reasonable request, and you indicated very clearly that there was no need for a resolution because they were officials of the company. I can only express astonishment, as well as surprise, that the committee which was called upon to deal with this subject did disregard your own opinion in this respect, because I think the statement

you made on that occasion is very clearly in keeping with the obvious practice of this committee if we are to have the information of those who have direct knowledge of the facts. Mr. Seagrim is the director of flight operations, Mr. Bain is director of engineering and maintenance. We are considering the annual report of the operations of Trans-Canada Air Lines both in relation to the operations last year and in relation to the projection for 1950 which has now been placed before us.

I cannot imagine any reason of any kind for not calling either Mr. Seagrim or Mr. Bain, in view of the fact that these are the two men who are directly in charge of the aspects of the work of Trans-Canada Air Lines which have most to do with the whole cost of operations. And if this committee is desirous of obtaining information upon which appropriate recommendations can be made, these are the men who should be here to state what the facts are and to answer questions, because they are men with direct personal experience in this field. Any suggestion that they should not be called would only leave the impression that there were reasons why they should not be available as witnesses, and that the facts which are in their possession should not be made available to this committee. I hope that is not the case and I hope that this committee will follow the suggestion that you made with respect to this very reasonable and proper procedure and that you would follow the statement that was made that no resolution is necessary because these are officers of the company who are charged with a particular responsibility. So, I am asking the committee to consider carefully what the situation is, and I am amplifying it at this time to obviate the necessity of coming back to it later.

Many of the observations and views expressed in regard to the future of Trans-Canada Air Lines are shared by every single member of this committee; and the desire of every member of this committee today is to see that, by whatever recommendations this committee can make, some steps can be taken that will extend and increase the opportunities for service of Trans-Canada Air Lines.

I do not want to hear any improper suggestion made at any time that an analysis of these figures, or a request for the facts, is put forward with any thought of restricting Trans-Canada Air Lines, or the restricting of their operations, except for such adjustments as may be indicated by proper business methods relating to the information available.

I believe that Trans-Canada Air Lines should have far more extensive services than it has at the present time. I believe that we have—as I have said on an earlier occasion—the best pilots, the best air crew, and the best trained air personnel of any country in the world; and when we talk of the trained personnel which has been built up, I think one of the reasons why we have this pool of highly trained and skilled mechanics is because of the training they received in the Royal Canadian Air Force during the war. In fact, their training was so good, that you will find in almost every transport line in the world Canadians, both men and women, occupying very important and responsible positions as the result of the experience which they gained mostly in the Royal Canadian Air Force during the war.

That, of course, carries on into the years of peace, and new people require training. But the backbone of this whole organization has been the demonstrated skill and the demonstrated abilities of Canadians both in peace and war. I for one am greatly concerned about the fact that although we ended the war with the greatest pool of trained pilots, air crew, ground personnel and other staff available for air services, we have not taken the advantage of it to the extent that we should.

I cannot help considering the situation in which we find ourselves. We were the third country in the world—that is the free world—in so far as the total of available pilots, air crew, and ground personnel were concerned and yet we have

seen, during the years since the war, how Holland—which could be surrounded by one of our lakes—has developed a world organization that today makes it the third civil air organization. They are using, for that purpose, a very large number of young Canadians—both as pilots and in their administrative offices. I believe there are reasons why we could by expanding the services in profitable fields, make use of this enormous pool of skilled men and women in the extension of this service which would, as it does in every business organization, reduce the proportion of allocation of cost of the central office and overhead expense by distributing it over a wider area.

It is with that thought in mind that I believe we should have available to us those who have the day by day practical responsibility, for both the operational and the engineering activities.

Then, there is also the fact that this committee should be in a position to express its opinion with constructive suggestions in regard to such matters as the type of aircraft, and to make other suggestions as to any improvements which might be made in the type of service that is afforded. In that direction I would point out there has been extraordinary reluctance to discuss the question of engines and other equipment. There is no single engine that is a sacred cow which we have to treat with some mystic respect. It would almost seem that the Merlin engine is surrounded with some peculiar sanctity which prevents us commenting on its perfection or lack of perfection without being charged with sacrilege. Let us approach the whole thing in a sensible way. Trans-Canada Air Lines tackled the problem on an earlier occasion, or Trans-Canada dealt with the same subject at an earlier time with the DC-3's. At the start the DC-3 had a Wright whirlwind engine installed. Through an examination of certain types of engines to find the comparative values of the types of engines which could be employed they discovered or came to the conclusion that it would be better to place Pratt & Whitneys of a certain type on certain DC-3's which had been acquired with Wright whirlwind engines installed.

In regard to the present situation we all know from the statement of the Minister of National Defence that a conversion has been made on a North Star to install Pratt & Whitneys. Whether that is sound or whether it is not sound, it certainly should be up to this committee to examine the facts and to obtain information from those who have parctical or direct knowledge. It may be there are other engines which should be considered. I should like to know what consideration has been given to the installation of turbo prop engines which are available; I should like to know what consideration has been given to the possible installation of radial engines of different kinds which are available. I am not, in this case, particularly discussing jets but I am discussing engines which can be installed in existing aircraft with relatively little alteration.

Unless we have these men available we have not the proper evidence upon which we can form any opinion. I think it is a direct reflection on the responsibility of this committee, if, by the absence of any comment or by general comment or approval we suggest to the House of Commons that we know that everything is being done that can be done to extend the service in every way possible to produce the maximum operating result and to make the ultimate possible use of the finest technical human services that are available anywhere in the world today.

Now, in that respect, Mr. Seagrim is the highly skilled and highly experienced director of operations, and we have Mr. Bain, who is in charge of the engineering services, and both those men are men who, in my opinion, should be heard, if there is any earnest desire on the part of this committee to pass judgment on the operations of the T.C.A.

Mr. POULIOT: Just before the committee adjourns, may I put a question? I would like to know what make of engines are used by the Canadian Pacific Air Lines in their Pacific service?

Mr. MCGREGOR: They use the Merlin engine, the same series as we use.

Mr. POULIOT: And were some of those engines bought by B.O.A.C.?

Mr. MCGREGOR: Yes, B.O.A.C. has bought slightly more than twenty aircraft known as the Canadair Four all equipped with the same engines.

Mr. POULIOT: Therefore, competing air lines are using the same engines?

Mr. MCGREGOR: Hardly competing on routes.

Mr. POULIOT: But B.O.A.C., for instance, flies to Europe?

Mr. MCGREGOR: B.O.A.C. are using their C-4 on routes not competing with T.C.A.

Mr. POULIOT: But they have the same make of engine as you have?

Mr. MCGREGOR: Yes, and basically the same aircraft.

Mr. DREW: As you are aware, Mr. McGregor, the Canadian Pacific Air Lines have publicly announced that they have ordered de Havilland Comets with jet engines for their Pacific service.

Mr. MCGREGOR: Yes.

The CHAIRMAN: If I may have your indulgence for a few minutes. Mr. Drew has referred to my remarks in regard to calling these witnesses and I would like to have an opportunity at once of making a brief statement. At the time Mr. Drew asked for the calling of these additional witnesses he asked for Mr. Cooper, the comptroller, for Mr. English, the vice-president, and I understood—but I was apparently in error—he was also asking for two directors of the company, and I, of course, made my remarks in response to that request. On reading the record I find that he indicated—and I should have noticed it—director of flight operations and director of engineering and maintenance. I did not know who the directors were, did not take the time to check the T.C.A. report or I would have learned from that immediately that neither of those men, Mr. Seagrim nor Mr. Bain, was actually a director of the company although they were so described by Mr. Drew. I certainly took him up wrongly. It is my error. Mr. Drew did elaborate; he added director of flight operations and director of engineering and maintenance. Now, on checking I find these men are not directors. It is true they have that title to their office, but, Mr. Drew, they are not directors of the company.

Mr. DREW: Neither is Mr. Cooper nor Mr. English.

The CHAIRMAN: But they are officers of the company and I made the statement quite clear that he was entitled to officers; I have not any doubt about that. As to the other point I have a report from the committee branch. Mr. Fulton, in regard to your statement, but I will not take the time of the committee to read it as we obviously cannot dispose of this motion now. Is 4:00 o'clock convenient for the committee adjournment?

—The committee adjourned until 4:00 o'clock p.m.

AFTERNOON SESSION

—The committee resumed at 4 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We are now considering a motion.

Mr. FRASER: Before you consider the motion I would like to make a correction in proceedings No. 4 where I am reported as saying that I thought Mr. Vaughan quite deserved anything he had got. I did not say that. I said

that "even if Mr. Vaughan did deserve what he got..." I never said he deserved it. I think that ought to be corrected. I never said that. I know I never said it.

The CHAIRMAN: What is the page?

Mr. FRASER: It is on page 229.

The CHAIRMAN: Well, the correction has been noted. Are there any other corrections?

Mr. MUTCH: The only thing to do is to sue the reporter.

Mr. FRASER: I know that is a fact because I had a note made of it here.

The CHAIRMAN: We are considering a motion to adopt the report of the agenda committee.

Mr. DREW: I understand that following the suggestion, we were going to deal with this separate motion dealing with the two officers.

The CHAIRMAN: I suggested that, and you carried on and dealt with both.

Mr. DREW: No, no. I said I would agree with you and then I said I was dealing with those two officers. And the other point was the one raised by Mr. Fulton. And I understood most certainly that that was the basis on which we were proceeding, because there was a different basis in regard to the statement made at that time. I would point out with respect, in view of the explanation made this morning as to the difference in the opinion expressed, that you did not use the term "directors" at the time. You used the term "officers" and said they are officers of the corporation. And also, just before that, the Hon. Mr. Chevrier had indicated the difference that he had in mind in regard to those whose names were mentioned when the point was raised as to whether this committee ought to go outside the operations of Trans-Canada Air Lines. I am not suggesting that they should not be called. But I think the committee must decide whether or not officials, when they in their official capacity have a bearing on T.C.A., should be called. He was obviously considering that that question would arise in connection with the officials of the company, but there was a different point in connection with these outside parties.

The CHAIRMAN: What I had in mind was that I was referring to officials while you were referring to directors.

Mr. DREW: I did not mention directors.

The CHAIRMAN: You used the word "directors".

Mr. DREW: And I used their official titles.

The CHAIRMAN: You used their titles, and I thought you were actually referring to actual members of the board of directors such as the managing director.

Mr. DREW: I used the actual titles which they have in this organization.

The CHAIRMAN: You did.

Mr. FULTON: We are considering the question of the two witnesses who were connected with T.C.A. itself, Mr. Seagrim and Mr. Bain.

The CHAIRMAN: We shall take two separate votes.

Mr. GEORGE: I think we had better split the motion.

The CHAIRMAN: I was only suggesting for the convenience of members that we should deal with the two different types of witnesses separately in case the members might want to express themselves differently, and to vote differently. We are only dealing with one motion which is a motion of concurrence in the report of the agenda committee. I was simply seeking to save time but I guess we have lost time in the effort.

Mr. DREW: Then, Mr. Chairman, if you wish to deal with it in this way, and you prefer to proceed either by way of an amendment or by an agreement

of a substantive matter, I would move that Mr. Seagrim, director of Flight Operations and Mr. Bain, director of Engineering and Maintenance be called as witnesses.

The CHAIRMAN: You have heard the motion.

Mr. FRASER: We have had Mr. Harvey here and he has given us some information; and we have had him as a witness. Yet he is not a director. And at other committee meetings we have had other men who have not been directors. So I do not see any reason why we should not have these two men.

The CHAIRMAN: Isn't Mr. Cowie connected with T.C.A.?

Mr. FRASER: But he is not down as a director.

The CHAIRMAN: That is true. It has been my understanding that a treasurer, a controller, a secretary, and an auditor are in a totally different class, and that the members of the board of directors are in a totally different class from the other employees of the company.

Mr. KNIGHT: I think this is related to the main motion. Might I ask if Mr. McGregor is prepared to answer a few more questions in regard to operations?

Mr. MCGREGOR: Oh, yes.

Mr. KNIGHT: Whether or not these men are called?

Mr. MCGREGOR: We have with us the vice-president of operations, Mr. W. F. English, at the request of the chairman. He is the man to whom these two individuals in question directly report, and he is perfectly in a position to go into any detail of their work.

Mr. KNIGHT: Thank you.

Mr. FULTON: I think we are exactly parallel to the situation we were in this morning. Mr. Cooper is the comptroller to whom Mr. Harvey reports. And both Mr. Harvey and Mr. Cooper were here with us this morning. Now the committee has asked that Mr. Seagrim and Mr. Bain be called. And the fact that Mr. English is here does not seem to me to preclude their coming. I believe the situation is exactly parallel in the case of Mr. Cooper and Mr. Harvey as it would be in the case of Mr. Seagrim and Mr. Bain, and I believe they might well be here.

The CHAIRMAN: On page 2 of the Annual Report you will find a list of the board of directors and the officers.

Mr. GEORGE: Question?

The CHAIRMAN: Are you ready for the question, gentlemen?

Mr. DREW: Since it has been suggested that Mr. English is in a position to give information, I believe the committee might better determine whether the motions should be made or not after we have heard Mr. English's evidence, because his evidence will determine whether or not he has in fact all the information.

Mr. POULIOT: Mr. English?

The CHAIRMAN: Is the committee willing that the motion for the adoption of the report of the agenda committee stand sine die?

Mr. MUTCH: I love that expression, "sine die".

The CHAIRMAN: All those in favour of the motion for the adoption of the report of the agenda committee, please stand.

Mr. GEORGE: What is this again?

The CHAIRMAN: It has been suggested by Mr. Drew that possibly the officers who are already before the committee will be able to supply the information which he desires; and he suggests that the motion should stand, which would automatically mean the motion to adopt the report of the agenda committee would also stand.

Mr. DREW: I do not want to split hairs. But I would suggest that he could give the information—it has been stated that he could give it—and then we might determine better, after we hear the information which he can give.

The CHAIRMAN: I am sorry if I did not make it clear. All those in favour of the motion standing until later? Agreed.

Mr. MUTCH: It is just suspended judgment.

The CHAIRMAN: We are on the first page of the budget item.

Mr. DREW: Who do you propose to call now? Mr. English?

The CHAIRMAN: Mr. McGregor and Mr. English are both here and available for questioning.

Mr. DREW: Are we not going to ask Mr. English to answer questions in regard to last year's operations? I would point out that otherwise this procedure creates a barrier which I feel sure was not contemplated. Simply to proceed with one witness and then to call it a closed book precludes the possibility of officers who deal with the particular aspects of the matter giving evidence in relation to what has been before. Mr. English was not here before but he is here now and can speak of certain aspects of it.

The CHAIRMAN: I do not think there is any doubt that you were labouring under a misapprehension. You did believe that the budget items were before this committee, and I well remember your surprise when you found that they were not. In view of that, while I am in the hands of the committee, I think you should have a free hand to ask questions in regard to the 1949 items and what not, as shown in the budget items as well as the 1950 budget items. Which page of the report would you prefer or suggest, Mr. McGregor, should be taken up first?

Mr. MCGREGOR: I do not think it matters as to the order of things, Mr. Chairman. Mr. Drew at the last session of the committee asked for the 1949 forecast, the 1949 actual and the 1950 operating forecast. He also asked for the 1949 and 1950 budgets. The only thing which T.C.A. classifies as a budget as such is the capital budget which has also been submitted so that we would cover all the ground.

The CHAIRMAN: Has the committee any preference as to whether we take the Atlantic service, the North American service, or the Bermuda-Caribbean service?

Mr. MUTCH: It occurs to me that if we take the consolidated budget, the other questions might arise out of that.

The CHAIRMAN: All services; I think, perhaps, that is helpful. We will carry on under the first page of the memorandum which the committee members have: "Trans-Canada Air Lines 1949 Financial Results compared with 1949 Forecast and 1950 Forecast, All Services".

Mr. MUTCH: That is broad enough to ask anything.

Mr. KNIGHT: Mr. Chairman, if I am in order—

The CHAIRMAN: Yes.

Mr. KNIGHT: I see that this No. 1 1949 forecast includes the forecast of "Wage Increases Resulting from Labour Negotiations in Late Fall of 1948". There is a small matter here that I want to clear up, about the closing down of certain sections of the T.C.A. plant in Winnipeg. The whole thing has to do with the desire—I think it was the desire—of the company, perhaps, last year to move their headquarters to Montreal; and whether there is any connection between the desire to move to Montreal on the part of the company and the fact that certain men have been dismissed this year. I want to ask Mr. McGregor

two or three questions about it. First of all, I understand, Mr. McGregor, that certain men, particularly machine men, have been laid off. Could you give us some information in regard to that.

Mr. McGREGOR: Are you speaking of very recent lay-offs?

Mr. KNIGHT: Fairly recent, I should think.

Mr. McGREGOR: Within the last month?

Mr. KNIGHT: I would not want to commit myself; I believe it was within the last two or three months at any rate.

Mr. McGREGOR: I think the lay-offs referred to are all within the last month and they are not manual workers but members of the engineering staff; and the reduction in the total engineering staff amounted to approximately 70. The number of people affected was about equally divided between Winnipeg and Montreal.

Mr. KNIGHT: Some of these men would have considerable seniority.

Mr. McGREGOR: Some of them had about four years.

Mr. KNIGHT: Any more than that?

Mr. McGREGOR: There was one man with longer service for whom an arrangement was made for a transfer within the company.

Mr. KNIGHT: I was amazed at this bumping regulation which applies to railroads as well as to aircraft companies. Can some of those men be taken on under that regulation at Montreal?

Mr. McGREGOR: If they elect to use the bumping regulation—which is the only name by which it is known to me—that is not a matter of election with the company. It is written into the agreement between the association and the company at the request of the association.

Mr. KNIGHT: Would there not be a method by which the men would travel from Winnipeg to Montreal?

Mr. McGREGOR: At their own election it might be, but the reverse might be true.

Mr. MUTCH: It might happen that a man who was a junior in Montreal would be a senior in Winnipeg and would bump somebody there.

Mr. McGREGOR: That is correct.

Mr. KNIGHT: What you have said has been of the greatest value. Thank you very much.

Mr. MUTCH: I am interested in the man, not the company.

Mr. KNIGHT: Well, I am interested in both. Would there be any connection between the fact that these men were laid off and the desire of the officials to make the headquarters at Montreal?

Mr. McGREGOR: None whatever.

Mr. KNIGHT: None whatever. I wanted to get that assurance. I understood in connection with some of these men moving from Winnipeg to Montreal that they had assurance that they were not going to be laid off and that there would not be any lay-offs in that period.

Mr. McGREGOR: No such assurances are ever made to any employees of T.C.A., but an assurance was given that there would be no functions transferred from Winnipeg to Montreal other than the headquarters function that was transferred as of last October.

Mr. KNIGHT: By function you mean of the whole shop?

Mr. McGREGOR: Any specific job requirement.

Mr. KNIGHT: In other words the functions remain there but fewer men were employed.

Mr. MCGREGOR: That is true both in Montreal and Winnipeg in respect to this engineering personnel who were draftsmen and junior engineers.

Mr. KNIGHT: The next question I would like to ask is this: Is it correct that the company to farming out at the moment, giving out contracts for work to private companies in Winnipeg which work was originally, or could be performed in the company's own shops.

Mr. MCGREGOR: I think Mr. English could better answer that question when he is called, but I would say definitely no to that.

The CHAIRMAN: Is Mr. English not here?

Mr. MCGREGOR: Yes, he is here.

The CHAIRMAN: Well, have him answer the question.

Mr. ENGLISH: No, there is no function performed in Winnipeg sub-contracted to anybody outside the company at Winnipeg. At Montreal we have a sub-contracting arrangement on a small function in connection with magneto repairs, a sub-contract with a magneto manufacturer because there are certain modifications involved and we got an agreed contract price on the job. It involves a function of six men.

Mr. KNIGHT: Then there is no work being given out in Winnipeg that could be performed in the shops.

Mr. ENGLISH: No.

Mr. KNIGHT: My information was—I do not mind giving you the name of the company—to the effect that the MacDonald Aircraft Company in Winnipeg was doing some of that work. Apparently that information was not correct.

One other subject: what does the employee in this case do with regard to his pension rights?

Mr. ENGLISH: If the employee is laid off, he has the right to leave his pension contribution in the pension fund and if he is recalled to duty he starts in where he left off. In other words, he maintains his pension status. If he elects to withdraw his contribution from the fund when he again enters the employ of the company he starts over again.

Mr. KNIGHT: A man who has just been laid off under the present state of there not being such a lot of business for the company as there has been in times past is not very likely to be in a position to leave his contribution there.

Mr. ENGLISH: We have had layoffs before and I think I am quite correct in saying that any laid off employee within the last two years, not within the past year, but within the last two years has been given the chance of re-entering the employment of the company.

Mr. KNIGHT: You mean when the employment is there.

Mr. ENGLISH: Yes, when the employment is there.

Mr. KNIGHT: My suggestion was if the company found it necessary to lay him off now that would be a proof of the fact that the work is not available and this man would be among the ranks of the unemployed. That is, if he is laid off, his money on deposit in the pension fund is not very much good to him.

Mr. ENGLISH: We have a turnover of about 6 per cent, a normal turnover, and that means there are always vacancies coming up, and a man who has been employed by the company has the first right to re-employment, and in fact we recommend to anybody who is laid off that he leave his pension contribution in the pension fund.

Mr. KNIGHT: You would not, I presume, because it would not be any of your business, have any knowledge of those seventy men who have been re-employed elsewhere.

Mr. ENGLISH: I would not have that information, no.

Mr. MCGREGOR: I think it could be said that there has been a good deal of activity on the part of T.C.A. in an effort to provide for re-employment of those people. I know there are successful cases but I do not know all the particulars.

Mr. KNIGHT: In order words, the company feels a certain responsibility, a moral responsibility in the matter?

Mr. MCGREGOR: Yes.

Mr. KNIGHT: I am very pleased to hear that.

There is only a small thing left, I will take but one minute. I want to ask to what extent the difference in time, that is to say in places where you have fast time and in other places slow time and particularly, in the same province—to what extent does that trouble or bother you? I know it troubles the railway employees tremendously. I was wondering if it means a cash consideration, if it means more staff, and more work in giving information. Railway employees say that practically every piece of information they give in our province of Saskatchewan has to be given practically twice; it practically doubles their work in as far as giving out that information is concerned. I wonder if that bothers you.

Mr. MCGREGOR: It is quite a nuisance and it does actually increase the volume of work as it very nearly always requires that double information be given as to time of departure and arrival and so on and quite often a lengthy discussion breaks out as to whether it is an hour after or before the standard time which is being quoted. Flights are actually missed by passengers through the confusion that arises. The fact that our timetable is published in standard time, as it must be, certainly adds confusion to the administration of the air lines and it is an inconvenience to passengers, and certainly there is some cost but it would be difficult to measure.

Mr. KNIGHT: In other words, a uniform basis of time across the country would be of help to you?

Mr. MCGREGOR: From the transportation standpoint it would be a great boon.

Mr. MUTCH: I would like to ask this question: The president said a moment ago that about eighty had been laid off as between Winnipeg and Montreal. With respect to the engineering staff I wonder if Mr. English could say how many in each of the two places.

Mr. ENGLISH: Approximately fifty per cent in each; but of that eighty some thirty found other employment in the company.

Mr. MUTCH: Are you in a position to give this committee any idea as to the comparative numbers employed by T.C.A. in Winnipeg today and as of the time of the transfer to Montreal?

Mr. MCGREGOR: I do not think I have that figure. I would think that today it would be probably in the order of one hundred and fifty less than as of October 1.

Mr. MUTCH: About a hundred and fifty have been moved?

Mr. MCGREGOR: Yes.

Mr. MUTCH: So that the net gain in Winnipeg since then has been perhaps less than ten?

Mr. McGregor: Yes, that would be the normal expectancy inasmuch as we are just at the end of our low work load period which is the winter months.

Mr. Mutch: I do not know whether it is a fair question or not, but is it anticipated that there will be any considerable additions to the staff in Winnipeg as a result of other changes?

Mr. McGregor: No, it is not anticipated.

Mr. Mutch: That is all.

Mr. Drew: Mr. Chairman, is it Mr. McGregor or is it Mr. English we are dealing with at the moment?

The Chairman: They are both available and my suggestion is in dealing with the budget items we would take first the operating items and that they would all be included by reference to the items on the first page of the memorandum which you all have in front of you, which contains six headings: operating revenues, operating expenses, etc.

TRANS-CANADA AIR LINES

1949 Financial Results Compared with 1949 Forecast and 1950 Forecast

ALL SERVICES

	1949 Forecast*	1949 Actual	1950 Forecast†
Operating Revenues	$ 37,879,000	$ 36,746,356	$ 40,145,000
Operating Expenses	40,017,000	40,288,744	40,782,000
Operating Profit or (Loss)	(2,138,000)	(3,542,388)	(637,000)
Miscellaneous Income—Net	....	Cr. 13,739	144,000
Interest on Capital	765,000	761,466	750,000
Surplus or (Deficit)	(2,903,000)	(4,317,593)	(1,243,000)

*Includes forecast wage increases resulting from labour negotiations in late fall of 1948.

Includes increased charges for full year of North Star operations as compared with six months in 1948.

†Expense estimates in this column are based upon current wage scales.

TRANS-CANADA AIR LINES

1949 Financial Results Compared with 1949 Forecast and 1950 Forecast

ATLANTIC SERVICES

	1949 Forecast*	1949 Actual	1950 Forecast†
Operating Revenues	$ 11,124,000	$ 10,222,387	$ 9,555,000
Operating Expenses	13,008,000	12,714,826	10,587,000
Operating Profit or (Loss)	(1,884,000)	(2,492,439)	(1,032,000)
Miscellaneous Income—Net	....	Cr. 114,929‡	....
Interest on Capital	300,000	290,781	232,000
Surplus or (Deficit)	(2,184,000)	(2,898,149)	(1,264,000)

*Includes forecast wage increases resulting from labour negotiations in late fall of 1948.

†Expense estimates in this column are based upon current wage scales.

‡Reflects loss through devaluation of sterling amounting to $97,605.

TRANS-CANADA AIR LINES

1949 Financial Results Compared with 1949 Forecast and 1950 Forecast

NORTH ATLANTIC SERVICE

	1949 Forecast	1949 Actual	1950 Forecast
Operating Revenues	$ 10,033,000	$ 9,062,159	$ 7,991,000
Operating Expenses	10,608,000	10,472,472	7,987,000
Operating Profit or (Loss)	(575,000)	(1,410,313)	4,000
Miscellaneous Income—Net	....	Cr. 99,974	....
Interest on Capital	235,000	228,408	167,000
Surplus or (Deficit)	(810,000)	(1,738,695)	(163,000)

TRANS-CANADA AIR LINES

1949 Financial Results Compared with 1949 Forecast and 1950 Forecast

BERMUDA AND CARIBBEAN SERVICES

	1949 Forecast	1949 Actual	1950 Forecast
Operating Revenues	$ 1,091,000	$ 1,160,227	$ 1,564,000
Operating Expenses	2,400,000	2,242,353	2,600,000
Operating Profit or (Loss)	(1,309,000)	(1,082,126)	(1,036,000)
Miscellaneous Income—Net	....	Cr. 14,955	....
Interest on Capital	65,000	62,373	65,000
Surplus or (Deficit)	(1,374,000)	(1,159,454)	(1,101,000)

TRANS-CANADA AIR LINES

1949 Financial Results Compared with 1949 Forecast and 1950 Forecast

NORTH AMERICAN

	1949 Forecast*	1949 Actual	1950 Forecast†
Operating Revenues	$ 26,755,000	$ 26,523,969	$ 30,590,000
Operating Expenses	27,009,000	27,573,918	30,195,000
Operating Profit or (Loss)	(254,000)	(1,049,949)	395,000
Miscellaneous Income—Net	....	101,190‡	144,000
Interest on Capital	465,000	470,685	518,000
Surplus or (Deficit)	(719,000)	(1,419,444)	21,000

*Includes forecast wage increases resulting from labour negotiations in late fall of 1948.

Includes increased charges for full year of North Star operations as compared with six months in 1948.

†Expense estimates in this column are based upon current wage scales.

‡Reflects profit through sale of U.S. funds after devaluation amounting to $42,473.

TRANS-CANADA AIR LINES

Property and Equipment Budget—Year 1950

—	1949			Actual	1950		
	Budget				Budget		
	Revotes	New Items	Total		Revotes	New Items	Total
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Airplanes	57,823 61	239,023 00	296,846 61	79,040 33	74,000 07	191,200 00	265,200 07
Airplane power plants	67,563 72	220,800 00	288,363 72	63,844 26	33,229 55	290,000 00	323,229 55
Aircraft component equipment	93,927 22	138,283 00	232,210 22	110,585 56	6,034 96	18,453 00	24,487 96
Ground communication facilities	8,914 35	115,450 00	124,364 35	29,741 64	14,150 41	22,775 00	36,925 41
Hangar and shop facilities	53,043 88	271,486 00	324,529 88	98,533 75	69,020 33	117,692 00	186,712 33
Ramp facilities	26,136 35	120,132 00	146,268 35	82,654 58	41,826 76	14,344 00	56,170 76
Motorized vehicles	45,003 47	85,874 00	130,877 47	72,289 98	16,033 95	35,905 00	51,938 95
Accommodation and office facilities	34,699 01	172,388 21	207,087 22	94,717 51	50,772 15	72,141 59	122,913 74
Medical equipment	.....	500 00	500 00	334 27	179 13	.....	179 13
Engineering facilities	270 00	16,162 00	16,432 00	6,911 80	2,097 35	1,681 00	3,778 35
Hotel, restaurant and food services facilities	978 16	44,866 00	45,844 16	12,504 00	5,759 82	7,683 00	13,442 82
Storage and distribution facilities	2,935 68	16,002 40	18,938 08	7,795 07	3,174 90	8,531 00	11,705 90
Miscellaneous facilities	.....	7,355 00	7,355 00	3,022 67	963 40	2,212 50	3,175 90
Buildings and improvements	60,976 89	135,721 32	196,698 21	122,704 24	19,039 01	139,918 00	158,957 01
Contingency fund	.....	563,000 00	563,000 00	.....	.....	503,922 41	503,922 41
	452,272 34	2,147,042 93	2,599,315 27	784,679 66	336,281 79	1,426,458 50	1,762,740 29

Mr. McGREGOR: Mr. Chairman, if I may make a comment, which may help to clear up that situation; I believe I will be in a position to answer questions regarding the company's finances, and questions regarding the operations department should, of course, be directed to Mr. English who is vice-president in charge of that department.

The CHAIRMAN: You can indicate as the questions come in those that Mr. English can answer, and those that he can answer, you just turn them over to him. The first item, for instance, is operating revenues. That will automatically include operating revenues in the breakdown of the four different divisions, operating revenues 1949, forecast 1949, actual 1949, and 1950 forecast.

Mr. DREW: Then, Mr. McGregor, in that first item I notice that you have an estimate of operating revenues of $40,145,000, which is an increase of over $2,000,000 above 1949, and in examining the breakdown of that, I find that there is an increase of nearly $4,000,000 in the operating revenues estimated in connection with the North American services and a drop of nearly $700,000 in the estimated revenues from the Atlantic services. What is the reason that you expect lower revenues from the Atlantic services?

Mr. McGREGOR: There are three conditions that have given us reason to believe that that will be the trend. One is the fact of the heavy competition on North Atlantic services on which there are eleven companies engaged, two other companies operating into Montreal, one for the first time and the second one very much more substantially than previously, so that we think that our share of the total travel will be somewhat less; secondly, we know that the rate recommending body for international travel, the international air transport association, is being influenced strongly by that competitive condition to adopt a policy toward reduction in fares particularly with respect to winter months, with the result that this last winter for the first time there were two excursion fares in force, one at the rate of one fare and a third return on a sixty day travel basis, and the other at the rate of a fare and a tenth on a fifteen day travel basis, which has had the effect of reducing the realized revenue from any given amount of passenger travel; the third condition which we anticipate will affect our revenues on trans-Atlantic air travel is the steady increase in availability of shipping space as more and more ships are converted from war service to passenger accommodation to say nothing of new launchings, all of which gives strong weight to the expectancy that the revenue from air transportation in respect to any one company is likely to decrease.

Mr. FRASER: Well, then, Mr. Chairman, the double-deck planes are being advertised now quite extensively. Will that have a tendency to take more business away from you on account of more comfort and one thing and another?

Mr. McGREGOR: I do not think, from the standpoint of the aircraft itself, that it is likely to take anything away from us, but the frequency of service has gone up from three per week by B.O.A.C. Constellations last year to, I believe, three per week Constellation and two per week strato-cruisers. In other words, there are many more seats available and the individual who wants to travel on a certain day if he cannot get a seat in one air line will certainly go to the other and the more space that is made available by individual air lines usually means that they get that much more business.

Mr. DREW: What are the two lines to which you refer?

Mr. McGREGOR: B.O.A.C. and K.L.M., the Dutch air lines.

Mr. DREW: What number of flights will the K.L.M. be operating?

Mr. McGREGOR: I do not know what their plans for the summer are but I think at present they are operating two a week.

Mr. DREW: What kind of aircraft are they operating into Montreal?

Mr. McGREGOR: Constellations.

Mr. DREW: Well, now, you spoke of the increased competition and the increase of availability of shipping space. I suppose that has been a progressive development?

Mr. MCGREGOR: Yes.

Mr. DREW: Shipping has become more available since the war?

Mr. MCGREGOR: Yes.

Mr. DREW: And also there has been increasing competition from lines on that service?

Mr. MCGREGOR: Yes.

Mr. DREW: That started when, about two years ago?

Mr. MCGREGOR: Yes.

Mr. DREW: It has been progressively increasing right along?

Mr. MCGREGOR: Yes, and in addition there was a very noticeable volume of traffic in what may be regarded as pent-up travel; people who had not seen their parents in the old country during the seven war years have gone over and visited them. It will probably be another seven years before they travel again.

Mr. DREW: Has that been progressive for some time? Has that reached the saturation point?

Mr. MCGREGOR: I would think, as you say, it has been progressive. It became noticeable last year in definite proportions.

Mr. DREW: You are booked up for the summer months?

Mr. MCGREGOR: As I mentioned earlier, the North Atlantic service has a tendency to be directional; at the present time most of the travel is eastward and later on in the season those passengers will be coming back and the bulk of the travel will be westward.

Mr. DREW: In other words, you will have your heavy demand, until about the middle of July, going east, and then the heavy demand will swing the other way, coming west after that date; is that it?

Mr. MCGREGOR: That is true, setting aside the special effect that we felt from the excursion services about which I spoke.

Mr. DREW: Now, with regard to consideration of the revenue for the North American service; you have naturally an increase in that cost; is that based upon an extension of services or other factors?

Mr. MCGREGOR: On two factors, one of which is that there will be an additional transcontinental service provided beginning on May 12th, there will be four transcontinental flights instead of the three flights per day each way as at present, and that is one flight each way per day additional to what we provided last year. The second thing is the past trend, in which we have no reason on suspect a reversal, and under which our passenger travel in 1949 showed a 100 per cent increase over 1947 and a 25 per cent greater volume than in 1948.

Mr. DREW: Well then, in that respect, you are anticipating additional aircraft?

Mr. MCGREGOR: No.

Mr. DREW: Just using what you have?

Mr. MCGREGOR: Yes.

Mr. DREW: Then, I take it, that you are aware of any special orders that affect the operation of any part of the services, are you not?

The CHAIRMAN: Would that not come under expense, Mr. Drew; would that not be a major expense item? Shall operating revenues carry?

Carried.

Operating expenses:

Mr. DREW: Well then, dealing with operating expenses; in connection with operating expenses, would any notices that affect the operation of the aircraft in relation to the general service come to your attention.

Mr. MCGREGOR: That would depend on their nature, Mr. Drew.

Mr. DREW: I notice there is a $400,000 increase in the 1950 forecast; is that due to the fact that new flights are coming into operation; for instance, the one down to Bermuda and the Caribbean?

Mr. MCGREGOR: No, that is anticipated revenue increase which we expect as people get more familiar with the service we operate through Tampa and to the Barbados and so on.

The CHAIRMAN: Any time a member wishes to ask a question about any items on the following pages which relate to the item under discussion on this first page, they are at liberty to do so.

Mr. DREW: Well now, in dealing with the services, Mr. McGregor, is Mr. English in a better position to speak in detail as to operation matters?

Mr. MCGREGOR: Yes, if it has directly to do with operation matters.

Mr. DREW: Yes; well, operation is a factor of expense?

Mr. MCGREGOR: Yes.

Mr. DREW: Well, Mr. Chairman, so we shall not misunderstand each other, in dealing with these items shall we deal with these items one at a time?

The CHAIRMAN: Any member of the committee may direct any question he wishes pertaining to the item under discussion.

Mr. DREW: I would not want to depart from the established order of procedure.

The CHAIRMAN: Carry on, it is all right.

Mr. DREW: Now, in regard to the operating expenses, what is the reason for the anticipated increase of $2,000,000 in operating expense?

The CHAIRMAN: That item is on one of the supplementary pages, but it would appear that the composite item of expense has not materially changed.

Mr. DREW: Oh, I am sorry, I was looking at another page on North American services.

The CHAIRMAN: If you want to refer the witness to North American services, that is all right.

Mr. DREW: Would you rather go through the Atlantic services first?

The CHAIRMAN: No, what we planned to do was this: any general item on the first page gives you the opportunity to ask any question you may wish to which relates to that item on the other pages.

Mr. DREW: Well then, in that part of the estimates which relate to the North American services you list there operating expenses for 1950 of $30,195,000 as compared to the $27,573,918 for 1949; what is the reason for that increase in operating expense in connection with the North American services?

Mr. ENGLISH: Increased services. We are operating about a 35 per cent increased service in 1950 as compared to 1949. Air traffic operating costs go up, for instance you have to buy more gasoline and oil—that is a major item in the increase—then there are also landing fees which go up with the increased passenger services; there is also a slight increase in payroll expense on the North American service which is offset by a substantial decrease on the overseas service.

Mr. DREW: Then you are operating the same number of aircraft?

Mr. ENGLISH: Yes, but we are getting greater utilization of them.

Mr. DREW: That is forty-two aircraft that you have in operation?

Mr. ENGLISH: No, forty-seven.

Mr. DREW: Forty-seven, is it?

Mr. ENGLISH: Yes; twenty North Stars and twenty-seven D.C. 3's.

Mr. DREW: Is that the same number as you had last year?

Mr. ENGLISH: Yes.

Mr. DREW: So you will be using the same number of men?

Mr. ENGLISH: Doing the same work with them.

Mr. DREW: There will be some additional expense there?

Mr. ENGLISH: Yes.

Mr. DREW: Now, Mr. English, in that respect, as you are dealing with the question of operating expenses in connection with various aircraft which you are using, do any notices about the method of operation come to your attention?

Mr. ENGLISH: Well, not all notices, not routine notices affecting a department, they are not brought to my attention.

Mr. DREW: I mean any notices that would affect the flight of aircraft; would they come to your attention?

Mr. ENGLISH: Not necessarily, but I should know if it is something out of the ordinary, that would be brought to my attention.

Mr. DREW: You were here while we were discussing the matter and you heard the discussion which took place. Mr. Seagrim is Director of Operations and Mr. Bain is Director of Engineering Services. In connection with that would they forward as a matter of routine notices to you of any directions which they gave?

Mr. ENGLISH: Yes, but not necessarily before they were issued.

Mr. DREW: No, I see what you mean, but when they were issued?

Mr. ENGLISH: I see all such notices.

Mr. DREW: You would be quite aware of them?

Mr. ENGLISH: Yes.

Mr. DREW: Now, in connection with the operation of the North Stars, what is the average speed of the aircraft on flight?

Mr. ENGLISH: We are scheduling our ships at 230, that is conservative. What I mean there is this, our cruising time varies, it is all the way from 245 to 260, and our flights are based on take-off and touchdown time and on an instrument approach to each airport.

Mr. DREW: But your base flight speed is 230 miles an hour?

Mr. ENGLISH: Yes.

Mr. DREW: Is that lower than you have flown at times? Are you reducing the speed at which you are operating on these flights?

Mr. ENGLISH: Recently, slightly, yes; we have reduced our cruise horsepower from 1,000 to 900.

Mr. DREW: What is the reason for that?

Mr. ENGLISH: We figure it is going to help reduce our maintenance costs.

Mr. DREW: And instructions were given to all flight captains in that regard?

Mr. ENGLISH: Oh yes, definitely.

Mr. DREW: You saw those instructions, did you?

Mr. ENGLISH: Yes.

Mr. DREW: In that respect it has been the practice in the past to fly with the indicators at the F.S. mark; is that right?

Mr. ENGLISH: Yes.

Mr. DREW: And the F.S. mark is the mark which brings into operation the supercharger, isn't it?

Mr. ENGLISH: Yes.

Mr. DREW: And you have, I think, until quite recently operated your aircraft a little over or at the F.S. mark?

Mr. ENGLISH: Yes.

Mr. DREW: And instructions were given to flight captains that they were to operate them under the F.S. mark?

Mr. ENGLISH: We are going up to the F.S. mark again.

Mr. DREW: You are at the present time at the F.S. mark?

Mr. ENGLISH: Yes.

Mr. DREW: And you are aware of the reasons given the flight captains to keep at the F.S. mark?

Mr. ENGLISH: Yes.

Mr. DREW: And the reason for that was given out in a letter which was about the burning out of the bearings; is not that right?

Mr. ENGLISH: Yes.

Mr. DREW: You did have considerable trouble in the burning out of bearings in the Merlin engines?

Mr. ENGLISH: Yes.

Mr. DREW: And that order has been in effect for what, five months?

Mr. ENGLISH: Four months, I think it is.

Mr. DREW: Who gave the instructions to the flight captains that until further notice they were not under any circumstances to operate the aircraft above the F.S. mark?

Mr. ENGLISH: Under any circumstances, did you say?

Mr. DREW: I assume that would be what it was.

Mr. ENGLISH: In normal operation?

Mr. DREW: In normal flight they were not to place the indicator at the F.S. mark?

Mr. ENGLISH: Yes.

Mr. DREW: That, of course, means that the engine was not operating at the maximum efficiency?

Mr. ENGLISH: No, it was found that we could reduce our maintenance costs by adopting a different operating speed. It had nothing to do with the safety of the operation of the aircraft.

Mr. DREW: Perhaps not the flight operation, but is it not so that this order followed out an earlier order issued by Mr. Seagrim which expressed concern about the failure of North Star engines; it was issued last spring, and it pointed out to pilots that in no case was the indicator to be set above the F.S. mark. You recall that, or don't you?

Mr. ENGLISH: Yes.

Mr. DREW: Have you got a copy of that with you?

Mr. ENGLISH: No.

Mr. DREW: Do you recall the contents of that order?

Mr. ENGLISH: No, not word for word.

Mr. DREW: But you do recall that that order directed the flight captains to be extremely careful in their flight times, and it particularly expressed concern

about the number of engine failures, and then went on to advise all flight captains to arrange their flying plans so as to avoid too great a strain on their engines?

Mr. ENGLISH: No, I think that assumption is too far-fetched.

Mr. DREW: I am not speaking about assumptions, I am speaking about what the order contained?

Mr. ENGLISH: Any order that we put out—any order put out to a flight crew is naturally on the conservative side. We had no concern regarding the operation or the safety of the operation.

Mr. DREW: I am talking about the actual instruction that was given. Would you have any order of that kind in your possession?

Mr. ENGLISH: Yes, but I would not have a copy here.

Mr. DREW: You recall the order issued to flight captains on February 14th of last year with regard to watching their flight operations?

Mr. ENGLISH: It has been brought to my attention.

Mr. DREW: I believe it starts "We have been concerned over the number of failures on the North Star engine".

Mr. ENGLISH: Yes, but we get out orders of that kind every day—not every day, but often. Recently we were concerned about the way our tires were standing up and we put out an order to the effect that maintenance crews should watch the tires very closely when they were on the ground checks. That order was not referred to me before it was sent out; it was a matter of concern but not alarm. It is a routine order issued by a branch of the operations department because of a certain condition which existed at the time. If it had been a matter of alarm it would have been brought to my attention before being issued but it was issued as a matter of routine. When it became subject to a certain amount of attention recently I asked for it.

Mr. DREW: You asked for it?

Mr. ENGLISH: Yes.

Mr. DREW: And it was in accordance with the statements made in regard to it?

The CHAIRMAN: What statements?

Mr. DREW: Mr. English said his attention was drawn to this and he saw the order.

Mr. ENGLISH: Yes.

Mr. DREW: If you saw the order do you recall that the closing paragraph said: "In the meantime, it is desired that you adopt a relatively conservative outlook with respect to flight on three engines, having in mind the weather, availability of usable airports on the route, etc."

Mr. ENGLISH: Yes, but we do not fly aircraft on three engines—only in ferrying them from one point to another. We have a valuable piece of equipment and it was just a warning to captains that if it was necessary to ferry an aircraft from one point to another on three engines they should exercise particular care.

Mr. MCGREGOR: I should point out that Mr. English is using an air line term when he says "ferry". Ferrying means flying an aircraft on a non-pay load flight—without any pay load.

Mr. DREW: That was the order issued to all flight captains in respect of operations?

Mr. ENGLISH: Yes.

Mr. DREW: The other order I referred to, the more recent one which is still in effect is one issued to flight captains on their regular operations?

Mr. ENGLISH: That is right.

Mr. DREW: It is still in effect?

Mr. ENGLISH: No. I might mention, Mr. Drew, just to be clear, that the first order has to do with ferrying aircraft and not operating aircraft with a revenue load; that is moving an empty aircraft.

Mr. DREW: Which order are you referring to?

Mr. ENGLISH: The first order—the one in February.

Mr. DREW: The last one is in regard to all operations?

Mr. ENGLISH: All operations, yes sir.

Mr. DREW: Well, in that respect, Mr. English, have you had consultations with the representatives of the pilots' organization in regard to the problems of their engine operation?

Mr. ENGLISH: No.

Mr. DREW: You have not?

Mr. ENGLISH: No.

Mr. DREW: Who would have discussions of that kind?

Mr. ENGLISH: We have discussions with individual representatives but not with the pilots' organization.

Mr. DREW: Have you had discussions with the pilots in regard to that matter? Have you obtained opinions from them in regard to this problem?

Mr. ENGLISH: In regard to which problem?

Mr. DREW: About this difficulty they are having in connection with the burning out of bearings?

Mr. ENGLISH: That is nothing much. As I said before that was an endeavour on our part to reduce our maintenance costs. We found our maintenance costs were high; we found these bearings were burning out and we had to replace them more frequently than we should have. It was not an operational problem. I doubt if the pilots would know the reason for it; they just got the instruction.

Mr. DREW: But a reason was given to the pilots?

Mr. ENGLISH: Yes, but the reason behind the order they were working on—

Mr. DREW: Have you had any discussions as to the desirability or otherwise of any review of your position in connection with the type of engines to be used in any of your aircraft?

Mr. ENGLISH: Well, we are studying all the time. We get information on every new type of engine and every new type of aircraft. We are constantly reviewing it—we are constantly visiting the manufacturers and we receive visits from them.

Mr. DREW: Have you received recommendations from individuals or otherwise in connection with the adoption of any particular kind of engine?

Mr. ENGLISH: No.

Mr. DREW: At no time?

Mr. ENGLISH: No; except of course from the manufacturers.

Mr. DREW: From the what?

Mr. ENGLISH: From the manufacturers. We have lots of recommendations from them.

Mr. DREW: I don't doubt that. You have explored those have you?

Mr. ENGLISH: Oh, yes.

Mr. DREW: Were you called upon to get any opinion about the model that has been discussed here—described as prop-jet in which a Pratt and Whitney engine has been installed?

Mr. ENGLISH: No sir.

Mr. DREW: That was not discussed with you?

Mr. ENGLISH: No, sir.

Mr. DREW: Have you seen that aircraft?

Mr. ENGLISH: No, sir. It has not been seen yet by—

Mr. DREW: You yourself have not seen it?

Mr. ENGLISH: I do not think that anyone in T.C.A. has.

Mr. DREW: They did not make any inquiries from you as to your knowledge of that type of aircraft? Do you recall the time you made a conversion of three of your aircraft when you changed from Wright whirlwinds to Pratt and Whitneys?

Mr. ENGLISH: No, sir; we did not change anything, we sold the aircraft which had the Whirlwind engines.

Mr. DREW: You got rid of the whole aircraft?

Mr. ENGLISH: We got rid of the aircraft, and bought others.

Mr. DREW: You bought other ones with Pratt and Whitney engines?

Mr. ENGLISH: Yes, we wanted to standardize to that one type.

Right Hon. Mr. HOWE: Is it not true that you took over a route from C.P.A. and, as part of the agreement, you took over three aircraft with Whirlwind engines?

Mr. ENGLISH: No, we wanted additional aircraft immediately following the war and we could not get DC-3's with the Pratt and Whitney engines but we could get them with the Wright Whirlwind so we took them as a temporary measure. When we were able to get DC-3's with the Pratt and Whitney we sold the DC-3's with the Wrights.

Mr. DREW: Have you found the Pratt and Whitneys on the DC-3's with the Pratt and Whitney engines to be satisfactory?

Mr. ENGLISH: Yes, sir.

Mr. DREW: In view of the fact you are in charge of operations and that both the director of engineering and maintenance, as well as the director of operations come under your authority, have you considered the question at any time of possible conversion of those aircraft to other types of engines?

Mr. ENGLISH: No, sir; we have not found it necessary to do that. The aircraft is doing a good job for us.

Mr. DREW: You have not had any discussions along that line?

Mr. ENGLISH: No, sir.

Mr. DREW: And in the case of these various engines in which you are interested have you made any inquiries at any time as to how they could be used in the aircraft you have?

Mr. ENGLISH: None of them could be used without major changes in the aircraft. You are referring to the prop jet engine, or jet engines?

Mr. DREW: I am referring to any alternate engine.

Mr. ENGLISH: There are no other engines which might be used except the Pratt and Whitney R-2800.

Mr. DREW: Have you made inquiries though, in regard to them?

Mr. ENGLISH: As to whether it could be used?

Mr. DREW: Yes.

Mr. ENGLISH: Not as to whether it could be utilized in our aircraft, but we know the engine very well.

Mr. DREW: The M-2800?

Mr. ENGLISH: The R-2800, yes.

Mr. DREW: Yes—that is not the engine in the DC-3?

Mr. ENGLISH: No, it is the R-1830 in the DC-3—the smaller one.

Mr. DREW: What is the nature of the inquiries you have made?

Mr. ENGLISH: Oh, performance data and about the experience the United States operators have had. It is the engine that is, largely, in the DC-6's.

Mr. DREW: Is that the engine in the Constellation?

Mr. ENGLISH: No, the Constellation has a Wright 3350.

Mr. DREW: Which engine does the Boeing Stratocruiser have?

Mr. ENGLISH: It has a Pratt and Whitney R4360—a larger engine again.

Mr. DREW: Is the frame of the North Star similar to the DC-6?

Mr. ENGLISH: Except in size—it is 80 inches shorter than the DC-6.

Mr. DREW: The aircraft is?

Mr. ENGLISH: The aircraft, yes.

Mr. DREW: But otherwise similar in structure?

Mr. ENGLISH: Similar in structure, yes.

Mr. DREW: No major modification would be required on the North Star to adopt the R-2800?

Mr. ENGLISH: The R-2800 is too big for the North Star. The aircraft you have been mentioning, and which I have not seen, but which I have heard about in press reports, is a larger aircraft than the North Star—it is 40 inches larger than the North Star.

Mr. DREW: Wider wings?

Mr. ENGLISH: No. I think that the wing is the same, but I would not be sure because I have not seen the specifications.

Mr. POULIOT: A longer fuselage?

Mr. ENGLISH: A longer fuselage, and the pick-up points for the engine would be different.

Mr. POULIOT: Do you think there is something wrong with the fact that the fuselage of your aeroplane is shorter than that of the other?

Mr. ENGLISH: No, sir, because the aeroplane was built for the use which we wanted to make of it.

Mr. POULIOT: Yes, but you realize I ask the question for the benefit of the committee.

Mr. DREW: Mr. English, just so that we will know who is responsible for the different duties, does the question of free passages come within your control?

Mr. ENGLISH: No, sir.

Mr. DREW: Under whose control is that?

Mr. ENGLISH: That comes directly under the president.

Mr. DREW: Have you had an opportunity to examine the other aircraft services with which you are competing?

Mr. ENGLISH: Yes, sir.

Mr. DREW: Have you had an opportunity to examine the operation of Eastern Air Lines?

Mr. ENGLISH: Not recently—I have flown over it and I guess the last flight was about a year ago.

Mr. DREW: Of K.L.M.?

Mr. ENGLISH: Yes.

Mr. DREW: Pan American?

Mr. ENGLISH: Yes, I flew Pan American the other day.

Mr. DREW: In the case of K.L.M. do you know the number of aircraft they operate?

Mr. ENGLISH: No, I do not.

Mr. DREW: You have not any detailed information in regard to the organization of their company?

Mr. ENGLISH: No, no. I know their organization in a general way but that is all.

Mr. DREW: I am only thinking of the fact that possibly there might be some question of comparison that might be helpful in examining the operations of these competing organizations?

Mr. ENGLISH: I might put it this way. We have a very definite knowledge of the operations of the air lines in the United States—the domestic operators such as United, Northwest, American. We are particularly close to them. We have a good working knowledge B.O.A.C. but we have not had the same opportunity of examination of K.L.M. and Pan American. It costs money to send people there—to spend some time in Holland or down in Miami. You cannot learn very much in a casual visit of a day or two.

Mr. DREW: You have the advantage of having some men who actually served with K.L.M. have you not?

Mr. ENGLISH: With K.L.M.?

Mr. DREW: You had some men who returned to Canada after working with K.L.M.?

Mr. ENGLISH: Oh, yes; one or two pilots.

Mr. DREW: Yes.

Mr. ENGLISH: Yes, but no one who has served with them in a supervisory or official capacity.

Mr. MUTCH: They have some men who were trained by you?

Mr. ENGLISH: Yes, we selected quite a number of pilots for K.L.M. four or five years ago. The majority have since come back.

The CHAIRMAN: Are there any further questions on operating expense?

Mr. CARTER: May I ask one or two questions. I suppose this is the right place—I am never quite sure where the right place to ask questions is. I should like to know whether any consideration has been given to a direct flight, let us say, once a week or so, between Montreal and Gander with a North Star?

Mr. MCGREGOR: You mean as a schedule flight?

Mr. CARTER: Yes.

Mr. MCGREGOR: No, because so many of our trans-atlantic flights fly between Montreal and Gander non-stop it would be rather inefficient to put on a separate schedule flight between Montreal and Gander which would parallel the lightly-loaded leg, so far as available weight-space is concerned, on the trans-atlantic services.

Mr. CARTER: The reason I asked the question was that I have heard rumours that such was the case. Now, in the case of passengers who are grounded because

of bad weather, it sometimes happens that a flight is cancelled. Perhaps I might explain my own experience. About two weeks ago I was en route to Gander and we got as far as Sydney when we were grounded because of bad weather. We expected to get away next morning, and the next morning the weather turned out good and we could fly. Flights were going through, but we could not fly because our plane had gone back and our flight was cancelled. I wonder if it was because you did not have sufficient planes in your pool at Sydney or Moncton, wherever it is, that would look after an emergency flight such as that?

Mr. FRASER: You did not have enough pull.

Mr. MCGREGOR: If a flight is seriously delayed through bad weather, whether or not it is necessary to hold an aircraft, or to carry on a flight depends on a number of factors such as the available space in the succeeding flight, and the demand on the aircraft to return to its normal schedule operations. But as spring advances, the availability of the air lines' aircraft which are standing by waiting for such conditions to arise decreases as the total utilization of the available fleet increases. It may be a matter of interest to you to know that T.C.A. this summer will be operating at the highest aircraft utilization that it has as yet attained.

Mr. CARTER: But is there no serious consideration given in the matter of first come, first served? Because what annoyed us, I think, the most on that trip was that people we left behind us arrived a day ahead of us; and it might well happen that they could arrive a week ahead of us.

Mr. MCGREGOR: The regulation is that the delayed passenger has the first claim on available space in a succeeding flight, but he has no right to displace a passenger who is travelling on a routine basis.

Mr. CARTER: Would it not be feasible for you to maintain an extra plane based at Sydney or Moncton to look after people in that kind of an emergency?

Mr. MCGREGOR: It would be feasible but very expensive. Spring, as you probably know, in the Maritimes is a period of most unsatisfactory flying weather.

Mr. CARTER: And it would not be feasible then, let us say, when you have a situation where there are fifteen grounded passengers at Sydney, to put on a larger plane from Montreal and to make additional seats available?

Mr. MCGREGOR: No, because none of the handling equipment at intermediate points would be of the type used by the larger aircraft. That objection would not apply to Sydney because Sydney is used to handling the North Star aircraft, and it has the required equipment there.

Mr. CARTER: But would it not be fair if, knowing there were a number of passengers who had been grounded for, let us say, twenty-five to thirty-six hours—would it not be fair not to take on passengers in order to give those stranded passengers a chance to get out?

Mr. MCGREGOR: That would be entirely fair and it is the practice followed; but succeeding flights have probably been booked to passenger capacity for, let us say, a week to two weeks; and if there are other delayed passengers to be picked up, passengers would not be put on at Montreal. But those passengers in the succeeding aircraft would probably have been holding their space for anywhere from a week to ten days.

Mr. CARTER: But would not the same be true with respect to the passengers who were grounded? They would have been holding their space, let us say, for months?

Mr. MCGREGOR: That is possible; the decision must always be to minimize the passenger inconvenience. As soon as one flight irregularity is allowed to produce another, you snowball the number of inconvenienced passengers. It is

a well established axiom of air line operation, if you have had the bad luck to inconvenience a group of passengers, it is better not to allow the thing to become cumulative throughout the whole system, which is something that can very easily happen.

Mr. CARTER: You would rather have 20 passengers annoyed than to have a larger number?

Mr. MCGREGOR: That is very much the case.

Mr. MOTT: Take, for instance, between Toronto and Ottawa. Do you mean to say that you book that traffic between Toronto and Ottawa a week or two weeks ahead for each day, when it only takes six hours to make the run by train?

Mr. MCGREGOR: It varies tremendously with the pressure on the air line. When space is tight, we get bookings further and further ahead. But when space is readily available and that fact becomes known, then reservations are made much closer to flight time.

Mr. MOTT: I came in on a plane three hours late in the night and we thought that we would be able to leave by seven o'clock the next morning. But then I was called and told there was a low ceiling, and that I could not expect to get away until 9.25 I wanted to go to Vancouver. That would mean that the air line was booked up on every flight and on every plane until 9.25 at night.

Mr. MCGREGOR: When was this?

Mr. MOTT: Two or three months ago. I had to come back to Montreal in order to get here as a member of parliament. Otherwise I would have missed out.

Mr. MCGREGOR: Some flights seem to fit in with the requirements of the travelling public much better than others, and those flights become fully booked forty-eight to seventy-six hours ahead.

Mr. MOTT: I thought there would be some leeway in the case of one going that far on a T.C.A. trip and going right straight through. I would not have thought that one had to wait until 9.25 at night. I do not know how many trips there are from Toronto to Ottawa in a day. How many are there?

Mr. MCGREGOR: Now there are four a day.

Mr. MOTT: Four a day. That means you have four trips leaving. There were only two of us who had to come through; still those trips were loaded right up.

Mr. MUTCH: If a man coming from Vancouver or Winnipeg bumps a passenger from a full plane at Toronto, he might be bumping somebody who was making a connection in Montreal for a flight overseas.

Mr. MCGREGOR: Yes, and the principle which I outlined a moment ago applies. The delayed passenger or the connecting passenger has first call on any available space, on a succeeding flight; but he has not got the right to displace a passenger who has reserved his seat in a legitimate way from an intermediate departing point.

Mr. MOTT: If you buy a ticket from Vancouver to Ottawa, you may get there and you may not. But you are sure of getting to Toronto. I will admit that; but otherwise, I mean within twenty-four hours or twelve hours from Toronto to Ottawa.

Mr. MUTCH: If you must make a connection for which you are booked, you have the next available space from Toronto.

Mr. MOTT: Oh, yes. But I thought there should be something available for passengers coming through. I thought that on those trips leaving, there would be some available space for them.

Mr. McGREGOR: There would be available space on the flight with which you were supposed to connect, but due to being delayed, you did not make it.

Mr. MOTT: Yes.

Mr. CARTER: As to the snow-balling of a lot of discontented people, I cannot see any snow-balling. If, for example, you have got twelve passengers at Sydney who have been grounded for from twenty-four to thirty-six hours, then you have got twelve discontented people; so, if in order to make space for those people you did not take on board twelve people at Montreal or wherever the last terminal is, then you would still only have twelve people. You would not be snow-balling them.

Mr. McGREGOR: That is exactly correct and that is what I said: that we would not take them on knowing there were delayed passengers along the line. But if they already held reservations, and those reservations were arbitrarily cancelled, then those people would in turn become discontented.

Mr. MOTT: At how many fields have you got electrical landing equipment in operation? Is that equipment in operation at the fields right across Canada?

Mr. McGREGOR: No. But it is on all the principal fields with the exception of Patricia Bay in Victoria.

Mr. MOTT: You mean in use?

Mr. McGREGOR: Yes.

Mr. MOTT: And it is found to be satisfactory?

Mr. McGREGOR: Yes, excellent.

The CHAIRMAN: Are there any further questions?

Mr. CARTER: How many planes are kept in reserve either at Moncton or Sydney, roughly, or kept in reserve to meet this kind of emergency, and what extra expense would this incur, approximately?

Mr. McGREGOR: What was the second part of your question?

Mr. CARTER: I asked about the expenses of keeping an extra plane to meet that kind of emergency, and I asked how many planes are now kept based at Moncton or Sydney to take care of that kind of situation, and I asked what it cost per plane to do it.

Mr. McGREGOR: The cost per plane is not only the cost of keeping it there; it includes the loss of the revenue which that could have otherwise earned. The reserve aircraft coverage during the year in the eastern region will vary between one and three aircraft depending on the number of schedules being flown.

Mr. CARTER: You have no figures to show approximately what the three aircraft would cost in order to perform that service?

The CHAIRMAN: You would have to keep air crews as well.

Mr. McGREGOR: Yes, crews on call.

The CHAIRMAN: Are there any further questions?

Mr. McLURE: How many feeder lines are there into T.C.A. across Canada?

Mr. McGREGOR: You mean other than the T.C.A.?

Mr. McLURE: Yes; for instance, Maritime Central Airways is one of your feeder lines?

Mr. McGREGOR: I should think they would be in the order of twenty to twenty-five across the country, and I mean feeder lines as distinct from air lines.

Mr. McLURE: Feeder air lines?

Mr. McGREGOR: I do not mean separate companies, necessarily.

Mr. McLURE: No, no. And another question: do you know of any of these feeder lines which are operating which have deficits, and do you know who pays their deficits?

Mr. McGREGOR: I know of one that has a deficit, and I think they are wondering who is going to pay it.

Mr. McLURE: It is not the Maritime Central Airway?

Mr. FRASER: I would like to ask a question similar to that of Mr. Carter's, regarding grounded passengers. Do such grounded passengers have their hotel bills, meals et cetera paid while they are grounded like that?

Mr. McGREGOR: If they are passengers on the air lines and their trip has commenced and is not completed, the air lines pay.

Mr. FRASER: And you would continue to pay that until you got a passage for them?

Mr. McGREGOR: That is right. We would also pay their transportation from the airfield to the city and back again.

Mr. FRASER: Even if you had to, you would put them on a train?

Mr. McGREGOR: That is right.

Mr. DREW: I would like to revert to the questions I was asking Mr. English in connection with the consideration of any other type of engine. As I understand it, Mr. English, the North Stars as operated by the R.C.A.F. and by the Trans-Canada Air Lines are in all substantial respects the same?

Mr. ENGLISH: As far as the power plant is concerned, do you mean?

Mr. DREW: The what?

Mr. ENGLISH: The power plant?

Mr. DREW: And the design?

Mr. ENGLISH: The R.C.A.F. aircraft are not pressurized.

Mr. DREW: But outside of that? The wings are the same?

Mr. ENGLISH: The propellers are different. There are quite a number of differences of that description.

Mr. DREW: But the same wings, the same fuselage and other details?

Mr. ENGLISH: Yes; the undercarriage may be different, I am not sure of that.

Mr. DREW: I am thinking of the main structure, it is the same in both cases, as I understand it?

Mr. ENGLISH: Yes.

Mr. DREW: The reason I asked that question is that in a statement handed to the press on March 22nd last the Minister of National Defence made this statement:

> Since the British Merlin engine is used in the North Star and in order to provide against any serious interruption of supply of engines or parts from England during a period of war the R.C.A.F. has felt it should have on hand a well tested conversion of the North Star transport in which engines manufactured on this continent can be used. This new aircraft has been built to test such an engine conversion.

That is the end of the quotation. It was referring, I know, to the R-2-800 engines. Have you any comment to make on that?

Right Hon. Mr. HOWE: The comment as made is wrong. The particular aircraft does not exist at the moment. The order for it was only placed two or three months ago.

Mr. DREW: The order, Mr. Howe, I understand, was placed in December of 1948.

Right Hon. Mr. HOWE: I thought it was December of 1949.

Mr. DREW: No, your answer in the House was December 1948.

Right Hon. Mr. HOWE: Well, I do not know. I was down there a while ago but the plane was not visible. It is being fabricated in sections, I would assume.

Mr. DREW: Are they importing parts for them?

Right Hon. Mr. HOWE: It is a new plane, not a modification of an existing plane. It is being purchased to replace a plane that was burned in Sydney some years ago. It is not a modification of an existing plane.

Mr. DREW: Well, I do not want to raise any issue between yourself and another minister, but the statement I just read says that that aircraft is a modification of the highly successful North Star transport now in service.

Right Hon. Mr. HOWE: It is being built to a modified design; that is what it says in the statement.

Mr. DREW: I can only go back to the statement.

Right Hon. Mr. HOWE: This design will show the way, but it is not a modification of an existing plane. It is the building of a new plane on modified dimensions.

Mr. DREW: Well, then, Mr. Chairman, if I may return to Mr. McGregor's answer. I just want to check on that point. Now, Mr. McGregor, in connection with the expenses, one of the things that enters into that, of course, is the question of passages. How many free passages were there on Trans-Canada last year?

Mr. MCGREGOR: I have not that information here.

The CHAIRMAN: The figure was given previously.

Mr. MCGREGOR: I gave a figure as to the number of passes that were in existence at a previous meeting.

Mr. DREW: I am not talking about passes. Is it not correct that special free passages are given to different people from time to time who are not covered by passes, different from passages which are not covered by passes?

Mr. MCGREGOR: Are you referring to T.C.A. personnel?

Mr. DREW: Or others.

Mr. MCGREGOR: Occasionally charged transportation is given to individuals who are engaged in the investigation of air lines operations and so on; they are charged to public relations where they are given as such.

Mr. DREW: Well, it is only a case of just checking the general arrangements.

Mr. MCGREGOR: What I was conveying, Mr. Drew, in answer to your question, is that any information that is available we will be very glad to have you have. I do not think we have a record of the number of times an issued annual pass may have been used.

Mr. DREW: Well, I am not limiting it to annual passes. It is a sort of question that does naturally arise in connection with operations. I had in mind free passages that you arranged either for members of your staff or their families. Have you a record of that?

Mr. MCGREGOR: I doubt if we have it here. It could be produced.

Mr. DREW: Well, then, will you produce that? In that I would like broken down the different categories of free passages which were issued to officials, employees, members of their families, or any others during 1949, and in relating it to 1949 it will then give us a basis to understand the relationship that it has to the whole passenger service.

Mr. MCGREGOR: I do not think it will, Mr. Drew, because, you see, when transportation is given to company employees or their dependents, it is given on what is known as a space-available basis, which means they only travel if a seat is going to go empty in the aircraft, so that will not bear very much of a relationship to paid passenger travel.

Mr. FRASER: Do you give passes over T.C.A. to Pan-American Airways officials?

Mr. MCGREGOR: No.

Mr. FRASER: You do not give them?

Mr. MCGREGOR: A number of American air lines tried to give passes over their lines but we declined them because we do not extend the same privilege in return.

Mr. DREW: In relation to these figures that are included in that overall figure we now have under consideration, you have given an explanation of the reason that there is an anticipated reduction. One of the reasons that you gave was the increase in competition and the existence of new lines. Do you think that the existence of planes with such additional facilities as sleeper accommodation and other conveniences of that kind will have a bearing on the number of passengers that will take one service or another.

Mr. MCGREGOR: I doubt it very much, Mr. Drew. There is a surcharge in effect for sleeping accommodation at the present time and the amount of that surcharge is subject to discussion in I.A.T.A.

Mr. DREW: It is $25, I think.

Mr. MCGREGOR: It is $25 at the present time due to the fact that there exists what is known as an open rate situation. $45 was recommended at an I.A.T.A. conference and approval was not given to it by the Civil Aeronautics Board of the United States because it was thought to be too low, and, because they failed to approve the $45 rate, it became an open rate, and one of the air lines now charges $25. That is one of the anomalies that arise from time to time. I really think that having paid around $300 for his transportation, not many individuals would be inclined to pay another $25 for the privilege of lying down.

Mr. DREW: It is strange how much people will pay for comfort! Carrying forward the question that was asked in regard to Newfoundland and other points of that kind, is it not possible to have a wider interchange of services available at various airports between aircraft operating companies than exists today? Before I ask you to answer that question I will give you an illustration of what I have in mind. I recall one time last year a machine of Air France was forced to land at Moncton. Certain facilities were not available there, which forced it to double back on its tracks and go back to another airport to comply with the various regulations, to clear its passengers and refuel. I understand that quite recently an aircraft of one of the competing lines landed at Halifax instead of carrying its flight right through and was not able to clear there. Is it not possible to arrange a wider degree of co-operation in that respect than exists today?

Mr. MCGREGOR: I take it you are directing the question to the possibility of arriving at an arrangement with customs and immigration authorities?

Mr. DREW: Which would make certain facilities available there and presumably, with a counterbalancing measure, make certain facilities available to us in corresponding situations.

Right Hon. Mr. HOWE: The difficulty is that there must be a limit to the number of points where Canada can give customs and immigration service. Gander is the principal airport on that North Atlantic route and we have other alternatives to Gander, one at Goose Bay and another at Stephenville and also at Moncton. Sydney is also an alternative airport. At those points we have customs and immigration officials and all the services that are required; but if the airline operators get the thought that they can drop in anywhere and expect customs and immigration service, it just is not available, and to make it available invites them to drop in and keep on dropping in; that is the difficulty. We must limit to reasonable proportions the cost of giving that kind of service.

Mr. GEORGE: That service is in effect at Moncton, is it not?

Right Hon. Mr. HOWE: Yes, that is one of the alternatives, that is right.

Mr. DREW: Mr. McGregor, I would like to ask another question in regard to the possible extension of service. While I realize you have not been president of T.C.A. during the whole of its period, you have been associated with it, I believe, the whole of its operating existence, have you not?

Mr. MCGREGOR: No.

Mr. DREW: I am wrong on that. I know that it was after your war service that you joined it. You have been with it for some time though. Now, in connection with the extension of flights since the war, could you explain why it is that we have not carried our services to different parts of the world to the same extent that some other competing lines have?

Mr. MCGREGOR: I think I could venture an opinion. As you know, the right to operate all international services follows the negotiation of bilateral agreements. It seems to me in looking at the record that the companies flying internationally whose countries have had the greatest success in negotiating bilateral agreements are countries of the companies who have been operating prior to the war internationally. That apparently gave them something of a favoured position when it came to negotiating the interchange of rights to operate such services. You mentioned just a moment ago the extent of operations of K.L.M. Their international operation I think is a good example. K.L.M. is the second if not the oldest company in the world, and it is quite in line that their prewar associations and their reputation as an international carrier would have put them in a somewhat favourable position when it came to the point of the Netherlands government negotiating bilateral agreements. They had particular success, whatever the reason might be. Canada's negotiation of bilateral agreements is progressing as rapidly as circumstances permit, but in the past year, as you have learned from the press, we have faced considerable opposition.

Mr. DREW: Take K.L.M. which you mentioned as an example, how does their route mileage compare with ours?

Mr. MCGREGOR: It is greater.

Mr. DREW: What is the total mileage operated by Trans-Canada Air Lines?

Mr. MCGREGOR: About 8,000 route mileage.

Mr. DREW: Is that total?

Mr. MCGREGOR: International.

Mr. DREW: What is your total route mileage?

Mr. MCGREGOR: Just about double that. I have that figure here.

Right Hon. Mr. HOWE: The reason K.L.M. operates so great mileage is that the purpose of the line was to connect up the Dutch possessions. They are scattered all around the world. For instance, K.L.M. flies down to the Caribbean to serve Curacoa and will pile up a great mileage in that direction. Then in the other direction it will fly out to the Dutch East Indies and that takes the line through Egypt and part of India. I think that is the explanation why K.L.M. has so great mileage. K.L.M. is unique among air lines. Most air lines carry their own people but K.L.M. carries almost everybody but their own people.

Mr. MCGREGOR: I have that figure for you now, Mr. Drew; domestic route mileage is 8,085 and the international route mileage is 8,303.

Mr. DREW: Making a total of?

Mr. MCGREGOR: 16,400 roughly.

Mr. DREW: That would be the total route mileage?

Mr. MCGREGOR: That is right.

Mr. DREW: I understand that the route mileage for K.L.M. is 75,000, or something like that.

Mr. MCGREGOR: That is no doubt due in part to their peculiar method of computing it. We consider our route mileage across the North Atlantic as one route although actually we fly into Prestwick; that is, from Montreal to Prestwick, from Montreal to London and from Montreal to Shannon; now, on the basis by which K.L.M. calculates their routes those would be three separate routes each 2,000 miles in flight.

Mr. DREW: They are, of course, operating a great many more machines?

Mr. MCGREGOR: Yes.

Mr. DREW: Do you know how many?

Mr. MCGREGOR: No.

Mr. DREW: Well, I recognize that there are limitations to certain international arrangements and discussions, but without dealing for a moment with any of the details that might be involved in that, would you agree or not that Trans-Canada Air Lines could well operate extended services into other areas if you could make arrangements for that?

Mr. MCGREGOR: Yes.

Mr. DREW: Would it be of advantage to us?

Mr. MCGREGOR: That would depend entirely on the route. If they only involved additional routes as between Canada and other countries I would doubt it very much, with one or two execptions; if it was a matter of giving T.C.A. the right to pick up passengers say at New York and fly them to Rio, I think it might be very desirable.

Mr. DREW: I am thinking now, for instance, of the air route from Port-au-Spain. It would be an advantage, would it not, to be able to fly them right through to South America?

Mr. MCGREGOR: Financially, no, not with only Canada as the passenger traffic generating point.

Mr. DREW: In that respect I am thinking of the fact that K.L.M., for instance, have pick-up rights at such places as London, and Paris—

Mr. MCGREGOR: And New York.

Mr. DREW: —and New York, and to carry them on through to South American airports; and also they have pick-up rights in New York and London and Paris and Rome, for passengers to the east as well, have they not?

Mr. MCGREGOR: I think perhaps not directly; I do not believe they have pick-up rights out of New York for points in the east. I assume now, it is the far east you are speaking of.

Mr. DREW: Yes, I do not think they would do it directly; I mean, there is no limitation on their pick-up rights at New York so far as subsequent travel on the part of passengers from other aircraft to eastern points is concerned, is there?

Mr. MCGREGOR: No, there is no limitation on that.

Mr. DREW: And in the same way is it not so that in the lines that are competing in the North Atlantic, such as Pan American and T.W.A. and B.O.A.C. as well as K.L.M., have much more extensive connections at the termini under Atlantic runs than T.C.A. has?

Mr. MCGREGOR: In certain cases, over their own lines, we all have mutual rights to interchange of traffic with connecting lines at the termini of our trans-Atlantic run.

Mr. DREW: But in your case the passengers who would be going further would, of course, pass on to some other service?

Mr. McGREGOR: Yes, and in the case of many other trans-Atlantic operators too.

Mr. DREW: Have you any reciprocal arrangements with lines which give you special traffic facilities at these points?

Mr. McGREGOR: Oh, yes, we have interchange agreements with respect to every air line that may be of service to our passengers, and vice versa, by way of international connections and the honouring of tickets and the exchange of reservations and information.

Mr. DREW: Well, then, just to put the question in its broadest form, Mr. McGregor, can you see ways yourself in which the situation can be improved from the point of view of more extensive use of your high trained personnel which you have under your direction.

Mr. McGREGOR: Yes, very clearly.

Mr. DREW: Would you suggest what can be done?

Mr. McGREGOR: What must be done for the Trans-Canada Air Lines is to increase the traffic which is generated on its routes during low traffic periods so as to alleviate the effect of the seasonal fluctuation of traffic flow; and efforts are being made to that end and conditions show improvement in the situation now.

We cannot show a profit while working at 50% of capacity for eight out of each twelve months. Increased traffic during even two or three of those eight months will have the effect of rectifying to a very marked degree the deficit position.

Mr. DREW: In connection with that have you special operating arrangements with C.P.A. so far as Pacific operations are concerned?

Mr. McGREGOR: We have the normal interline agreement, we interchange passengers with them in both directions. We have similar arrangements with other trans-Pacific air lines.

Mr. DREW: Do you sell tickets over those lines from your offices?

Mr. McGREGOR: Yes.

Mr. DREW: And are those tickets also sold at Canadian National Railway offices?

Mr. McGREGOR: Yes, any Canadian National Railway office will sell a ticket because they are agents of ours.

Mr. FRASER: And you get a commission on the tickets sold by them; you pay them a commission?

Mr. McGREGOR: That is right, and also to the C.P.R.

Mr. DREW: And estimating the number of passengers for the present year what determines the revenue that you would get? Can you give us the figures of estimated passenger revenue for each month of 1950?

Mr. McGREGOR: No.

Mr. DREW: In estimating that do you not work it down by months, January, February, and so on?

Mr. McGREGOR: Yes, but by passenger miles.

Mr. DREW: By passenger miles, not by the actual number of passengers?

Mr. McGREGOR: That is right.

Mr. DREW: So that you have no estimate of the number of passengers month by month, you take it for the whole year?

Mr. McGREGOR: That is right.

Mr. DREW: Is that your regular practice?

Mr. McGREGOR: Yes, passenger miles, the number of passengers means nothing because it has to be related to the distance travelled and that fluctuates very considerably in any one year.

The CHAIRMAN: But you have an estimate of the passenger miles per month?

Mr. DREW: Have you got that with you?

Mr. McGREGOR: No, I haven't got it with me, but again, I could put it into the record if you care to have it.

Mr. DREW: Yes, I would like to have that in the record. Now, what about your passenger miles; would you have your revenue estimate separately in relation to the anticipated?

Mr. McGREGOR: You mean, the revenue per passenger mile?

Mr. DREW: For the needs at different times of the year. Have you this broken down in revenue miles there on an anticipated basis and the anticipated revenue per month as well for passengers?

Mr. McGREGOR: Yes. The revenue miles flown should be clarified. We are interested in the available seat miles from a passenger standpoint. Revenue passenger miles flown as determined in air line practice apply naturally to aircraft and that means nothing unless you provide the capacity, which again is related to the type of aircraft in each case; so that we adapt the more comprehensive method of using the available number of seat miles to be flown, then we estimate the percentage of fill for each month and thus arrive at a figure of revenue passenger miles. That is extended by the average revenue per mile flown and in that way we arrive at the estimate.

Mr. DREW: You can let us have an estimate for the whole of 1950 on that basis, can you?

Mr. McGREGOR: Yes; just to be clear, that is the available seat mileage?

Mr. DREW: The available seat miles.

Mr. McGREGOR: And the revenue passenger miles?

Mr. DREW: And the revenue passenger miles and the anticipated revenue per month, in each case broken down month by month.

Mr. McGREGOR: Is that 1950 you said?

Mr. DREW: 1950, yes. I am speaking now of the anticipated figure for 1950. Did we have that for 1949?

Mr. McGREGOR: No.

Mr. DREW: Could you have that prepared at the same time?

Mr. McGREGOR: Yes.

The CHAIRMAN: Are there any further questions on operating expenses?

Mr. DREW: Well, just one second. In connection with the anticipated service during this present year, will the expected lower passenger revenue return on the trans-Atlantic service mean that there will be more aircraft available for the domestic service?

Mr. McGREGOR: Yes, as of May 12, there will be one aircraft transferred from the allotment of the Atlantic group as a whole— which means it comes from the southern operation—to the domestic operation.

Mr. DREW: Well, then, in this connection you have then no expectation of changing the actual composition of your air fleet during the present year?

Mr. McGREGOR: No.

The CHAIRMAN: Shall the item carry?

Carried.

Operating profit.

Mr. DREW: Well, just a moment again.

The CHAIRMAN: I really think that these other items have been covered in our other questions.

Mr. DREW: Well, I do not want to ask a question that will have any effect upon discussions that are taking place but you might simply say what the situation is. You say that expense estimates are based upon current wage scales. Are there any negotiations under way at the present time which would lead you to believe there would be any substantial change in this wage scale?

Mr. MCGREGOR: There is one negotiation under way with respect to pilots—and I think that is the only negotiation that is in process. There is an open-ended clause in two completed association agreements with respect to hours in the working week.

Mr. DREW: Do you anticipate any substantial change in regard to that?

Mr. MCGREGOR: No, I do not anticipate it, and I hope very strongly, naturally, that we will not be required to make any change of that type.

Mr. DREW: In answer to a question asked by someone else earlier, you spoke of the fact that you did expect to have a very much higher utilization of your aircraft this year. Did the percentage increase you mentioned relate to the whole, combined, Trans-Canada Air Lines service?

Mr. MCGREGOR: Yes.

Mr. DREW: What is the percentage?

Mr. MCGREGOR: The percentage of increase?

Mr. DREW: Yes?

Mr. MCGREGOR: About 25 per cent.

Mr. DREW: 25 per cent?

Mr. MCGREGOR: Yes.

Mr. DREW: Now, in that respect, can you also say what utilization you anticipate in revenue hours flown per day?

Mr. MCGREGOR: Ten hours and fifteen minutes in the case of the North Star, and I think eight hours and thirty minutes in the case of the DC-3's.

Mr. DREW: As compared with what last year?

Mr. MCGREGOR: About seven hours and fifty-five minutes in the case of the North Stars and on the order of six hours for the DC-3's.

Mr. DREW: Six hours?

Mr. MCGREGOR: Six hours and thirty minutes.

Mr. DREW: You are in a position to give the different revenue flight hours for these two different types of aircraft?

Mr. MCGREGOR: Yes.

Mr. DREW: If that is so, then, it would seem that you must keep separate record of the miles flown on each of these aircraft?

Mr. MCGREGOR: Yes.

Mr. DREW: That breakdown is not included in the statements we now have?

Mr. MCGREGOR: It was not asked.

Mr. DREW: But you have it?

Mr. MCGREGOR: Yes.

Mr. DREW: Will you prepare a statement for 1949?

Mr. MCGREGOR: That is the same question on miles flown? But you want it broken down as between the two types of aircraft?

Mr. DREW: That is right.

Mr. MCGREGOR: Yes.

Mr. POULIOT: Miles flown last year?

Mr. MCGREGOR: Yes.

Mr. DREW: The miles flown last year—that is the point at which we can estimate, having regard to the 25 per cent increase this year.

Now, so that we may be able to interpret that, the revenue miles shown in all the statements we have now will be the combined total of all operations by DC-3's and Norh Stars?

Mr. MCGREGOR: Yes.

Mr. DREW: And this will break down the 1949 figures. Do you have separate estimates for 1950 of the revenue miles you anticipate?

Mr. MCGREGOR: Well, as I explained before, that can be roughly related. We deal in hours of aircraft time. We have a forecast of the hours we expect to use the two different types of aircraft.

The CHAIRMAN: I think the answer has already been promised.

Mr. DREW: Then what is the over-all estimate of the average speed of the DC-3 in flight—from take-off to landing?

Mr. MCGREGOR: 160 miles an hour is the calculated speed—

Mr. DREW: In the case of the North Star I believe you gave the figure as 230?

Mr. MCGREGOR: Yes. That is the basis for time table calculation.

Mr. DREW: I take it that for 1949 you would have the actual record?

Mr. MCGREGOR: The speed of any one flight will vary, naturally, depending upon all the circumstances—altitude, headwinds, and so on; but, for the time table calculation we use an air speed of 230 miles an hour.

Mr. DREW: Let me get this quite correctly, did I not understand from Mr. English that you estimate an average of 230 from take-off to landing?

Mr. MCGREGOR: That is correct.

Mr. DREW: That would involve a higher air speed because of the time in climbing and getting onto the beam and so on?

Mr. MCGREGOR: That is right.

Mr. DREW: So it is not exactly air speed—it is the average speed from take-off to landing?

Mr. MCGREGOR: That is correct.

Mr. DREW: That would be the figure that I am to take from the answer you have given?

Mr. POULIOT: You mean 230 miles an hour, and 165 miles an hour?

Mr. ENGLISH: Yes.

Mr. MUTCH: When translated actually it would be from 245 miles an hour to 260 miles an hour.

Mr. DREW: That is all I have on the statement before us.

The CHAIRMAN: The other items, operating profit, miscellaneous income, interest on capital and surplus are carried.

Mr. POULIOT: Mr. McGregor and Mr. English, your answers were illuminating.

The CHAIRMAN: Is it the wish of the committee that we should meet this evening or at 11 o'clock tomorrow morning to deal with the property and budget items?

Right Hon. Mr. HOWE: Can we finish tomorrow?

Mr. DREW: I feel sure that we can.

The CHAIRMAN: Very well, we will meet tomorrow morning at 11 o'clock.

The meeting adjourned to meet Tuesday, April 25, 1950 at 11.00 a.m.

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

TUESDAY, APRIL 25, 1950

WITNESSES:

Mr. G. R. McGregor, President;
Mr. W. F. English, Vice-President, Operations;
Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

ORDERS OF REFERENCE

FRIDAY, 21st April, 1950.

Ordered,—That the Budget of the Trans-Canada Air Lines for the year 1950 be referred to the said Committee.

WEDNESDAY, 26th April, 1950.

Ordered,—That the said Committee be empowered to print from day to day such copies of its minutes of proceedings and evidence, in addition to those ordered by the House on Friday, March 24, 1950, as may be ordered by the Committee.

Attest.

LEON J. RAYMOND
Clerk of the House.

60339—1½

REPORTS TO THE HOUSE

FRIDAY, April 21, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government begs leave to present the following as its

THIRD REPORT

Your Committee recommends that the Budget of Trans-Canada Air Lines for the year 1950 be referred to your Committee.

All of which is respectfully submitted.

WEDNESDAY, April 26, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government begs leave to present the following as its

FOURTH REPORT

Your Committee recommends that it be empowered to print from day to day such copies of its minutes of proceedings and evidence, in addition to those ordered by the House on Friday, March 24, 1950, as may be ordered by the Committee.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, April 25, 1950.

The Sessional Committee on Railways and Shipping Owned, operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cleaver, Drew, Follwell, Fraser, Fulton, George, Hatfield, Helme, James, Knight, McCulloch, Mutch, Pouliot, Thomas.

In attendance: Mr. G. R. McGregor, President, Mr. W. F. English, Vice-President, Operations, and Mr. W. S. Harvey, General Auditor, Trans-Canada Air Lines.

The Committee resumed consideration of the budget of Trans-Canada Air Lines for the year 1950.

Examination of Messrs. McGregor and English was continued.

At 1.05 o'clock p.m. the Committee adjourned until 8 o'clock p.m. this day.

EVENING SITTING

The Committee resumed at 8 o'clock p.m. the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cavers, Cleaver, Drew, Follwell, Fraser, Fulton, George, Hatfield, Helme, Howe, James, McCulloch, Mutch, Pouliot.

In attendance: Messrs. McGregor, English and Harvey.

The Committee resumed consideration of the motion of Mr. George that the First Report of the sub-committee on Agenda be concurred in, and of the amendment thereto of Mr. Drew that Mr. H. W. Seagram, Director of Operations, and Mr. James Bain, Director of Engineering and Maintenance, Trans-Canada Air Lines, be called as witnesses.

After discussion, and the question having been put on the said amendment, it was negatived.

Mr. Drew moved in amendment to the motion of Mr. George that Mr. W. J. Turnbull, Deputy Postmaster General, and Mr. J. R. Baldwin, Chairman, Air Transport Board, be called as witnesses.

After discussion, and the question having been put on the said amendment, it was negatived.

And the question having been put on the main motion, it was agreed to.

Mr. Drew moved that files numbered W.G.F.-1333-1 and 1333-2 of the Flight Operations Department of Trans-Canada Air Lines be produced.

And the question having been put on the said motion, it was negatived.

On motion of Mr. George:

Ordered,—That such additional copies of the minutes of proceedings and evidence of the Committee be printed as may, at the discretion of the Chairman, be required.

The Chairman tabled answers, as furnished by Mr. Donald Gordon, President, Canadian National Railways, to certain questions tabled by Mr. Carter and contained in *Appendix B* to the minutes of proceedings and evidence of March 30, and which are printed as *Appendix A* to this day's minutes.

Mr. McGregor tabled statements containing certain information requested by Mr. Drew, which are printed as *Appendix B* to this day's minutes of proceedings and evidence.

The Chairman tabled a letter dated April 12, 1950, addressed to him by Mr. McGregor, containing answers to certain questions asked by Mr. Drew, which is printed as *Appendix C* to this day's minutes of proceedings and evidence.

The witnesses retired.

At 9.25 o'clock p.m. the Committee adjourned to the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

April 25, 1950.

The Sessional Committee on Railways and Shipping met this day at 11:00 a.m. The Chairman, Mr. Hughes Cleaver, presided.

The CHAIRMAN: Gentlemen, we now have a quorum, and while our numbers are rather few in view of the fact that so many other committees are sitting. I believe we should carry on. We are now at the property and equipment budget.

Mr. DREW: Mr. Chairman, it is just a question of convenience. I did want to ask Mr. English a couple of further questions but I could defer that until after we deal with this item.

The CHAIRMAN: If you want to clean up now, Mr. Drew, it is quite all right to carry on.

Mr. DREW: I might explain before I ask the question that I fully recognize the difficulty that the press have in following the questions and answers throughout a whole day but I think that perhaps Mr. English, like the others in the committee, must have been rather surprised at some of the details of the report of the proceedings yesterday because some of the items standing by themselves might lead to some confusion.

Mr. English, in the sessions yesterday, you referred in answer to my question to two orders which are headed, flight operation bulletins, one of February 14th and one which you fixed the date of as about four months ago. Could you produce copies of those?

Mr. ENGLISH: Yes, but I have not got them here.

Mr. DREW: But you will forward them to the Chairman of the committee?

Mr. ENGLISH: Yes.

Mr. DREW: You know the two to which I refer?

Mr. ENGLISH: Yes.

Mr. DREW: That is all.

The CHAIRMAN: Property and equipment budget.

Mr. FULTON: What does this column headed "Actual" in the middle mean? Does it mean the actual expenditures or the actual amount left over after the expenditures were made?

Mr. MCGREGOR: Total actual expenditures.

Mr. DREW: Just to take the first item, what is the reason for the difference in the amounts, Mr. McGregor?

Mr. MCGREGOR: Between the budget and the amount actually spent?

Mr. DREW: Yes, I am taking the 1949 figures.

Mr. MCGREGOR: The failure to make all the purchases for which budget provision was made, due in some cases to a decision not to make expenditures that had been budgeted and due in other cases to the fact that delivery was not completed on articles that had been budgeted by the time that the company's fiscal year came to an end.

Mr. DREW: What did you plan to acquire in the way of airplanes that you did not acquire?

Mr. MCGREGOR: We did not plan to acquire anything in the way of airplanes. Under the term airplanes, comes all the items associated with an aircraft. One particular item was the purchase of what are known as Marshall cabin superchargers, which amounted to about $150,000, which were not purchased in 1949, and are being purchased in 1950.

Mr. DREW: Is that a new type of supercharger?

Mr. MCGREGOR: Yes.

Mr. DREW: Is that replacing the supercharger now on the engine?

Mr. MCGREGOR: It is not an engine supercharger, it is a cabin supercharger.

Mr. DREW: But it operates from the engine?

Mr. MCGREGOR: Yes.

Mr. DREW: That is for what purpose?

Mr. MCGREGOR: Pressurizing the cabin.

Mr. DREW: And that is being proceeded with and is included in the estimated items for 1950?

Mr. MCGREGOR: That is correct.

Mr. FULTON: Is that for the purpose of replacing the cabin superchargers on the North Star?

Mr. MCGREGOR: That is correct.

Mr. FRASER: Well, then, this coming year, you will have more pressurized planes in service?

Mr. MCGREGOR: No, all the North Stars have been and are pressurized. The pressurizing pump is being changed to a type which has a lower maintenance charge associated with it, and is somewhat cheaper in first cost. These things require a lot of repairs, normally, and the upkeep on them will be considerably less, so that instead of the normal Douglas type superchargers being replaced with the same type they are now being replaced with a Marshall type, and that becomes a capital charge.

Mr. FRASER: In the United States they had a number of accidents with these pressurized planes, windows breaking out and doors opening outwards and one thing and another. Have you taken provision to protect against that?

Mr. MCGREGOR: Yes, we have and I am glad to say we have had no occurrences of that type.

Mr. FRASER: I noticed that in Canada, but I just wonder if you had taken special precautions against that.

Mr. MCGREGOR: The windows are particularly reinforced and the door locks are of a special type after the fashion of those of an ordinary vault.

Mr. FULTON: Do I understand from your earlier answers these superchargers are due for replacement in any event and what you are doing is merely replacing with a different type or are you replacing them with a type in advance of their normal obsolescence or wearing out period?

Mr. MCGREGOR: No. If there was not a type change, the supercharger would be replaced by component part replacement at each overhaul. In changing type, however, we naturally have to change the whole supercharger.

Mr. FULTON: Are you making or contemplating making any request to the manufactured to bear part of this cost, if you are finding it necessary or desirable to replace them with a better type?

Mr. MCGREGOR: No, it was an elected purchase and the only one available at the time. The type of supercharger that is now being installed is of more recent manufacture, design and availability.

Mr. FULTON: In other words, it came on the market after?

Mr. MCGREGOR: Yes.

Mr. MUTCH: There is no suggestion that the supercharger you have been using has not lived up to its specifications, but the fact is a better one is available?

Mr. MCGREGOR: That is exactly right.

Mr. FRASER: Which will need less repairs.

Mr. DREW: Are there any other items of that nature that constitute a substantial part of the estimates under the heading of airplanes?

Mr. MCGREGOR: Not under the heading of airplanes, no.

The CHAIRMAN: Shall the item carry?

Carried.

Airplane power plants.

I am sorry, Mr. Fulton, I did not intend to interrupt you.

Mr. FULTON: No, I will ask what I had intended to ask on another item.

Mr. DREW: Under the item airplane power plants, I notice again that the estimate for 1949 is $288,363.72 and the actual expenditure was $63,844.26. What is the explanation of that?

Mr. MCGREGOR: That was principally due to the fact that in preparing the budget for 1949 we expected the design of a cross-over exhaust system, which would have the effect of reducing exhaust noise, would be available for purchase. It did not reach the stage of development in 1949 that satisfied us and warranted purchase and therefore there was no expense under that heading.

Mr. DREW: Well, then, does the estimate for 1950 amounting to $323,229.55 refer substantially to provision for the device that will reduce noise?

Mr. MCGREGOR: Right.

Mr. DREW: And what is that device?

Mr. MCGREGOR: A cross-over exhaust manifold which will take the exhaust, if it becomes satisfactory, from the inboard blocks of all four engines, conduct it over the top of the engines and deliver it on the outboard side and below the wing.

Mr. MUTCH: Is it estimated the application of that will in any sense materially reduce the power of the engine?

Mr. MCGREGOR: That is some of the things that will have to be measured when the design comes under study for adoption. There are three different designs of exhaust systems all of which aim at the same object and all of which have to meet the requirements that the effect on the power production of the engine will be negligible, that they will have a long service life, that they will not be subjected to any unsatisfactory heating conditions and that they would produce the required reduction in the noise level of the aircraft.

Mr. KNIGHT: Mr. Chairman, this tendency—I am speaking now of the 1949 statement, showing the actual expenditures being tremendously low compared with the budgeting—is not only apparent in the first two items but throughout the whole column, but it is also more apparent when you get down to the total of $784,679.66, for example, against an estimated total of $2½ million. I mean, it looks peculiar. Is it a minor change in policy or what has happened? The same thing is reflected in 1950 where you have a budget of $1¾ million as opposed to $2½ millions in 1949. What is the general explanation of that situation?

Mr. MCGREGOR: The general explanation in respect to 1949 involves two things: in the first place it is generally the policy in making a capital budget, when broken down into specific items, to provide for all reasonable contingencies that may arise under each item, and when as we have here about twelve or

fourteen items, there is naturally an overrun total which you do not expect to spend, but one must provide for the possibility.

Mr. KNIGHT: That is to say, the surplus for contingency in regard to any one item is multiplied by fifteen in the total?

Mr. MCGREGOR: That is about the size of it. The second thing is that during 1949 and 1950 there was and is the strictest economy being practised in the matter of capital expenditures and anything that can possibly, without jeopardy of the company's safety regulations, become a deferred expense is dealt with in that way. There are also a number of things that have to be provided for in any one year's budget, which usually do not occur as items of expense in that budget year due to the slowness with which normal negotiations proceed. A good example of that is an item of $100,000 for the purchase of a hangar at Sea Island, Vancouver, which is a matter which has been under negotiation for something like three years and is still in that stage.

Mr. DREW: Well, now, for 1950, your estimate for airplane power plants is $323,229.55. What does that include?

Mr. MCGREGOR: It includes, if you want the details, $290,000.00 for the cross-over exhaust system installation we were talking about, $14,380.48 for the installation of an intercooling system and $18,849.07 for miscellaneous.

Mr. DREW: From what you say, I gather that the question of the actual type of exhaust to be installed is still subject to final decision and that the designs are still in the experimental stage?

Mr. MCGREGOR: I think that statement would probably require some clarification. The designs are established and constructed and under test. In the case of all of the three systems to which I have referred, each of the three different systems have been developed by Rolls Royce, Canadair, and T.C.A. respectively. In other words, the designs are in process of being proved or otherwise.

Mr. DREW: Have any of these devices been checked, to your knowledge, by B.E.A.C. or C.P.A.?

Mr. MCGREGOR: No.

Mr. FRASER: What metal are they using now on those exhaust systems?

Mr. MCGREGOR: Inconel and stainless steel.

Mr. FRASER: That is heat resisting?

Mr. MCGREGOR: That is high heat resisting.

Mr. FRASER: Mr. McGregor you mentioned something about research. I just wonder if you have research men to check on the efficiency of your gasoline and oil? Do you do that checking yourself or do you leave it to the National Research laboratories?

Mr. MCGREGOR: If you are referring to measurements of the octane rating—

Mr. FRASER: I do not mean just the octane rating, I mean the efficiency of it. It might have octane rating but still at the same time it might have other qualities that will gum up your engines in short order. You might have found that out in the past?

Mr. MCGREGOR: We do carry out the testing of fuel and oils delivered to us to make sure they are lying within the specifications established under the contracts for those fuels. In addition we use the services of outside laboratories, for periodic checks and investigations as to the efficacy of new types of gasoline and oils as they come out.

Mr. FRASER: What I was getting at was this: If you start off, say from Montreal, with one type of oil and gas and end up at Victoria, or Vancouver, do you use the same gas and oil all the way through and back again?

Mr. MCGREGOR: Right across the system and across the Atlantic.

Mr. FRASER: There is no change at all in it?

Mr. MCGREGOR: No.

Mr. FRASER: Then you would have a proper check when they overhaul the engine knowing what condition it was in?

Mr. MCGREGOR: That is correct.

The CHAIRMAN: Shall the item carry?

Mr. DREW: Before that, Mr. Chairman—Mr. McGregor, what do you estimate the total actual cost of this new exhaust equipment to be?

Mr. MCGREGOR: $290,000.

Mr. DREW: That is not the total cost.

Mr. MCGREGOR: Yes.

Mr. DREW: But your contract calls for the supplier of the power plants to bear a substantial share of that?

Mr. MCGREGOR: That is the total cost to T.C.A. that I am talking about.

Mr. DREW: What is the total estimated cost of that equipment?

Mr. MCGREGOR: I have no idea, Mr. Drew, and it would be of interest to T.C.A. provided T.C.A. elected to use the exhaust system developed by Canadair.

Mr. DREW: No, no, you will find under the provisions of the contract that the supplier of the power plant is to bear half the cost of all expenditures made for the purpose of overcoming the difficulty in connection with the noise.

Mr. MCGREGOR: If you read that clause, Mr. Drew, I think you will find it is the other way around.

Mr. DREW: I will send for it.

The CHAIRMAN: Subject to the question just asked, shall the item carry? Carried.

Mr. Drew, shall we carry on?

Mr. DREW: Yes, yes.

The CHAIRMAN: Aircraft component equipment.

Mr. FRASER: On this, Mr. McGregor, do you use the facilities of the Department of Transport? Do you use any of their stores at all, or any of their equipment? The reason I ask is because there is a bill before the House now dealing with Transport Department stores, increasing the allowable amount I think from $500,000 to $1 million, and I imagine that would cover some of their airfields. I was just wondering if you would come in on the use of any of their equipment?

Mr. MCGREGOR: I cannot think of an instance.

Mr. FRASER: Well, what does this item aircraft component equipment cover?

Mr. MCGREGOR: That is mostly spare capitalized materials and in this instance includes the spare parts over and above the specific numerical requirement of the aircraft for these Marshall blowers that I spoke of.

Mr. DREW: Mr. McGregor, the question that arises from these figures is indicated by the 1949 estimate and actual expenditures. In 1949 you estimated an expenditure of $232,210.22 for component equipment and there was an actual expenditure of $110,585.56, which leaves approximately $122,000 unspent of your estimate for 1949, and in view of the fact that you are only estimating an expenditure of $24,487.96 for 1950. I am interested in what the difference is between the unspent part last year and the part you anticipate spending this year.

Mr. McGREGOR: A lot of that was tied up with the elimination of one heavy maintenance base at Vancouver, involving a reduction in the heavy maintenance equipment requirement of the company by an amountt equal to about $100,000.

Mr. DREW: How would the elimination of that base affect the expenditures for aircraft component equipment?

Mr. McGREGOR: Because had we continued that base, we would have had to buy such expensive items as lathes and presses, and other heavy shop equipment.

Mr. DREW: Are you saying that equipment of that kind is included in this item?

Mr. McGREGOR: Yes.

Mr. DREW: It is not only included in the aircraft?

Mr. McGREGOR: I thought you were talking about item four.

Mr. DREW: Under the heading of "Aircraft Component Equipment" you estimated last year the amount of $232,210.22 and you only spent $110,585.56.

Mr. McGREGOR: Yes.

Mr. DREW: Which means that you did not spend $120,000. But nevertheless you are only estimating this year for $24,487.96 as against a carry-over from last year alone of $120,000. That is what I cannot quite understand.

Mr. McGREGOR: That has to do with the very satisfactory reduction we were able to make in the investment in capitalized spare parts. That was primarily due to the action of the suppliers in maintaining adequate spare parts in Canada, a condition which had not previously existed since before the war.

Mr. FULTON: You said, I think, under "Airplanes" that the airplane items came under that heading, everything which had to do with parts for the aircraft. So what distinction do you make between that item and this one "Aircraft Component Equipment"?

Mr. McGREGOR: Under "Airplanes" come parts which are in the airplane. But under component equipment comes all equipment belonging to an airplane but which is not in an airplane, but which is carried as capitalized spares.

Mr. FULTON: I do not get that distinction. Do you mean such things as cabin equipment?

Mr. McGREGOR: If you happen to own six tires for your motor car and one is in the garage while five of the tires are on the car, then the five which are on the care come under the heading of "Airplanes", while the one tire which is in the garage comes under the heading of "Component Parts".

Mr. FULTON: Roughly, it is a category of spare parts?

Mr. McGREGOR: That is right.

Mr. DREW: Where would that show in this statement?

Mr. McGREGOR: It would come under the first item if the part is installed in the aircraft; and it would come under the third item if the part were not installed.

The CHAIRMAN: Shall item 3 carry?

Carried.

"Ground Communication Facilities", item 4?

Mr. FRASER: That would be telephone, teletype, and things of that nature?

Mr. McGREGOR: And air to ground radio communications items.

Mr. FRASER: The item for 1950 would appear to show a need not nearly as large?

Mr. McGregor: That is right. There were several provisions made in the 1949 budget for equipment which has since come under further development; and our feeling is that heavy expenditures in respect to communications equipment, in this stage of rapid transition and development in the art, would be unjustified.

Mr. Fraser: You want to make sure that it is the right thing before you put it in?

Mr. McGregor: Yes.

Mr. Fraser: You have got some new equipment during the past year that was put in to facilitate plane landing?

Mr. McGregor: No.

Mr. Fraser: Did you not get some such equipment as that?

Mr. McGregor: Most of the equipment in there is for the installation of VHF ground stations for voice communication with aircraft. It is free from interference by static.

Mr. Fraser: You mean for guiding in?

Mr. McGregor: I mean for actual conversation between the aircraft and the ground.

Mr. Fraser: For landing and taking off?

Mr. McGregor: No.

Mr. Fulton: How is that apportioned between the Department of Transport and TCA?

Mr. McGregor: The communication facilities of the company are entirely operated by TCA. But the communications of a general airway character such as landing assistance devices, to which we have just referred, are Department of Transport entirely.

Mr. Follwell: As to beam points, you usually fly on a beam?

Mr. McGregor: Always.

Mr. Follwell: That is not included in it?

Mr. McGregor: No. All beam installations on the ground are Department of Transport, while the receivers used in the aircraft are our own and provided by us.

Mr. Drew: Again, in the case of item 4, we have the same situation where you estimated last year for an expenditure of $124,364.35, but there was an actual expenditure of only $29,741.64, which leaves an unexpended balance of $95,000. Now, I see that your total estimate for 1950 is $36,925.41; so your estimates for this year are substantially less than the unexpended part of your estimate for last year. What were the kind of things which you did not take up last year?

Mr. McGregor: I believe I just answered that question.

The Chairman: Yes.

Mr. Drew: That has specific reference to those things which you did not buy last year and which you are still waiting for?

Mr. McGregor: That is correct.

Mr. Drew: I am only looking at this from the point of view of the effectiveness of budget procedure. Is it not possible that some of those things will reach a point this year where you would wish to obtain them?

Mr. McGregor: It seems doubtful. This matter of the type of air to ground or ground to air communication has to be reasonably universal because we fly aircraft into several countries, particularly into the United States, and the type of equipment which we adopt must be satisfactory for use with the ground installations wherever we take the aircraft. We have to be very sure

that a final decision is reached both in Canada and in the United States particularly, before we enter upon any expenditure for comparable equipment in the aircraft or on the ground.

Mr. FULTON: Is it at all correct to say that the ground communication facilities would all be substantially those of the Department of Transport, whereas the equipment which is installed in the aircraft would be your own? Is that the division of responsibility?

Mr. MCGREGOR: No, not entirely. Certainly the Department of Transport's investment in ground communications equipment is greater than ours, but we have at our major stations our own ground communication equipment which is used entirely for the transaction of company traffic between the ground and the air.

Mr. FULTON: And that equipment is separate from the Department of Transport?

Mr. MCGREGOR: Yes. We would not be allowed to communicate over Department of Transport facilities such information as the load of the aircraft, the reservations requirements, and so on.

Mr. FULTON: Who maintains the beam flying?

Mr. MCGREGOR: The Department of Transport.

Mr. FULTON: Do they operate on the same frequencies with respect to communications as do the aircraft?

Mr. MCGREGOR: No. Range transmitters and associated aircraft receivers use frequencies for that purpose.

Mr. FULTON: Then you have to have two sets of receiving equipment in the aircraft?

Mr. MCGREGOR: We actually have more than that; but we also have frequency changing facilities in the receivers. There are something like 13 channels of frequency available for reception in our aircraft at the present time.

Mr. FULTON: Do you have the one receiving set which operates on two frequencies, which means that the pilots or the captains have to turn from one frequency to the other, or do you have two, each operating on its own frequency?

Mr. MCGREGOR: The range receivers are separate. But actually the number of channels on which each receiver is capable of receiving is numerous.

Mr. DREW: Perhaps my next question would come inappropriately at this item, although I recognize from what you say that the actual expenditure is made by the Department of Transport. What progress is being made in the provision for blind landing?

Mr. MCGREGOR: Very good progress. As we have said before, ILS installations are completed across the country in respect to the major airports with the exception of Victoria. The effect of that has been to reduce what are known as the "limits" involved very considerably, and thereby to increase the regularity of flight operations.

Actually, the progress in the reduction of limits is on a very conservative basis as compared to what might be possible. Aircraft could be landed without any reduction in the factors of safety at even lower limits of ceiling and visibility than are now being observed; but we are making haste slowly; this is excellent policy and one which I think should be adhered to.

Mr. DREW: Has any modern adaptation of fido been employed in such airports as Gander or Sydney where there is a fairly high fog problem?

Mr. MCGREGOR: No. Fido and its more recent variations have been experimented with in California. It is by no manner of means an entirely desirable cure. In the first place, its cost is quite fantastic; and in the second place, there are hazards involved. For example, when an aircraft lands on a runway in

which fido is being used, if anything should happen in the way of a blown tire or something like that which caused the aircraft to swing off the runway, it would create the equivalent of putting it over a blow-torch with, perhaps, unfortunate results.

So the tendency has been to carry on development for landing under conditions of low visibility, rather than to concentrate on methods of fog dispersal.

The CHAIRMAN: Shall item 4 carry?

Carried.

Item 5 "Hangar and Shop Facilities". I believe, Mr. McGregor, you have already given the answer to this item.

Mr. DREW: In that case, there is again the same situation with an estimate of $324,529.88 for 1949 but with an actual expenditure last year of only $98,533.75, leaving a total which you did not spend in the sum of $226,000 last year. Does that relate to the airports you mentioned?

Mr. MCGREGOR: A large portion of it does, yes.

Mr. DREW: You are not otherwise curtailing your development of airport facilities?

Mr. MCGREGOR: Well, hangar and shop facilities have nothing to do with airports except that they may be situated on the airport.

Mr. DREW: Yes. I meant that in the way of servicing at airports?

Mr. FRASER: You have your own equipment at Gander?

Mr. MCGREGOR: Yes.

Mr. FRASER: And I think you mentioned that you are putting in equipment to look after your own at Tampa?

Mr. MCGREGOR: No. We are using somebody else's.

Mr. POULIOT: As a matter of security, do you get in touch with the National Research Council for tests of planes and plane parts?

Mr. MCGREGOR: Yes.

Mr. POULIOT: All the time!

Mr. MUTCH: With respect to "Shop Facilities", has there been any reduction in shop facilities at Stevenson Field in the last year?

Mr. MCGREGOR: No.

The CHAIRMAN: Shall item 5 carry?

Carried.

Item 6 "Ramp Facilities".

Mr. DREW: In this case there was an estimate made for last year in the sum of $146,268.35 while the actual expenditure was only $82,654.58, leaving an unexpended balance of the estimate in the sum of $64,000.

Mr. MCGREGOR: Yes.

Mr. DREW: Whereas it seems for this year you estimate a total expenditure of $56,170.76. What is the situation there?

Mr. MCGREGOR: That was the decision or rather the revised decision not to purchase rather expensive components at one or two airports which were not carrying as much traffic as others, for cabin ground cooling equipment.

Mr. FRASER: Well, have you got any wintertime heating facilities? I noticed that plane doors have been left open when pilots are loading and one thing and another and planes get exceedingly cold. One party said to me that they thought that was one reason why, in wintertime, people are subject to air sickness, and why they become air sick so quickly on leaving the ground—because

the planes are so cold. The engine has to warm up at the runway before there is heat in the plane. Have you any method of warming those planes?

Mr. McGREGOR: Yes; and last year there was ground heating equipment connected to the aircraft. At each departure point it is necessary that the doors should be open for cargo loading and commissariat loading.

Mr. FRASER: And for the purpose of airing as well?

Mr. McGREGOR: No, there is good cabin ventilation in flight.

Mr. FRASER: This party said they were chilled before they got off the ground on account of having to wait for the aircraft, and then they got into a plane which was cold and they were chilled through, and they thought that was what started them off.

Mr. MUTCH: Probably it was what they had eaten for dinner.

The CHAIRMAN: Shall item 6 carry?

Carried.

Item 7 "Motorized Vehicles".

Mr. DREW: There again we have an unexpended balance for last year in excess of the estimate for 1950. What explanation is there for that?

Mr. McGREGOR: That is due to the decision to eliminate the purchase of motor vehicles where it has been felt that economy would be best served, in some cases by leasing transportation on an intermittent rental basis; and in some cases by the reconditioning of existing equipment.

Mr. KNIGHT: Would you consider that the total amount of the budget, or any of these items in the 1950 budget, are over loaded, if I may use that expression, to the same extent that corresponding figures were in the 1949 budget in view of possible contingencies?

Mr. McGREGOR: With the possible exception of the expenditure for the cross-over exhaust system which again may go through 1950 without arriving at a satisfactory design, it is likely that the 1950 budget will be considerably closer to the actual expenditures than the 1949 budget.

Mr. KNIGHT: What is the explanation for the much lower budget estimated for expenditures in this year 1950 over 1949?

Mr. McGREGOR: Well!

Mr. KNIGHT: I mean the fact that several items show it, and it is to be seen in the total?

Mr. McGREGOR: In turn, 1949 was very much less than 1948. The acquisition of a large fleet of new aircraft always carries in its train a series of heavy expenditures of a capital type, because new aircraft require new loading ramps and cargo-loading equipment; and the gradual building up of the spare parts required for those aircraft and the heavy tools for their maintenance and repair are all items of capital expenditure which are associated directly with the addition of a new type to the fleet; so the tendency will always be, where there is a major change in the nature of the fleet, to have this aftermath of capital expenditure.

Mr. KNIGHT: So those expenditures won't have to be made again for some time. It is a parallel case to the question I asked you in regard to the building up of the skills in your personnel. It is something which you have already acquired and which will be of proven value for some time.

Mr. McGREGOR: That is right. And I think that the capital budgets will normally run, over the years at the level of the estimate for 1950, that is about $1,500,000.

Mr. FULTON: How do you handle these capital purchases? Do you always hope to meet them out of current revenues, or do you consider them to be mere balance sheet items? How are they handled in the company's internal finances?

Mr. MCGREGOR: As long as capital expenditures in the case of any one year run below depreciation accruals, no new capital is required, and depreciation accruals are used as may be necessary to finance the capital expenditure.

Mr. FULTON: What has been the history in that connection so far? Have your depreciation accruals more than covered your capital purchases?

Mr. MCGREGOR: By a considerable margin, in 1949.

The CHAIRMAN: Shall item 7 carry?

Carried.

Item 8 "Accommodation and Office Facilities".

Mr. FRASER: There is an increase of about $28,000 here. Is that on account of your southern run?

Mr. MCGREGOR: Where is that?

Mr. FRASER: Under the item entitled "Accommodation and Office Facilities", I see there is an increase there over last year.

Mr. MCGREGOR: The estimate is some $28,000 higher than last year?

The CHAIRMAN: No, it is not higher than the estimate for last year but higher than the actual.

Mr. FRASER: Higher than the actual, yes.

Mr. MCGREGOR: That largely has to do with the establishment of offices at new locations, places such as London, Vancouver, and so on, where new office equipment and furniture is required.

Mr. MUTCH: How much of that would be attributable to the increase in costs as a result of the changing to Montreal?

Mr. MCGREGOR: I would say none. That would all come in the 1949 expenditures, and in that case there has been very little new furniture bought. It was a case of moving furniture which existed.

Mr. MUTCH: Would it include as well accommodation?

Mr. MCGREGOR: That refers only to the modifications we make to premises that we may lease.

Mr. MUTCH: And has it been necessary to make any capital expenditures in order to accommodate yourself to your new home?

Mr. MCGREGOR: The item would include, I would say, from $10,000 to $15,000 for partitions.

Mr. DREW: What kind of facilities are covered by this item?

Mr. MCGREGOR: Renovation to interiors, and the actual furniture such as desks, chairs, counters and so on.

Mr. DREW: Is that not part of the Department of Transport property?

Mr. MCGREGOR: No.

Mr. FRASER: It would cover typewriters as well, would it not?

Mr. MCGREGOR: I am talking about our offices

Mr. FRASER: That is not in the airport?

Mr. MCGREGOR: We do put in, at our own expense, our counters, at the airports.

Mr. FRASER: What are the actual arrangements under which activities as restaurants and newsstands are operated?

Mr. MCGREGOR: That is entirely under the Department of Transport.

Mr. FRASER: You do not make your own arrangements in that respect?

Mr. MCGREGOR: No.

The CHAIRMAN: Shall item 8 carry?

Carried.

Item 9 "Medical Equipment".

Carried.

Item 10 "Engineering Facilities".

Mr. DREW: In that case, Mr. McGregor, I notice that this is a very small item so it cannot, of course, deal with engineering facilities on a very broad scale. What type would it cover?

Mr. MCGREGOR: It covers largely testing and measuring equipment.

Mr. DREW: Where?

Mr. MCGREGOR: Across the system but largely in Winnipeg.

The CHAIRMAN: Shall item 10 carry?

Carried.

Item 11 "Hotel, Restaurant and Food Services Facilities".

Mr. DREW: You said item 10, but it should be item 11.

The CHAIRMAN: Yes, item 11.

Mr. FRASER: Does that cover cases such as we had yesterday where a party of twelve was left over?

Mr. MCGREGOR: No.

Mr. FRASER: It does not cover that?

Mr. MCGREGOR: No.

Mr. FRASER: What kind of thing would come under it?

Mr. MCGREGOR: That is an operating expenditure.

Mr. DREW: That is why I asked the other question. This refers to "Hotel, Restaurant and Food Services Facilities". What facilities does that cover?

Mr. MCGREGOR: It would cover the deep freeze equipment we use across the system in maintaining our frozen food service.

Mr. DREW: Which, I might say, is excellent.

Mr. MCGREGOR: Thank you, Mr. Drew.

Mr. DREW: It really is excellent right across the country.

Mr. MCGREGOR: And it includes the restaurant facilities that we maintain for our own personnel. And the word "hotel" is in there because of the lone example of hotel service that the company maintains, on behalf of other airlines, at Goose Bay, Labrador.

The CHAIRMAN: Shall the item carry?

Mr. DREW: I notice in that case you estimated last year the sum of $45,844.16 while you spent only $12,504.00, so there was $31,000 unexpended balance of your estimate; yet your estimate for this year is $13,442.82, and the total estimate for this year is so much less than the unexpended balance of last year; what is the reason for that?

Mr. MCGREGOR: Reduction in requirements due to, perhaps, some over enthusiasm as to the number of deep freeze installations we required and so on.

Mr. DREW: You have those installations right across the country now?

Mr. MCGREGOR: Right across the country now; and in some cases it has been found possible to install smaller units than was planned, while in some cases it was found possible to eliminate a unit entirely.

Mr. DREW: And that might account for a very great reduction in deep freeze requirements?

Mr. MCGREGOR: I would hope so and expect so.

Carried.

The CHAIRMAN: Item 12 "Storage and Distribution Facilities".

Mr. GEORGE: Carried?

Mr. DREW: What does that include?

Mr. MCGREGOR: That includes such things as fire protection equipment and cleaning equipment, and items of that type.

Mr. DREW: But the word "distribution" would suggest something other than that?

Mr. MCGREGOR: Yes: "distribution" refers to crates and special boxes in which instruments and engines and so on are shipped from point to point.

Carried.

The CHAIRMAN: Item 13 "Miscellaneous Facilities".

Carried.

Mr. DREW: What does that include?

Mr. MCGREGOR: Alterations to premises rented and owned by the company. That is the principal item falling within "Miscellaneous".

Mr. MUTCH: How do you distinguish between this accommodation and office facilities?

Mr. MCGREGOR: Under "Accommodation and Offices" are items of structural change that we amortize over the period of the lease that is held on the premises involved.

Carried.

The CHAIRMAN: Item 14 "Buildings and Improvements".

Mr. FULTON: Could Mr. McGregor distinguish that from "Hangar and Shop Facilities", and "Accommodation and Office Facilities"?

Mr. MCGREGOR: That would be buildings; it would involve buildings other than those which would fall under the description of hangars and shop facilities.

Mr. FULTON: Give us an example? Would it all be at an airport?

Mr. MCGREGOR: In some cases a storage building, and so on. There is a very large building at Winnipeg which forms our centralized stores.

Carried.

The CHAIRMAN: Item 15 "Contingency Fund".

Mr. DREW: What is that fund?

Mr. MCGREGOR: That is an item which is put into any normal capital budget to cover unforeseen and unallocated items, and the fact that it is an expenditure and is shown as complete on this record is simply a matter of accounting convenience because any expenditure that is actually made has to fall under one of the twelve categories above.

Mr. FULTON: You do not like to carry over a contingency, so you write it off?

Mr. MCGREGOR: Anything spent must be considered as having been spent in a specific accounting heading.

Mr. FULTON: You got rid of your contingency fund, so you must have spent that amount?

Mr. MCGREGOR: We do not carry over a contingency fund.

Mr. FULTON: I do not understand. I thought it stood at nothing because your expenditures last year did not come up to your item of allotment. How then did you manage to exhaust your contingency fund?

Mr. MCGREGOR: We did not exhaust the contingency fund.

Mr. FOLLWELL: The reason why you have such a good report is because you took contingency money and put it into your actual budget figures here?

Mr. MCGREGOR: No. The contingency provision in 1949 was $563,000.00, while the under expenditure of the budget was $1,800,000.

The CHAIRMAN: Does not the statement say that you have spent your contingency fund?

Mr. MCGREGOR: In fact, it was simply transferred out of the fund.

Mr. FOLLWELL: I do not understand that yet.

The CHAIRMAN: The statement shows that none of the contingency fund has been required, or has been spent.

Mr. MUTCH: The actual fund shown is nil.

Mr. FULTON: The actual expenditure is shown as being 100 per cent.

The CHAIRMAN: No, nil.

Mr. FULTON: Oh well, I guess I am looking at the wrong thing.

The CHAIRMAN: Item 15, does it carry?

Carried.

Mr. POULIOT: It should have been voted from a contingency fund.

The CHAIRMAN: You had a question to be answered in regard to "Airplane Power Plants", Mr. Drew?

Mr. DREW: Yes. Perhaps it could come out under the heading of "Contingency Fund", as I would think that some of the expenditures would, perhaps, come from there. Are TCA planes used for any of the special flights of government officials?

Mr. MCGREGOR: No. TCA aircraft, if they are available, are available for charter to the government as well as to any other potential customer.

Mr. DREW: Have they been chartered during the past year for that purpose?

Mr. MCGREGOR: No.

Mr. DREW: Or this year?

Mr. MCGREGOR: No. We bid on a charter but we were turned down.

Mr. DREW: Which was that?

Mr. MCGREGOR: That was the round the world flight which Mr. Pearson took.

Mr. DREW: The RCAF were able to make a lower bid for that flight?

Mr. MCGREGOR: Exactly.

Mr. DREW: What was your bid for that?

Mr. MCGREGOR: I do not remember the figure. It was our regular charter rate.

Mr. DREW: Would you check that up and provide the figure? It is a matter, after all, of accounting.

Mr. MUTCH: If it is a regular charter rate, then it is not confidential.

Mr. DREW: No, it cannot be confidential.

The CHAIRMAN: The minister is not here and I am not too experienced on this committee. I would rather that the question should stand, unless there is some departmental rule.

Mr. DREW: I would point out in that respect that we obviously have the right to know what the expenditure would be for a purpose of that kind. It

would be interesting to know what bid Trans-Canada Air Lines felt was appropriate to cover the cost of that trip.

Mr. MUTCH: If it were a matter of a competitive bid apart from the regular established tariff, then I might have one view; but if it is a question of the company having an advertised tariff rate, then all we need to know is: what do you charge for—or what is your rate for chartered trips?

Mr. DREW: I do not think there would be many requests made for flights around the world.

Mr. MUTCH: No, but we did have a lot of chartered trips in connection with the bringing out to Canada of immigrants. I think you had some interest in that, Mr. Drew.

Mr. DREW: Yes.

Mr. MUTCH: And I would like to know this: when they bid on a trip, they bid at regular charted rates, and those rates are available for anyone?

Mr. DREW: I think it goes much further than that. I think there are questions of plane facilities which would be involved, and special expenditures required which would enter into it; and I submit, Mr. Chairman, that it is obviously a matter of accounting, a government service, and I think we should have a statement on what that bid was.

The CHAIRMAN: Mr. McGregor has had plenty of time to think the question over while the discussion has been going on. So what about answering it, Mr. McGregor?

Mr. MCGREGOR: Yes, I have no objection.

Mr. KNIGHT: I am not interested in this thing one way or another, but I cannot see how a rejected bid becomes part of the records of the company. The money was not received by the company and it has nothing to do with the company's finances. On the other hand, if the bid had been accepted and the money was paid to the company, then I think Mr. Drew would have a better case.

Mr. DREW: I do not think there is anything in regard to the accounting of government expenditures which is more regularly subject to inquiry in every department than bids which were made and contracts which were awarded, and whether it be in connection with the Department of Public Works, the Department of Transport, or any other department, it is regularly accepted practice not only to be informed as to the tender which was accepted, but as to the bids which were made. I think it is very important that we should know what bid was made in this case by the services which were available for the ordinary purpose of checking accounts.

Mr. MUTCH: Would you not care to go a little further, Mr. Drew, and indicate to the committee what possible value such information would have in view of the fact that the company was not put to any expenditure other than the cost of preparing and submitting their bid, since they operated no service for it?

Mr. DREW: Since I have been asked to give an explanation, I shall be glad to do so. After all, government expenditures are not divided into airtight departments, but are component factors in total expenditures which are under the responsibility of the government; and one of the things which should be of concern to members of parliament at the present time is the question of making sure that every expenditure is made in a manner consistent with the most economical practices which would provide the results desired.

In this particular case we know that Trans-Canada Air Lines, with their very extended experience in flights overseas, did make a bid. We are informed that that bid was not accepted, and that the RCAF received the contract.

Therefore, I say it is a proper subject of inquiry, as between departments within government control, as to which would have proven the best to obtain, and which would be a guide in the future with respect to future trips around the world, if such should be contemplated at any time.

Mr. MUTCH: Mr. Drew has said exactly what I expected and what I hoped he would say; and with respect I would say that the members of the House of Commons are quite properly interested in what the trip cost since it was performed by the RCAF; and I could think of no more natural source of information than to make the inquiry on the estimates of the Minister of National Defence with respect to that.

But since the T.C.A. did not enter into it, I am at a loss—unless it is to provide at some future date information which is not forthcoming from the RCAF—but as far as I can see this matter is totally without the scope of the inquiry here. I may be wrong, but my personal view is that I cannot see any reason for asking for an opinion of what the costs of such a trip should be of the officials of the T.C.A. as a measuring stick to measure what the actual cost may have been by the RCAF, particularly in view of the fact that the RCAF trips of that sort are very valuable as training features in connection with it, and apart from this, while it is perfectly natural and desirable that members of the House of Commons should desire to know, yet I feel that the proper place to obtain the cost of that trip would be from the department which incurred the cost, and whether it is too much or too little, or whether it is anything at all or not, is solely outside the scope of any investigation into T.C.A.

The CHAIRMAN: After having had the benefit of the opinions of so many of the members of the committee on this point, I would be inclined to leave it to the discretion of the president of T.C.A. if he thinks he can give his answer without doing any harm to T.C.A. So, Mr. McGregor, the chair puts all the load on you.

Mr. POULIOT: I submit that I do not feel that we should leave the responsibility for answering the question to the president. We are here to make decisions and I respectively submit that the opinion of the members of the committee should be asked.

Mr. DREW: I want to point out in relation to what I said a moment ago that this is not a question of expression of opinion as to what the trip should cost. It was a tender by T.C.A. for a particular service on a contract basis; and if that tender had been accepted, the service would then have been performed according to the terms of the contract. Therefore, there is no question of an expression of opinion. The answer would simply determine what this flight would have cost if T.C.A. had been given that particular job; and under this situation I think it is a question which should be answered without any doubt at all.

Mr. MUTCH: Every tender which is made by officers of the company is an expression of opinion on their part as to what a reasonable or proper cost of that trip would be. And I come back to the point, again, that the trip was made and that T.C.A. had no more connection with the trip than did B.O.A.C.; and consequently the members of this committee in their capacity as members of the House of Commons have every opportunity to decide, upon investigation, whether they are satisfied with the expenditures for the trip or not and to make such research, after they have obtained that information, for the purposes of comparison as the House sees fit. But I think that to expect an answer which is designed for comparative purposes is of no value at all, and that to ask the president of T.C.A. to make an expression of opinion on a matter which is something that the House of Commons would have to decide for itself—

Mr. FRASER: But the president has said that he had no objection to giving the figures. And the way I look at it is this: We are sitting here just like the

shareholders in a company and our company did not receive this charter. I think that any ordinary company would demand that the figure be shown why we did not receive it, because if it had been received, then the T.C.A. would have received some money for this trip and would have received a profit. They would not do it without a profit. And T.C.A. was in the hole, and I think we should find out ways and means of building it up, and find out why they did not get that charter.

Mr. MUTCH: I think Mr. Fraser has presented more effectively than I could have done the best arguments for the decision being won for the committee and not for the president to make.

Mr. JAMES: There is only one answer we can get here today and that is the actual bid which T.C.A. put in. We still do not know how much the R.C.A.F. was paid for the trip and the whole thing could be settled so easily by placing a question on the order paper and when the answer is given all the information will be consolidated in the one answer.

Mr. HATFIELD: I would like to know how much the R.C.A.F. under-bid the T.C.A.

Mr. POULIOT: The thing we are interested in is an actual expenditure of which we either approve or disapprove; and the bid which has not been accepted is a different matter. I wonder if the charter would have covered the deficit of the T.C.A.

Mr. FRASER: Did not Mr. McGregor say before that he had no objection to giving the figures?

The CHAIRMAN: If I may interrupt, for a minute—

Mr. MCGREGOR: Yes, I did say it because I said we had quoted our standard charter rate, and that information could be obtained by anyone, including Mr. Drew, simply by asking for a quotation for a similar flight.

Mr. DREW: If that is so, then this is the place to give it.

The CHAIRMAN: I feel the time has arrived for the chairman to rule as to the admissibility of the question. I find myself in sharp disagreement with the expressed opinions of many of the members of this committee. I believe Mr. McGregor indicated that he quoted the standard rate, and I think I would only be doing my duty if I left the question with Mr. McGregor, and I so rule. If the committee wishes to appeal my ruling, they may do so.

Mr. POULIOT: May I ask Mr. McGregor what was the length and the duration of that trip around the world?

The CHAIRMAN: We are dealing with an express question, so let us have an answer to it first.

The chair rules that it is a proper question. It is entirely in the hands of Mr. McGregor. Do you care to answer the question now, Mr. McGregor?

Mr. MCGREGOR: I have no objection to answering, if I am being asked to answer it.

The CHAIRMAN: You are not being instructed to answer it, you are being given the opportunity to answer it.

Mr. MUTCH: If the committee does not challenge your ruling, Mr. Chairman, then the committee concurs in your ruling, and it becomes the request of the committee. But with deference I do not think you can go out on a limb all by yourself. You have simply pointed out the distinctions and you are leaving the question with the committee. The committee does not challenge your ruling at all and it must take the responsibility for it.

Mr. DREW: Well then, what was the amount of the tender, Mr. McGregor?

Mr. MCGREGOR: The figure was slightly more than $60,000 as I remember it.

Mr. POULIOT: Now, Mr. McGregor, what would be the length and the duration of that trip?

Mr. McGregor: The length was, also as I remember it, in the order of 22,000 miles, and there were considerable delays at various points where the flight, due to its nature, was to be held for the occupants, due to the nature of their duties, and those hold-over times were also included in the company's tendered quotation for the charter, and I think there was a total of about 3½ weeks involved for the whole trip.

Mr. Mutch: You charge demurrage on a trip like that?

Mr. McGregor: Yes. The aircraft would be out of other earning service.

Mr. Drew: I wonder if you would confirm the details of that tender, Mr. McGregor, the official details of the tender and forward the same to the chairman for inclusion in the record.

Mr. James: Would there be a possible increase over and above the contract price in the event of a delay or anything like that?

Mr. McGregor: Delays caused by the occupants, yes.

Mr. James: So it might have reached a figure of $65,000 by the time the trip had been concluded?

Mr. McGregor: Yes.

Mr. Hatfield: Did you run into any other competition than that of the RCAF?

Mr. McGregor: Your question would have to be answered at some length. It is difficult to say that it is competition. There is transportation carried on by the RCAF for other than RCAF personnel.

Mr. Hatfield: That might come in?

Mr. McGregor: That might come in, but we are not sure that it would.

Mr. Mutch: And for the most part you would know perfectly well why it would not.

Mr. Fraser: No, No. You are wrong there.

Mr. Mutch: Well, my opinion is worth as much as that of anybody else and I have just one man's opinion having ridden both ways. It is just one man's opinion.

The Chairman: Shall the item carry?

Carried.

Mr. Fulton: I did not get Mr. McGregor's answer to a previous question: whether that bid was a confirmed bid or subject to modification if, through no fault of the TCA, but at the request of the occupants, further delays had been encountered.

Mr. McGregor: It was a firm bid according to the flight as planned, but if there had been a departure therefrom, then the additional cost would have been added.

Mr. Fulton: You would have had the right to increase?

Mr. Drew: You have answered "yes" to the question as to whether you furnished the details of that firm bid.

Mr. McGregor: That is right.

The Chairman: On one or two occasions when you were being questioned by members of the committee, Mr. McGregor, you were interrupted in your answers.

Mr. Drew: There is still item 3 to be dealt with.

The Chairman: Oh, yes, are you ready to carry on, Mr. Drew.

Mr. Drew: Yes. Now, Mr. McGregor, you recall when we were discussing item 3, which embraced "Aircraft Component Equipment", there was a question

as to the—no, I am wrong; it was item 2 "Airplane Power Plants"; and the question was raised in regard to the provision of the contract originally for the purchase of these aircraft. And now, so that we may have the whole of the provisions in front of us, I shall read paragraph 1 of article 23 of the contract of the 31st of March 1947. It reads as follows:

> Notwithstanding the provisions in the detailed specification both parties agree that it is necessary to improve the exhaust system in order to obtain an exhaust noise level satisfactory for competitive scheduled commercial air line operations. Canadair will co-operate with the power plant manufacturer to develop satisfactory exhaust systems and buyer will pay (as an addition to the price of aircraft purchased hereunder) one-half of all increased costs to Canadair by reason either of increased prices paid by Canadair to the power plant manufacturer by reason of the change in the exhaust system or by reason of any change required thereby in the structure of the aircraft.

Mr. McGREGOR: That was my recollection.

Mr. DREW: Under that, would you not agree that you are only called upon to pay one-half of the cost of any changes which are required to improve the sound level of the aircraft?

Mr. McGREGOR: If, as I said, Canadair either in co-operation with the manufacturer of the power plant or otherwise developed an exhaust system which we purchased; if we developed one system (which has been done) and used it, certainly we would not be under any requirements to bear any of the costs incurred by Canadair in developing their exhaust system which we did not adopt.

Mr. DREW: But Mr. McGregor, you recognize, of course, that the purpose of these inquiries into the accounts and the various items under consideration is that this committee may be put in a position to understand the extent to which your corporation is taking advantage of every possibility; and its contractual rights or otherwise to save money. Now, this article 23 of which I have read subsection 1 said that it was necessary to improve the exhaust system in order to obtain an exhaust noise level satisfactory for competitive scheduled commercial air line operations. The very fact that the article goes on to fix upon the vendor the obligation to share half of that cost leaves no uncertainty as to the acceptance of the proposition by both sides, and that it is your responsibility shared by the vendor of the aircraft. That being so, it would seem only reasonable that no matter what arrangements are made, there should be an arrangement made with the vendor which would assure your company of the opportunity to avail yourself of that obligation on their part to pay one-half of the cost; and if there was a discussion of it, or otherwise, you have developed your own system. But I am satisfied that there is still a legal obligation on their part, particularly by reason of any changes required throughout in the structure of the aircraft.

The CHAIRMAN: It is a rather lengthy question, Mr. Drew, so would you please table that document from which you have read so that Mr. McGregor may have the opportunity of reading it. It is quite different to listen to a quotation read and to have an opportunity of reading it oneself.

Mr. DREW: I shall be very glad to provide him with a copy of what I have read.

The CHAIRMAN: It will be handed back to you. So would you just table it for the time being?

Mr. McGREGOR: I am completely familiar with the terms; but it seems to me that Mr. Drew possibly has it in reverse. I think the obligation is on the com-

pany under that item and not an obligation on the manufacturer; and whether or not it is advantageous to the company, it is very much a matter of question. If the expenditure which Canadair might undertake in the development of that exhaust were more than double the cost of the TCA expenditure for developing a satisfactory exhaust, it would be strongly to the advantage of the company not to purchase the Canadair exhaust, or to take advantage of the right to buy half of the investment which Canadair had in the development of their exhaust. Am I clear?

Mr. DREW: No, I do not think you are. When we discussed that same article earlier, I indicated that that was a warranty by the vendor to take a share of the responsibility in overcoming the noise situation which was regarded obviously by the draftsmen of that contract as one which could only be described as being a situation that was not satisfactory from the point of view of "competitive scheduled commercial air line operations". And at the time we discussed it—that is, before you indicated that the warranty to conduct those inquiries and to overcome that difficulty which was contained in this contract had not yet been carried out by the vendor company. Now, that being so, I do not see how there can be a question about the application of the vendor company to pay to Trans-Canada Air Lines one-half of whatever cost is involved in remedying the situation which they themselves admitted produced a noise level which was not in keeping with "competitive scheduled commercial air line operations".

The CHAIRMAN: I take it, Mr. Drew, if I may interrupt while Mr. McGregor is reading the article, that as I read the covenant, the covenant is one on the part of the buyer to pay one-half of this cost. It may be, though, that under sub-paragraph 3 of article 23 whereby Canadair agrees, represents and warrants that each aircraft would have an exhaust level satisfactory for competitive scheduled commercial air line operations, it may be—

Mr. MCGREGOR: That has nothing whatever to do with the clause which Mr. Drew read out, and which he says is a warranty on the part of the company and is actually a guarantee on the part of TCA to pay one-half of the cost.

The CHAIRMAN: The firm covenant is undoubtedly a covenant on the part of the buyer to pay.

Mr. DREW: Now, Mr. Chairman, let us get this exactly; I did not read further at that point because we have already read into the record the whole of article 23.

The CHAIRMAN: Yes, the warranty part of 3.

Mr. DREW: Which includes the warranty part, and incidentally in that provision, sub-paragraph 3 of article 23 under the heading of "Exhaust System Noise Level" contains this unquestionable warranty:

> Canadair agrees, represents and warrants that each aircraft will have an exhaust noise level satisfactory for competitive scheduled commercial air line operation.

I submit that under that warranty there can be no question whatever about the obligation of Canadair to produce that result and I would remind the committee that a number of these aircraft, if not all of the aircraft now being operated by Trans-Canada Air Lines, were purchased after this agreement with this warranty in operation, and I submit it is a warranty which in the courts would undoubtedly be enforced.

So for that reason the only question I would raise is as to whether Trans-Canada Air Lines should have been paid one-half the cost under the first paragraph, because paragraph 3 is an explicit warranty; and therefore I submit that whatever Trans-Canada Air Lines expends for the fulfilment of the condition, the warranty sets forth that it should be paid in full by Canadair.

The CHAIRMAN: A doubt comes to my mind in regard to the warranty contained in sub-paragraph 3 as to whether the competitive feature, whether

or not that date line parallels the date of the agreement. If the sound performance of these planes was competitive on the date that the agreement was signed, I would think there would be a very real doubt as to whether the warranty would go further than that.

Mr. DREW: I am sorry, but I cannot accept your legal interpretation.

The CHAIRMAN: It is obviously a matter for legal interpretation.

Mr. FULTON: I would like to ask a couple of questions which are not terribly legal. The sub-paragraph outlined in the warranty warrants that they will have an exhaust level; and then, to come back to the first part—

The CHAIRMAN: On that question of "Well Being", their contract is planned under an agreement; and would not that comparative warranty be restricted to the date of delivery of these planes and not, let us say, to twenty years hence?

Mr. DREW: It would be meaningless if that were the case. This was the contract under which the aircraft were to be purchased.

The CHAIRMAN: That is right.

Mr. DREW: And this is the condition upon which future deliveries are to be made; and if future deliveries were made in relation to the contract which contains that warranty, then under that warranty I do not believe there is a solid doubt that could possibly exist but that they are held to that warranty.

The CHAIRMAN: What date would you suggest as a date on which the sound level was to be competitive? I suggested it would be the date of delivery of the machines?

Mr. DREW: And if on the date of the delivery of the machines it was not satisfactory, there is a continuing obligation on the part of the company to pay whatever is required to meet that situation.

Mr. FULTON: Then, coming back to the other part of the question, Mr. McGregor's contention that the application is one on the part of the air line does not, it seems to me, alter the fact that Canadair agrees under subsection 1 —the vendor agrees—to do the work and provide an exhaust system which will result in a satisfactory noise level for competitive scheduled operation. It agrees to do that but the air line has to pay one-half of the cost of the necessary alterations to bring the result about. In other words, if it uses Canadair's development the air line will pay one-half of the cost but if it uses any other development it will pay the total cost. If you take the Canadair proposal you will only pay one-half of the cost?

Mr. MCGREGOR: Certainly not. How do you know what the T.C.A. cost will be. As I understand it Canadair has twice as much invested in their development as we have in ours. That is the point I am making. Whether or not we should pay half of Canadair's development cost depends upon the relationship between their development costs and ours.

Mr. FULTON: When you come back to relating that fact to their warranty, if the air line can say that Canadair could develop and should have developed a system at a cost along the lines you recommend to them they cannot charge you more than that under their warranty?

Mr. MCGREGOR: The warranty definitely says that they will do the work of developing an exhaust system but it says further that if and when they do we will pay one-half of the charges.

Mr. MUTCH: In the first place this is developing into a legal argument to discuss interpretations. Some of us on the committee are not lawyers and even the chairman has not reached the eminence of a judge. I have never found that legal advice which I got for nothing was particularly valuable, so, would it not meet the purposes of the committee if the committee instructed the president to examine into the legal implications of the contract and to determine afresh

whether there is a possibility that some substantial saving may be made? This committee cannot decide whether the interpretation given by Mr. Drew is correct or whether the proper interpretation is that of the president.

Mr. McGregor: I think Mr. Mutch you are entirely correct in your views. I think it boils down to this. If it is of any benefit we will gladly assure the committee that T.C.A. will do whichever is cheaper for the company. If bearing half of the development costs of Canadair is cheaper than establishing its own exhaust system that will be done—whichever is cheaper will be done within the legal rights of the company.

Mr. Mutch: If you discover that by developing your own system you save money as compared with paying half of the Canadair development costs—and the legal branch adopts the same interpretation of the contract as that given by some of the committee members—then you will go after the cheaper procedure.

Mr. Drew: There is a very, very simple proposition here. It does not require that one be a lawyer to understand what the effect of this article is. The first part of subparagraph 1 is a very fair undertaking on the part of Canadair to co-operate with the manufacturer to develop such a satisfactory exhaust system as is required. Under the law of warranty, if there is a warranty to perform a particular service and to provide a satisfactory solution to a difficulty that is under consideration, then, if the party who gave the warranty does not comply with it, the other party is in a position to meet the condition and to charge the cost of it to the person who gave the warranty. In this case, if the vendor company has not been able to do what it undertook to do, and it becomes necessary for T.C.A. to develop their own exhaust system to meet this condition, then I am satisfied that it is the duty of Trans-Canada Air Lines to take the appropriate legal proceedings to collect every cent of the expenditure they are called upon to pay. The provision that Canadair would only undertake to pay one-half is if they did it themselves. The co-operation was not between Canadair and T.C.A., the co-operation was between Canadair and the manufacturer of the engine. Now, if they fail to carry that out, Trans-Canada can resort to the warranty in subparagraph 3 and collect every cent that they have been called upon to spend to meet that condition.

The Chairman: If your argument is correct can you explain to me why there is an express covenant in subparagraph 1 that the buyer shall pay half the cost—

Mr. Drew: Because they were going to work out that with the manufacturer of the engine.

The Chairman: I very much doubt that it is as you are saying, when there is an express covenant that T.C.A. must pay half of the cost. I do not think that the warranty is anything like that wide.

Mr. Mutch: This is not a matter which can be resolved by the committee. If Mr. Drew's interpretation is correct, he has performed a very useful purpose this morning in pointing out a matter in which some money can be saved; however, ultimately, if a conflict of opinion persists it must be settled in some court. We do not have to be lawyers to understand that contracts and laws do not mean what they say in English but rather what some judge interprets them to mean, and we cannot further the position very much by continuing to disagree.

Mr. Drew: At times we all agree with the very old saying that "the law is an ass". In any event, as Mr. McGregor, the president of the air line has heard the views expressed, and as he has the legal services available to him, I suggest that he have this matter examined and that he take the appropriate action in accordance with the advice he receives.

The Chairman: Mr. McGregor, I started off to ask you a general question which I would like to finish. During the course of the inquiry on several occasions

your answers were cut off by interruption. Have you any general statement of any kind that you would like to make and, in connection with that, I would like especially to ask if you have any comments to make with regard to the rate which T.C.A. is receiving for the carriage of mail?

Mr. FULTON: There were no interruptions while that question was being asked.

The CHAIRMAN: It was a hodge-podge—a question would be asked but we would go off on something else. I just wondered if you would like to have a summing up.

Mr. MCGREGOR: Mr. Chairman, there are only two things which I can think which require comment. Both have to do with a statement made by Mr. Fulton and some remarks that he made immediately prior to the noon recess yesterday. They were incorrect and at variance with the evidence that has already been put into the record.

Mr. FULTON: What evidence do you refer to? Have you located it in the report of the proceedings?

Mr. MCGREGOR: I refer to volumes 5 and 6 of the record. Yesterday you made a statement that the Air Transport Board set T.C.A.'s rates and you found it surprising that they should perform that function without being acquainted with T.C.A.'s costs. The correction required there is of course that the Air Transport Board does not set T.C.A. fares and rates, and that has been stated in the previous records. They approve or disapprove as the case may be, of T.C.A.'s submissions as to the fares which it believes should be in force.

The second thing had to do with statements made by Mr. Cooper which you quoted as being that Mr. Cooper had said T.C.A. was carrying the mail below cost. Mr. Cooper, and I was sitting immediately beside him, did not make that statement in my hearing. I think, Mr. Chairman, it would be well to have those two corrections recorded.

Mr. FULTON: What statement did Mr. Cooper make, or what is your interpretation of the statement Mr. Cooper made, or your hearing of his statement?

Mr. MCGREGOR: As I remember it Mr. Cooper was talking about the accumulated deficit that had been recorded by T.C.A. in its twelve or thirteen years of operation. He stated there were several things which did not appear here as credit items against that accumulated deficit and he listed the $3,500,000 of insurance reserve that had been built up, the $2,500,000 represented by 5,000 trained personnel; and several other items. He also referred to the service that T.C.A. had rendered to the post office beyond its remuneration. I do not remember his exact words but I certainly know that he did not say, and would not have said, that T.C.A. was carrying mail below cost.

Mr. HATFIELD: What did he mean by that statement?

Mr. MCGREGOR: He did not make it.

Mr. HATFIELD: What did he mean by "beyond renumeration"?

Mr. MUTCH: That they were being underpaid.

The CHAIRMAN: May I read into the record what I believe is the statement to which Mr. McGregor refers. I am reading an answer by Mr. Cooper, reported at page E-2 of the typewritten proceedings of yesterday morning. In part it is "and I take the view as well that, to some extent, some of the money which the government has advanced towards the deficits of the Trans-Canada Air Lines has been turned back to the Post Office Department for the carriage of mail at less than the rate we think we should get."

Mr. MCGREGOR: That sounds like it.

The CHAIRMAN: That is not "less than cost"; it is less than the rate they should get.

Mr. FULTON: I am quite satisfied.

Mr. DREW: Well so that we will have it clarified, are you actually carrying mail at a loss at present?

Mr. MCGREGOR: It is impossible to answer that question factually. The mail we carry is carried as part of the composite cargo. If you say that the aircraft would fly anyway and the space in it which the mail occupies would be there in any case and therefore the company is paying no additional cost by carrying the mail, then you may say it is carried at a profit. If you say, as you should, that some proportion of the cost of operation of the aircraft, weightwise and otherwise should be charged to the mail the position is different. You should take into consideration the fact that the actual schedules on which we operate are to a degree influenced by the post office; that flight times from major centres are designed for convenient pick-up. That is a very massive calculation and the result would depend upon the amount of cost which you would assess in respect of these various items, and upon other completely judgmatic decisions as to the proportion of cost to the company attributable to mail.

Mr. FULTON: It is a fact, as I understood from your earlier statement, that you are carrying mail for the Post Office Department at a rate considerably less than you consider adequate in view of the amount of mail that you are called upon to carry?

Mr. MCGREGOR: That is correct, and furthermore at rates which I also said were less than those which are paid to air lines of a comparable size in the United States.

Mr. FULTON: I am satisfied with the correction or reference to the record as to what Mr. Cooper actually said because the point I intended to make is that T.C.A. is called upon to carry mail under circumstances to which you have just referred. With reference to your Air Transport Board suggestion, I agree with you that there was an inaccuracy in my words when I said that the Air Transport Board sets the rates. I should have used the words "approves the tariffs submitted". I hope you will confirm your earlier answer which I find in the minutes of proceedings of volume 6 at page 409. In answer to my question on the figures you produced to the Air Transport Board when you ask for their approval of tariffs you said "—I think the Air Transport Board, as I understand it, in the ratification of our proposals on fares, base their considerations principally on the need of the public." A little later you said "I do not think the Air Transport Board are interested in the efficiency or inefficiency of the operation."

Mr. MCGREGOR: Correct.

Mr. FULTON: Would I be correct in saying that the Air Transport Board does not approve or otherwise of your tariffs on the basis of what it costs you to operate any particular service?

Mr. MCGREGOR: Correct.

Mr. DREW: I think it is a question of refinement of terms but I must say that I cannot entirely agree that they do not fix the rates. Is it not true that T.C.A. make an application to the board for the approval of schedule rates?

Mr. MCGREGOR: Correct.

Mr. DREW: The board either disapproves or approves. If they disapprove, the matter is not left up in the air and you must make another submission, and you must do that until they approve of the rates you set forward?

Mr. MCGREGOR: The condition has never arisen.

Mr. DREW: Whether the condition has arisen or not, it would be the decision of the Transport Board in the end—whether they would agree to the rates you submit?

Mr. MCGREGOR: Certainly we cannot file a tariff and apply it if it is not approved by the Air Transport Board.

Mr. DREW: Yours is the submission, but the Air Transport Board itself fixes the level, in effect?

Mr. MCGREGOR: I do not see how it does. You are suggesting that we experiment with the Air Transport Board and our submissions until we get one which they approve. We might start off in the wrong direction—

Mr. DREW: Do you go to them first and ask what it should be?

Mr. MCGREGOR: No.

Mr. DREW: You make a submission?

Mr. MCGREGOR: Yes.

Mr. DREW: And by that process they exercise their discretion, and the result is that what is contained in your submission becomes the fixed rate?

Mr. MCGREGOR: If they approve it becomes the fixed rate—but that does not mean that they fix the rate.

Mr. DREW: It is a refinement of terms that we might leave to the dialecticians; but the position is quite clear.

As to the first part of what I said, T.C.A. received $6,000,000 last year for the carriage of mail?

Mr. MCGREGOR: Are you talking about the whole system, including the TransAtlantic surcharge?

Mr. DREW: I actually have before me the figure that was given to the Senate committee on Railways and Canals, and the reply given by Mr. Turnbull.

Mr. MCGREGOR: That would be an all-inclusive reply. The figure under the interim agreement which T.C.A. receives from the post office is $5,400,000 in respect of the carriage of domestic mail.

Mr. DREW: What do they receive for the carriage of mail overseas?

Mr. MCGREGOR: That depends entirely on the amount of mail.

Mr. DREW: What was it last year?

Mr. MCGREGOR: The amount was $1,166,287.

Mr. DREW: The total for all mail carried would be the sum of those two figures?

Mr. MCGREGOR: That is right.

Mr. HATFIELD: How does the rate you charge compare with what the railway charges for the carriage of mail?

Mr. MCGREGOR: Well we have no basis of comparison. We carry all the mail we are given, domestically, for the $5,400,000. I do not know what the rail arrangements are—but I do not think they work on a weight basis. They put on a mail car on one train and perhaps only half the space on another train, and so on.

Mr. DREW: Well, Mr. McGregor, what amount are you asking for now?

Mr. MCGREGOR: $520,000 a month.

Mr. DREW: What is the figure included in your estimate for mail?

Mr. MCGREGOR: We have used the figure that we are presently receiving.

Mr. DREW: You mean the exact figure or the combined total of last year's receipts?

Mr. MCGREGOR: Yes, the exact figure for North America.

Mr. DREW: I am referring to a Canadian press despatch of March 29th reporting on the hearing before the Senate committee and I find that Mr. Turnbull used the expression "that the Post Office Department thought the proposal now before them exorbitant". What have you to say on that?

Mr. MCGREGOR: I heard Mr. Turnbull express that opinion before another gathering.

Mr. DREW: Do you agree with it?

Mr. MCGREGOR: No.

Mr. DREW: What would be the result in dollars and cents?

The CHAIRMAN: It would be $840,000.

Mr. MCGREGOR: $70,000 more than we are getting.

Mr. DREW: Yes.

Mr. MCGREGOR: $70,000 more per month.

Mr. DREW: More for the combined services?

Mr. MCGREGOR: No, $70,000 a month more with respect to the carriage of mail in North America.

Mr. DREW: Would that affect the carriage of mail outside?

Mr. MCGREGOR: No, other than to the States.

Mr. MUTCH: That is by weight?

Mr. MCGREGOR: No, for simply all the mail they give us.

Mr. MUTCH: A lump sum?

Mr. MCGREGOR: Internationally it is by weight—the domestic arrangement would have no effect on that.

Mr. MUTCH: All you can say on that is last year you carried so much but your request is for $70,000 a month additional a month, domestically?

Mr. MCGREGOR: That is correct.

Mr. DREW: The arrangement, as I understand it, and which you outlined at an earlier meeting of this committee is that under the contract you have with the post office you carry all first class mail by air—in those cases where that will give a quicker delivery than rail carriage—is that correct?

Mr. MCGREGOR: Not quite correct. We carry all the mail we are given by the post office. It is entirely their decision as to what proportion of the total first class mail we are given. It is their decision as to whether it moves more quickly or whether it is advantageous, and so on.

Mr. DREW: I do want to refer back to one thing, because the answer given in regard to that did come after you had made your statement in regard to the carriage of mail. When Mr. Turnbull was before the Senate he was being asked about the carriage of newspapers by air and he was asked if they could give this service at the ordinary rate and then he replied, according to the Canadian press despatch, "We are not in any position, certainly not at these prices, to give publishers the benefit of a luxury service". I understood the answer given here was that the rates being received for newspapers are precisely the same rates as for ordinary delivery, is that not so?

Mr. MCGREGOR: No, that is not so.

Mr. DREW: Is it a rate that is fixed particularly for air delivery?

Mr. HATFIELD: It is an express rate.

Mr. MCGREGOR: Yes, there is an air carriage newspaper rate—it is an agreement between the air carrier and the newspapers. Just to follow that up it has got nothing to do with the post office.

Mr. HATFIELD: It is an express rate.

Mr. DREW: You make that arrangement separately in the case of newspapers—with the publisher in each case?

Mr. MCGREGOR: Yes, and there are many other things like it.

Mr. DREW: Does that have any effect on the availability of space for the carriage of ordinary mail?

Mr. MCGREGOR: No.

The CHAIRMAN: Now, we are trying to clean up, if we can, with this sitting, and I wonder if you have any answers to questions which are now ready, Mr. McGregor?

Mr. MCGREGOR: Yes. We were asked for the forecast of seat miles, passenger miles and passenger revenue for 1950 by months—North American and Atlantic services separately, and also the same statements for 1949.

TRANS-CANADA AIR LINES

FORECAST OF SEAT MILES, PASSENGER MILES AND PASSENGER REVENUE
(1950 by months)

ATLANTIC SERVICES

—	Seat Miles	Passenger Miles	Passenger Revenue
			$
January	8,402,000	4,733,000	355,000
February	8,078,000	5,141,000	385,600
March	9,321,000	6,820,000	511,500
April	12,190,000	8,266,000	620,000
May	10,867,000	7,362,000	589,000
June	12,432,000	8,601,000	774,100
July	12,996,000	10,050,000	904,500
August	13,045,000	9,433,000	849,000
September	12,780,000	8,604,000	774,400
October	10,965,000	7,279,000	618,700
November	8,988,000	4,950,000	396,000
December	10,103,000	4,866,000	389,300
Year 1950	130,167,000	86,105,000	7,167,100

TRANS-CANADA AIR LINES

FORECAST OF SEAT MILES, PASSENGER MILES AND PASSENGER REVENUE
(1950 by months)

NORTH AMERICAN SERVICE

—	Seat Miles	Passenger Miles	Passenger Revenue
			$
January	41,498,000	20,905,000	1,317,000
February	37,558,000	19,175,000	1,208,000
March	41,913,000	23,603,000	1,487,000
April	44,198,000	26,619,000	1,667,000
May	49,715,000	32,615,000	2,120,000
June	52,256,000	37,969,000	2,468,000
July	53,541,000	38,800,000	2,522,000
August	53,541,000	39,015,000	2,536,000
September	51,796,000	38,754,000	2,519,000
October	46,873,000	32,921,000	2,074,000
November	41,681,000	26,175,000	1,649,000
December	42,512,000	26,000,000	1,638,000
Year 1950	557,082,000	362,551,000	23,215,000

TRANS-CANADA AIR LINES

FORECAST OF SEAT MILES, PASSENGER MILES AND PASSENGER REVENUE
(1949 by months)

ATLANTIC SERVICES

—	Seat Miles	Passenger Miles	Passenger Revenue
			$
January	11,852,000	5,356,000	401,700
February	11,305,000	5,120,000	384,000
March	12,427,000	7,273,000	545,500
April	13,053,000	7,930,000	634,400
May	13,746,000	7,743,000	658,200
June	17,267,000	9,610,000	816,900
July	17,793,000	9,855,000	887,000
August	16,719,000	9,649,000	868,400
September	16,340,000	9,796,000	881,600
October	11,386,000	7,435,000	632,000
November	10,095,000	4,882,000	390,600
December	10,594,000	5,106,000	408,500
Year 1949	162,577,000	89,755,000	7,508,800

TRANS-CANADA AIR LINES

FORECAST OF SEAT MILES, PASSENGER MILES AND PASSENGER REVENUE
(1949 by months)

NORTH AMERICAN SERVICES

—	Seat Miles	Passenger Miles	Passenger Revenue
			$
January	31,800,000	18,310,000	1,062,000
February	28,933,000	16,641,000	965,200
March	32,814,000	19,238,000	1,115,800
April	33,301,000	22,300,000	1,449,500
May	42,670,000	27,908,000	1,814,000
June	42,075,000	32,289,000	2,098,800
July	44,105,000	33,487,000	2,176,700
August	44,262,000	34,169,000	2,221,000
September	42,524,000	32,449,000	2,109,200
October	40,705,000	30,083,000	1,805,000
November	38,010,000	25,800,000	1,548,000
December	40,152,000	23,733,000	1,424,500
Year 1949	461,351,000	316,407,000	19,789,700

The CHAIRMAN: Mr. Drew, are you now content to withdraw your motion in regard to the production and attendance of the other two witnesses?

Mr. DREW: Oh, no, no. I have certain further questions to ask of Mr. English—they will not take very long.

The CHAIRMAN: Perhaps we had better adjourn until 4 o'clock.

Mr. MUTCH: Could we make an adjustment there? It will be most inconvenient for some of us because there are other committees sitting. Could we meet at 8 o'clock tonight?

Mr. DREW: Just before we leave this, Mr. Chairman, I would ask Mr. McGregor, in reference to the 1949 figures of seat miles and passenger miles

and passenger revenue for both Atlantic service and the North American service, whether the actual figures have already been produced?

Mr. McGregor: I believe so.

Mr. Drew: If, for any reason they have not been requested they can be given?

Mr. McGregor: Yes.

The Chairman: Let me have a motion with respect to when we next meet.

Mr. Fraser: I would move that we sit at 8 o'clock tonight.

The Chairman: Perhaps Mr. Drew and Mr. Fulton would indicate whether we would be through and complete our work in one sitting?

Mr. Drew: I feel sure that we will complete it in another two hour sitting in so far as Mr. English is concerned and in so far as any supplementary questions are concerned which would apply to Mr. McGregor. There is the question of the motion to be dealt with. In any event, we cannot proceed with the people concerned—unless Mr. Seagrim and Mr. Bain are here.

Mr. Fulton: In other words, with the witnesses who are here, we should be able to finish in two hours and then it will depend upon the disposition of the motion.

The Chairman: All in favour of adjourning until 8 o'clock? Until 4 o'clock? The 8 o'clocks win.

The meeting adjourned to meet again today, Tuesday, April 25, 1950 at 8 p.m.

EVENING SESSION

The committee resumed at 8.00 p.m.

The Chairman: Gentlemen, we have a quorum. Are there any further questions of Mr. McGregor or Mr. English?

Mr. Drew: Just for the purpose of the record, I would like to ask Mr. English a couple of questions. Mr. English, do you hold a corresponding position with the Canadian National Railways?

Mr. English: No, sir.

Mr. Drew: You are entirely with—

Mr. English: Entirely with T.C.A.

Mr. Drew: That is all.

The Chairman: Well then, we have your motion next, Mr. Drew.

Mr. Drew: Mine is a motion—

The Chairman: An amendment to the motion for concurrence. We have a motion for concurrence moved by Mr. George and an amendment moved by Mr. Drew that Mr. H. W. Seagrim and Mr. James Bain be called before the committee. Are you ready for the amendment?

Mr. Drew: Just before you put the motion, I would like to point this out without any elaboration. At the time Mr. Gordon was giving evidence he made a statement which seems to me might be generally applicable, having regard to the fact that this is a wholly owned subsidiary of the C.N.R. I will just quote from page 8 of the minutes of proceedings of this committee:—

> We have come here from the Canadian National Railways equipped, I hope, to answer any question on matters which the members may be interested in; and I may say that we regard this committee as being the representatives of our shareholders, who, of course, are the citizens of

Canada. Now, I just want to emphasize that we hope our officials are equipped to deal with any questions which may arise, but if there are questions on which we have not the right answers at once I can assure you that we will be able to answer them on very short notice.

I would point out that the two men whose names are mentioned are officials —one being the director—and I am using the titles by which they are described in the records of Trans-Canada Air Lines—as I say, Mr. H. W. Seagrim is the director of flight operations and Mr. James Bain is the director of engineering and maintenance. I point out that these are the men who have direct knowledge of those two aspects of the work of Trans-Canada Air Lines, and who go into the basic problems which involve the major costs of the operations of this line.

While I am sure that Mr. English has answered very fullly every question that has been put to him, he has indicated very frankly that these matters are in some cases dealt with before coming to his attention and he would only know of them afterwards. For that reason I ask that these two men be called so that they may answer the appropriate questions with respect to the matters before them at the time when they made the decisions mentioned.

Right Hon. Mr. HOWE: With respect to practicability I am sorry to say that Mr. Bain is in bed suffering from a dislocated disc in his spine and he will be there for another two or three weeks anyway. If you want Mr. Bain to answer questions, the committee will have to adjourn to his bedside. As far as Mr. Seagrim is concerned, he is the manager of flight operations and it is impossible to take both Mr. English and Mr. Seagrim away from the line at the same time and have the line operate at best efficiency. If Mr. English has answered all the questions that have been asked I cannot see what more is required. If you have other questions and Mr. English cannot answer them then that might be a reason to get someone else.

Mr. DREW: I am sorry to hear of Mr. Bain's sickness and I would not suggest for a moment that any thought should be given to calling upon him to give evidence if he is laid up in bed. However, I would point out in regard to Mr. Seagrim, that he is in charge of flight operations and that Mr. English has very frankly stated that in connection with some of these matters about which he would ultimately know the facts, the man who would make the decisions and issue the instructions would be Mr. Seagrim. Being the man who is called upon to make the decision without consultation, I believe Mr. Seagrim has the direct evidence that we should hear.

Right Hon. Mr. HOWE: Why not try the questions on Mr. English and if he knows the answers that will save some trouble?

The CHAIRMAN: That is what I understood that you had agreed to do, Mr. Drew, I will refer to page AA-4 of the Minutes and Proceedings of yesterday.

Mr. DREW: Since it has been suggested that Mr. English is in a position to give information, I believe the committee might better determine whether the motions should be made or not after we have heard Mr. English's evidence, because his evidence will determine whether or not he has in fact all the information.

Now, as far as I recall, Mr. Drew, every question you have asked has been answered.

Mr. DREW: It has been answered but not with direct knowledge of the circumstances which led to the particular situation. There is no difficulty about recognizing the situation. Certain officials have certain problems to deal with and they are the ones to whom the information would come and they make the decisions. In the case of Mr. Seagrim he is the one who is director of flight operations and he is fully informed as to the circumstances affecting flight and the instructions that should be given.

Mr. English in his capacity learns second hand from Mr. Seagrim the result of his decision. He only learns of the flight operations from the bulletins that are issued after the decision has been made, and he has very frankly stated that he did not know until some time after of certain of these flight operation bulletins. Obviously the man who knows best about those circumstances and how they came about is Mr. Seagrim and that is why I suggest that he be called.

The CHAIRMAN: I understand that Mr. English knows of all orders of any consequence.

Mr. DREW: The evidence is quite clear. He stated that he was not consulted—the bulletins would be forwarded to him and that he would not necessarily examine them although, in certain cases, they were brought to his attention at a later date.

In any event Mr. English is not the man who would be called upon to make the decision in the light of the circumstances which called for the particular decision and, with all due regard for him in the circumstances, although he answered every question put to him, it is perfectly obvious that he is not in a position to give first hand information in regard to the situation which led to the particular decision.

Right Hon. Mr. HOWE: Do you want to say something, Mr. English?

Mr. ENGLISH: I was just going to say that what I stated is that on matters of any importance I would be consulted before the decision was made. If it was just a routine day to day affair I would learn about it afterwards.

Mr. DREW: I am quite prepared to let the record stand as it is, and I am quite satisfied that the record supports what I have said.

The CHAIRMAN: Mr. Drew, if there is any further information you would like to have in regard to operations Mr. English is here; why not ask him?

Mr. FRASER: Mr. Chairman, has it not always been a rule that when someone asks that so and so be called before a committee of this kind they are called if they were an employee of the company?

Right Hon. Mr. HOWE: No, sir; it has never been done.

Mr. MUTCH: In my time, and speaking of what Mr. Fraser has just said, the usual practice has been to get the information through the usual chain of responsibility from the officers of the company. I have been on committees as long as anyone here I think, and I have never known it to be necessary in the past to go behind the officials of any corporation called before this committee for further information, even on those occasions when the officials have been supported by their technical experts.

Right Hon. Mr. HOWE: I have been on every committee since 1935 and if a senior officer is here the senior officer gives the information.

Mr. MUTCH: That is what I was trying to say.

Mr. DREW: Mr. English is the vice president in charge of operations; Mr. Seagrim is the director of flight operations and I should think that the title would indicate that he is an official of the company. It was quite clearly stated that officials in the ordinary course of events would be called, and I was asking that he be called in that respect because it is quite clear that the vice president in charge of operations is not the man directly in contact with the facts on which decisions would be taken in connection with flight operations. As has been stated Mr. Seagrim is the director of flight operations—

Right Hon. Mr. HOWE: Mr. Seagrim is not the director of flight operations, he is the general manager of operations.

Mr. DREW: He signs himself as director of flight operations.

Right Hon. Mr. HOWE: Not now.

Mr. DREW: I beg your pardon?

Right Hon. Mr. HOWE: What date is that?

Mr. DREW: February 14th.

Right Hon. Mr. HOWE: It has been changed since that date.

Mr. DREW: What is his position now?

Right Hon. Mr. HOWE: General manager of operations.

Mr. DREW: I should think that manager of flight—

Right Hon. Mr. HOWE: General manager—

Mr. DREW: I should think that he would still more be an official.

Right Hon. Mr. HOWE: He is an official senior to other officials but junior to Mr. English. If Mr. English has to get any information from him I know that he will do so, but I think that Mr. English can answer the questions.

Mr. DREW: Mr. Howe, no one knows better than you that the most senior officials in the company are not the ones in contact with the activities. There are different departments under Mr. English and the net result of the decisions made by those departments would be communicated to him, but the facts upon which the decisions are made would be in the possession of the officers concerned. Now that Mr. Seagrim is the general manager in charge of flight operations there is all the more reason that he should be the one to state the facts upon which the various orders were based.

The CHAIRMAN: While the discussion has been taking place I have turned up the point in the evidence to which you refer and I would just like to read it to refresh the minds of the committee:—

> Mr. DREW: Now, Mr. English, in that respect, as you are dealing with the question of operating expenses in connection with various aircraft which you are using, do any notices about the method of operation come to your attention?
>
> Mr. ENGLISH: Well, not all notices, not routine notices affecting a department, they are not brought to my attention.
>
> Mr. DREW: I mean any notices that would affect the flight of aircraft, would they come to your attention?
>
> Mr. ENGLISH: Not necessarily, but I should know if it is something out of the ordinary, that would be brought to my attention.
>
> Mr. DREW: You were here while we were discussing the matter and you heard the discussion which took place; Mr. Seagrim is director of operations and Mr. Bain is director of engineering services; in connection with that would they forward as a matter of routine notices to you of any directions which they gave?
>
> Mr. ENGLISH: Yes, but not necessarily before they were issued.
>
> Mr. DREW: No, I see what you mean, but when they were issued?
>
> Mr. ENGLISH: I see all notices.
>
> Mr. DREW: You would be quite aware of them?
>
> Mr. ENGLISH: Yes.

That is followed by an intensive examination by Mr. Drew as to cruising speeds and the points at which different instruments were set in flight and so on.

These bulletins are what you are referring to, Mr. Drew? The reporter will put them in the record.

TRANS-CANADA AIR LINES

FLIGHT OPERATIONS DEPARTMENT,

International Aviation Building, Montreal, Quebec.

November 10th, 1949.

Files: MLF-1333-4
MLF-1333-1.

SUBJECT: Operating Limitations and Procedures—

Rolls Royce 622 and 624 Engines.

Outlined below are certain amendments to the operating limitations and procedures for the Rolls Boyce 622 and 624 engines to become effective immediately upon receipt of this bulletin.

1. "Full Hot" induction heat is to be used on take-off at ground outside air temperatures below 0°C. This supersedes the present instructions on Page 269 of the Airplane Operating Manual specifying an outside air temperature of -10°C.

2. The normal climb power settings will continue to be 2650 RPM and 48" HG. If, however, additional climb power is required the RPMs should immediately be increased to 2850. The manifold pressure with 2850 RPM may be set at 48" HG or any setting in between this figure and 58·4" HG, the latter to be considered maximum and to be used only when necessary to obtain aircraft performance under *adverse conditions*.

3. The maximum allowable cruise power is to be reduced from 1000 BHP to 900 BHP/Engine.

4. Pending completition of bearing modifications to the rear engine case, it is desirable that operations be conducted within the M.S. range as much as practicable to avoid the higher bearing speeds in F.S. gear.

H. W. SEAGRIM,
Director of Flight Operations.

TRANS-CANADA AIR LINES

FLIGHT OPERATIONS BULLETIN

Winnipeg, Manitoba
February 14, 1949

File: WGF-1333-1
WGF-1333-2

SUBJECT: North Star Engines

We are concerned over an increase in the number of engine failures with North Star aircraft.

The situation is being very vigorously campaigned by both the engine manufacturer and ourselves with a view to rectification. As a result, it is anticipated that major sources of trouble such as coolant loss, the SU pump, magnetoes, and other items, will be greatly improved in the next two months.

In the meantime, it is desired that you adopt a relatively conservative outlook with respect to flight on three engines, having in mind the weather, availability of usable airports on the route, etc.

H. W. SEAGRIM,
Director of Flight Operations.

That is what you are referring to, Mr. Drew?

Mr. DREW: That is quite so. What Mr. English said is that notices come to his attention. There is no suggestion that he is directly in possession of information which led to the decisions expressed in those notices.

The CHAIRMAN: Would any other member of the committee like to make any other comment? The question is on the amendment. All those in favour of the amendment, please signify. Against.

The amendment is lost.

All those in favour of the motion for the adoption of the committee report.

Mr. DREW: Mr. Fulton is not here. He was to have put a second motion in regard to the other two and I will put the motion in his absence.

The CHAIRMAN: Mr. Drew moves that Mr. Walter Turnbull, Deputy Postmaster General, and Mr. Baldwin, Chairman of the Air Transport Board, be called as witnesses.

Mr. DREW: I do not think I need to amplify that.

The CHAIRMAN: I was in some doubt as to how far the committee's authority would extend in that regard and I asked the committees branch to make a report on the matter and I will read it. There is a reference first to Beauchesne, second edition, pages 621 and 634, and this is followed by the notes, as follows:

> The Air Transport Board is a body authorized by statute to set tariffs of maximum air passenger fares. Its decisions in individual cases may be appealed to, and only to, the Supreme Court of Canada. This committee, unless specifically authorized to do so by the House, has no power to inquire as to the criteria the Board uses in reaching its decisions or require it to justify those criteria.

Then in regard to the Postmaster General:

> Negotiations for a new mail contract for the carrying of mail are now being carried on between the T.C.A. and Post Office Department. The result of these negotiations could in no way affect the operations of T.C.A. for the year 1949, and any evidence concerning them is, therefore, beyond the commitee's order of reference. This quite apart from the propriety of the committee constituting itself a referee in a dispute between a crown company and a department of government without authority from the House to inquire into the affairs of the department.

Are you ready for the question on the second amendment moved by Mr. Drew?

All those in favour of the amendment signify in the usual manner.

Against.

Mr. FRASER: Wait now, Mr. Chairman, did not Mr. Turnbull appear before the Senate Committee?

Mr. DREW: Yes.

The CHAIRMAN: The Senate Committee on what?

Mr. FRASER: On the subject of the mail being carried by Trans-Canada Air Lines.

Right Hon. Mr. HOWE: No, no, Mr. Turnbull came before a special Senate Committee appointed to examine departmental expenditures. He went there with the approval of his minister.

Mr. FRASER: Why should he not appear before this committee?

The CHAIRMAN: The expenditures of his department have not been referred to this committee.

Mr. FRASER: No, but this is in regard to the carrying of mail.

The CHAIRMAN: We have no authority in regard to Post Office expenditures.

Mr. FRASER: It comes under T.C.A. expenditures.

Mr. DREW: I have before me a Canadian press despatch dated March 29, which reads as follows in the first paragraph: "The Deputy Postmaster General, Walter J. Turnbull, today told the Senate Transport and Communications Committee that post office business was increasing."

I have no reason to question the accuracy of that report.

Right Hon. Mr. HOWE: Unfortunately, the increase in post office business does not reflect itself in T.C.A. earnings because T.C.A. carries the mails for a flat rate.

Mr. DREW: I am not referring or making reference to post office business, I am referring to the fact that it was the Senate Committee on Transport and Communications before which he appeared, which would be the corresponding committee to this.

Right Hon. Mr. HOWE: I said he appeared before the committee on expenditures over in the Senate, but I do not know of another appearance. Does that despatch mention the name of the committee he appeared before?

Mr. DREW: Yes, the Senate Committee on Transport and Communications.

The CHAIRMAN: I have asked Mr. Burgess, the clerk of the Committee, to look up that order of reference. In the meantime, while it is being looked up, has anybody any further comment?

Mr. DREW: In view of the fact that the first motion has been refused by the vote of the committee, I would then ask Mr. English if he is in a position to file with this committee T.C.A. files W.G.F. 1333-1 and 1333-2 of the Flight Operations Department?

The CHAIRMAN: I believe you already asked for those, Mr. Drew.

Mr. DREW: My question was directed not to these two bulletins that I asked for but to the files referred to which are the flight operations files. I asked if Mr. English is in a position to produce those files.

Mr. ENGLISH: That would be all that is on the file, Mr. Drew. It is just a routine notice and that is an identification number that is placed on it. There would be no correspondence or anything of that description. The reference there is just a file reference, it is just a reference to the circular.

Mr. DREW: I notice the same file reference number is used both in 1949 and in 1950.

Mr. ENGLISH: Yes, because that is the character of that circular.

Mr. DREW: Yes, but that is the file that deals with flight operations and that is the file I am asking for.

Mr. ENGLISH: There would be no file dealing with that subject, Mr. Drew. That file number would be on all circulars over probably three or four years. There would be hundreds of them.

Right Hon. Mr. HOWE: I question the propriety of filing them with the committee. They are inter-company circulars and are not issued to the public

but are issued to operating officials of the air lines. If someone in the air lines has passed them to persons outside the organization, they have been passed out quite improperly.

Mr. ENGLISH: There is no secret made of them. They are on the notice boards. They are placed at all our stations.

The CHAIRMAN; I believe you already indicated, Mr. English, that the bulletin dated February 14 or November 14, 1949, just a second please—which of these two bulletins had to do with the moving of aircraft without passenger movement?

Mr. ENGLISH: The white one, the one dated February 14, 1949.

The CHAIRMAN: February 14, 1949 has to do with moving aircraft without passenger load.

Mr. ENGLISH: That is right, and Mr. Drew raised the question about the lower speed referred to in the second bulletin and I mentioned the fact at the time those instructions were not effective, that since the advent of warmer weather we have gone back to the high speed again.

Mr. DREW: That is the information you have now received, is it?

Mr. ENGLISH: I beg your pardon?

Mr. DREW: That is the information you have now received, is it?

Mr. ENGLISH: No. I mentioned what we were going to do but I could not give you the exact date at that moment.

Mr. DREW: You mentioned you would be shortly going back to higher speeds.

Mr. ENGLISH: The actual date was April 19. I knew we were going back but I did not know the exact date.

Mr. DREW: Mr. English, I am not going to press the point beyond this but I must confess that when I see a reference to a file that constitutes a file. What I am simply asking you to do is to produce that file.

Mr. ENGLISH: There is no file, Mr. Drew.

The CHAIRMAN: Do I understand you would like all of the bulletins out of that file, Mr. Drew?

Mr. DREW: I would like to see that file.

Right Hon. Mr. HOWE: Well, I would object to that procedure. That is a matter of internal operation of the company, technical details referring to a patch of trouble we had in the early months of 1949. I do not know why we should spread that on the public records. The trouble has been rectified.

Mr. DREW: I move that the files to which I have referred be produced.

Mr. FRASER: I second that motion.

Mr. MUTCH: You have a motion already before the committee, Mr. Chairman.

The CHAIRMAN: You have heard Mr. Drew's motion. We are holding up the other amendment until Mr. Burgess has had an opportunity to turn up the actual order of reference to the Senate Committee on Transport and Communications.

All those in favour of Mr. Drew's motion that files W.G.F.-1333-1 and file W.G.F.-1333-2 be produced.

All those in favour of the motion please signify in the usual way.

Opposed.

The motion is lost.

Mr. GEORGE: Mr. Chairman, the terms of reference to that Senate Committee would have no bearing on what we have here in any case, would it?

The CHAIRMAN: It is only a matter of courtesy; if it can be found we will show it to the committee.

Mr. FRASER: Certainly it has a bearing on the work of this committee.

The CHAIRMAN: Mr. Fraser, I have never heard it argued that because any other committee erred in exceeding its authority that any other committee can do the same.

Mr. FRASER: I know, but it might not have exceeded its authority.

The CHAIRMAN: I have a report from the committees' branch that we would be exceeding our authority in calling Mr. Turnbull or Mr. Baldwin.

Mr. HELME: We are dealing with the T.C.A. report in this committee. What in the world has the Deputy Postmaster General got to do with this report?

Mr. DREW: Just six million dollars.

Mr. JAMES: I do not think we can make any better negotiations with the post office than the T.C.A. can.

Mr. DREW: I do not think it is the function of this committee to make negotiations between T.C.A. and the Post Office Department, but I think it is up to this committee to deal with an arrangement under which six million dollars was paid to T.C.A. last year for domestic mail carriage, and about one and a half million for external mail carriage. We should also know what the arguments are in favour of any other arrangement.

The CHAIRMAN: The clerk has not yet been able to locate that reference.

Mr. MUTCH: On this vexed question of airmail rates, that is a matter which at the present time is under negotiation between the department and the T.C.A., and I understand that the T.C.A. have made certain representations to the department to the effect that in view of the increased volume of mail they are handling the rate paid to them should be increased by, I think the amount of $75,000 was mentioned. What I want to ask you is this: is that in the form of a direct negotiation between the department and the T.C.A.?

Mr. MCGREGOR: It is under direct negotiations between the department and the T.C.A.

Mr. MUTCH: Does the Air Transport Board have anything to do with the fixing of that rate; are the negotiations taking place before that board?

Mr. MCGREGOR: That board has nothing to do with it, it does not enter into the picture at all.

Right Hon. Mr. HOWE: As a matter of fact, the negotiations are being carried on between the Post master General's department and the T.C.A. We are hopeful that the situation can be improved, but I do not see how this committee is able to help the matter out in any way.

The CHAIRMAN: Mr. Fraser, you will be pleased to learn that the Senate committee did not exceed their authority. The clerk has turned up a reference on the subject, and it shows that on the 15th of March the Standing Committee on Transportation and Communications was authorized to examine expenditures in connection with the following votes: And then a number of votes are indicated and included in those votes are votes No. 269 to 274 inclusive, 459 to 523 inclusive, 557 to 561 inclusive; and those include the Post office department; so the Senate was quite within their authority.

Mr. DREW: I would point out that the question of the negotiation of the mail rate is not the sum and substance of this subject; the question is as to what arrangements should or should not be made with regard to the carriage of mail as a general arrangement; and I should think that having regard to the fact that that is something which is in the form of a joint arrangement between the railways and Trans-Canada Air Lines that it would be a matter of very direct interest to this committee to examine into that subject because there might be suggestions as to either an increase of services along that line or a diminution of services along that line depending on what the evidence produced. I fully recog-

nize that other jurisdictions are not a guiding rule for us, but everyone here knows perfectly well that the subject of mail contracts is a regular subject of inquiry before the appropriate committees of the congress of the United States, and this subject of mail contracts comes before committees of parliament in the United Kingdom. I would have thought that this was a most appropriate subject for consideration by this committee.

Mr. MUTCH: My thought is that the appropriate time for this matter to be considered or discussed would be when the estimates of the postmaster general are before the House; that he should give the answer to this question when his estimates are under discussion. There is evidently some difficulty between the post office department and the T.C.A. which has required rather extended negotiations, and it would seem to me that the T.C.A. are the weaker party in the negotiations between the post office department and themselves. If we are going to open up an inquiry with regard to that I doubt very much whether it will be helpful to their cause. It seems to me that the postmaster general is in a stronger position than T.C.A. are and that that is a matter which we could very well take up when his estimates are before us in the House.

Right Hon. Mr. HOWE: That is the place to take it up, of course.

Mr. MUTCH: We have heard it stated here by Mr. McGregor that from the standpoint of the operation of T.C.A. in relation to the services they are performing for the post office department he is of the opinion that T.C.A. should have an additional $70,000 a month so as to make it more attractive for the air line in performing this service for the post office department. Personally, I am of the opinion that they should consider some more equitable rate in any event. But, as I said, I would be inclined to think that the best place to discuss that would be when the minister's estimates are before us in the House.

Mr. DREW: Mr. Chairman, the subject is one that does not need to be in any way surrounded by mystery. The contracts for the carriage of mail have been regarded as a possible way of supporting air transportation not only in this country but in other countries, I should think in every country that has any substantial civil air organization. Mr. McGregor has stated that Trans-Canada Air Lines is not losing money on the air mail that it carries. The proposal therefore that there should be an increase of $70,000 a month in the domestic carriage of mails is his estimate of what he regards as an approximate amount by which the government through the post office department should support this air operation. The point also which should be borne in mind is, as Mr. McGregor has explained to us, that the decision to allocate mail to aircraft or to the railways under a general arrangement that they have is made by the post office department and not by his organization; consequently in determining whether there should be some arrangement that would be more beneficial to the air lines than that which now exists—it would seem to me that the man who can best tell us the post office end of it, as to how he allocates mails, and as to whether the allocation as between rail services and rail lines is equitable, having regard to the rail facilities that are available, is the representative of the post office department itself. It is from that ground that I asked that he be called and not on the ground that we should place ourselves in any way over the man who in the ordinary course of events would be carrying on the negotiations that are now being conducted.

The CHAIRMAN: I think Mr. Drew has put his finger on the main question, which is the extent to which the T.C.A. should be supported, or if you want to use the word, subsidized.

Right Hon. Mr. HOWE: Let us get that straight. I hate that word "subsidized", and it has nothing to do with this situation. An agreement was entered into some two years ago between the post office department and T.C.A. The post office department specified the air mail that was to be

carried and it specified the amount of mail ton miles that would be reserved for it. That is an agreement. Since then the amount of mail has increased and T.C.A. are asking that the payment be adjusted to compensate for the increase in mail, for the quantity that T.C.A. has been asked to take on. That question is now under negotiation. I should think that the worst way to settle it would be to get those conducting the negotiations wrangling across the table before this committee.

Mr. MUTCH: It would seem to me that this is a straight business deal between the post office department and the T.C.A., and in my opinion the post office should make the best possible deal with T.C.A.

Mr. POULIOT: Mr. Chairman, if I may be permitted to I would like to say this. Very definitely, we want to see the T.C.A. get the best deal possible. We are not here to oppose each other, we are here to do the best we can for T.C.A. Now, Mr. Chairman, I want to say this quite frankly, that just because a suggestion comes from Mr. Drew, Mr. Mutch or anyone else, that is not a reason in itself to oppose it. I am an oldtimer and I remember when people from the post office department used to come here and give information about the mail service with T.C.A. And I want you to understand this, that I am one who wants to see the T.C.A. prosper and I want a fair adjustment between the post office department and the T.C.A. Here we have a statement by the president, and from Mr. Cooper, that they do not believe that T.C.A. is receiving as much as they should from the post office department. That is a matter of opinion, but that is the statement made to us. And who is the other party? It is Mr. Turnbull. Is Mr. Turnbull the post office department? Then he should come before the committee as representing the department, and if he came before us here it would not be a precedent. I am wondering why he should not be called so that we could get this issue settled and not waste any more time. I will say this, that I will never oppose anything just because Mr. Drew suggests it; if I do not agree with it I will not support it; but this time in my opinion he is right, and I would like to see some official of the post office department come here and give us some information in regard to the statement made by Mr. Cooper which was supported by the president of T.C.A. I hope we will not go on wasting time the way we have been doing in this committee lately because I have work to do in the House and I have other work to do in my own office looking after my correspondence. I remember in the old days when we had Mr. Herring and others from the post office department before a similar committee. And I repeat, that I want to help the T.C.A. in any way I can; certainly I do not want to cause any harm or injury to the T.C.A.; and I think that if at the present time the post office are not paying enough for the service being given to them, and it has increased very greatly since all the four cent mail goes by air, then I think for the greater service rendered, T.C.A. should have increased compensation.

Right Hon. Mr. HOWE: I would like to point out that when Mr. Herring appeared before this committee he came as a director of T.C.A. He used to come here until about a year and a half ago when he resigned.

Mr. POULIOT: But Mr. Coolican also came.

Right Hon. Mr. HOWE: Yes, Mr. Coolican came before the committee, but that was in the days before the postal rates were set.

Mr. POULIOT: I am not going to argue with the minister. I have expressed my opinion.

Right Hon. Mr. HOWE: I think it would be very improper for us to go into these negotiations while they are not yet completed. I think it would do no good and it might do some harm.

Mr. MUTCH: Mr. Chairman, there is a point I would like to make. In the first instance, speaking personally, there is no appreciable difference in the

approach to this matter between Mr. Drew and myself. Up to this point there has been some examination as to the most effective way in which to help the T.C.A. in its negotiations with the post office department. I agree with the minister's statement that the negotiations are now going on and that they have been operating on an interim extension since the 31st of March, 1949. I think it would be most unfortunate if the idea got out that we were trying to interfere, and as a result T.C.A. were to lose any business in respect to the carriage of air mail because of any statements made by members of this committee. The other point which I should like to make is this, that there has been some suggestion made that T.C.A. should ask for, or request an additional $70,000 per month, and that request has been described by some as a government subsidy. With respect to that I should like to point out that during 1949, as the committee know, there was an increase of 48 per cent in the amount of mail carried by T.C.A., and in spite of the fact that that increased amount of mail has been carried for more than six months now there has been no adjustment in the rate of compensation to T.C.A. The amount they are now receiving is the amount which was considered equitable in 1948 and 1949 for their full air mail operations, and in view of the increase to which I have just referred, that payment would, to say the least, appear to be inequitable, particularly in view of the very considerable increase in the amount of mail T.C.A. are being asked to carry. It would seem to me to be only a matter of common sense that there should be an upward revision in the contract price, and I think that the suggestion that the additional payment would be in the form of a subsidy is altogether inappropriate, particularly in view of the fact that the service they are now performing represents a 48 per cent increase over that performed in the previous year, and it is likely to be very considerably higher in 1950; and I think the post office department ought to meet that.

The CHAIRMAN: Mr. Pouliot has called my attention to a fact. I was not on the committee at the time, but he tells me that Mr. Herring was called before the committee as to the effect which might flow by way of an increased volume of mail carried, if the rates were reduced. In other words, he gave evidence which was opinion evidence and which had nothing to do with the negotiations of the rates.

Mr. POULIOT: I remember the incident very well because I asked him questions. I was a member of the committee and I asked him questions and I was pretty hard on him. I remember that very well. Therefore it is past history which I have not forgotten. I shall not argue since the minister has made his statement on the subject. I shall keep my opinion and I shall not argue. And the only point I have with my brother, Mutch, is that I would be very sorry if there was any imputation of motives against any of our colleagues here.

The CHAIRMAN: In view of the discussion and the suggestion by the minister, and since the matter is under negotiation, Mr. Drew, do you not think it might be better not to interfere at all at this stage? Are you prepared to withdraw your motion?

Mr. DREW: No, and I shall explain why. I think Mr. Howe has explained that when Mr. Coolican was here it was before the rates had been settled, so obviously he must have been called for the purpose of determining what the nature of the arrangement should be between the TCA and the Post Office Department. I have said more than once that I am not suggesting that we should intervene in ordinary negotiations, but I do believe that it is very much the responsibility of this committee to determine whether other arrangements for the carriage of mail which would be more favourable to the TCA can or cannot be devised; and I pointed out that the reason why Mr. Turnbull could give evidence in regard to it was because of the fact that he is the man—or through his officials—who can determine at any time the way in which mail shall go and the amount which shall go by air instead of by rail.

I think we should know how these decisions are made, and we should know whether they are at some time or other imposing an additional weight on Trans-Canada, where the rail service could provide a faster delivery, and vice versa, where mail might be sent by air which is not now being sent. This would not affect any negotiations now going on between the parties. These are not negotiations based upon ordinary mail carrying rates. There is a difference between the domestic carriage of mail and the carriage on external lines.

On the external lines the mail is carried by an air postal charge. But in the case of domestic lines, it is carried under this arrangement which now provides for the fastest possible delivery. And for that reason there are a number of variable factors which are possibly quite outside the terms of ordinary negotiations.

Mr. McGregor himself has stated that they are not losing money, but he does believe that there should be an additional $70,000 per month. So I think this committee might very well give assistance to TCA in conducting an examination of the facts with a view to finding perhaps some alternative arrangement that would be more favourable than that which is now in existence and it is upon that ground that I present my motion.

Mr. FOLLWELL: Mr. Drew suggests that we have Mr. Turnbull's point of view and maybe there might be a saw-off arrangement which would provide, let us say, $5,000 per month?

Mr. DREW: No, no, I do not suggest that. I suggest that we might examine the arrangements made to determine whether they are the best arrangements having regard to the practice throughout the world today.

Right Hon. Mr. HOWE: As far as external rates go, there is no question about such rates, because they are set under an international postal arrangement, whereby the carriage of mail is set at a rate of six gold francs per ten kilometres. That applies on external lines.

In so far as the matter of the arrangement between the different departments of the government is concerned, you are proposing to examine the Post Office Department and how it carries on its business. I suggest that the time and place to get that information is when the estimates of the Post Office Department come before the House.

Mr. DREW: I am not asking to find out about the Post Office Department, or how it carries on its business. But I would ask to find out exactly what the arrangements are and whether it is not possible to obtain some other arrangement either by way of a different method of carrying the mail, or a different method of deciding the means of carriage, or a different method of determining what mail shall go by rail and what mail shall go by air. And when I spoke of "outside of Canada" I was referring merely to the fact that there is a mass of experience in the case of other countries as well and that it might be of advantage to us to know what is being done on the domestic service in the United States, or in France, for instance, and in other countries where there is extensive air service.

Mr. FULTON: I think Mr. McGregor said—or evidence has been given to the effect that this agreement expired or was expected to expire in 1949—as I recall it, it was March 1949—and that negotiations have been continuing sporadically or continuously ever since that time. If we are to be put off merely by the suggestion that negotiations are not yet concluded, it might be that another two years would elapse before any satisfactory arrangement is arrived at; and I certainly think, as one who has a very great concern about the deficit in domestic operations of Trans-Canada and as one who believes that that deficit does not result, or hardly results at all, from actual managerial details, but rather results from government policies which are imposed upon the T.C.A., among which is the rate at which the mail shall be carried—I think

that this committee, having those facts in mind, should concern itself immediately with the question of what compensation is paid to the air lines for the carriage of mail. I do not think we should put it off because negotiations are continuing. Negotiations have been continuing for fifteen months and if we want to arrive at any one of a number of solutions which may be of assistance in reducing this deficit, I think we should concern ourselves with it immediately. I do not think we should put it off because negotiations are continuing. That is a very convenient phrase. Mr. Turnbull can tell us what negotiations are actually taking place and what the attitude of the Post Office Department is towards them. We do not have to put him on the grid at all, but we can find out from him what the situation is.

The CHAIRMAN: Well, Mr. McGregor, have you any remarks to make?

Mr. MCGREGOR: I would like to make myself very clear. I have here been twice quoted as saying the T.C.A. was not losing money, presumably on the carriage of mail. I did not say that at all. I said that Mr. Cooper had not said that we were losing money on the carriage of mail; and I further explained this morning that a determination as to whether or not the company was losing money on the carriage of mail would involve a tremendous number of purely arbitrary assumptions as to relative costs. I would like very much to have the record correct and definite on that.

Mr. DREW: But are you losing money?

Mr. MCGREGOR: I said it was purely a matter of the estimated weight that you are going to give to the expenses for the carriage of mail; and I, for one, and none of my people have been able to determine, or to reduce to a monetary evaluation, the things I mentioned this morning. I do not think it is humanly possible to do so with any assurance that you are correct.

Another thing I would like to say is in reference to the mail pay discussion. I very much share the minister's opinion that if the Post Office department is requested to appear before this committee at this juncture, I think that they would very humanly feel that T.C.A. had, by some means or other, proceeded to call up some heavy artillery which was going to try to force through a favourable negotiation in the matter of the mail contract. I do think it might be something which could be done if and when negotiations break down. But the negotiations are not at an impasse. They are being carried on jointly with mutual understanding between the Post Office and the company and while it is quite true, as Mr. Fulton said, that these negotiations have gone on for a long time, it is my experience that negotiations of this type always go on for a long time.

So purely from the standpoint of the welfare of the company I would much rather see whether or not we can come to an amicable settlement of this matter of mail pay rather than, at this juncture, perhaps muddy the waters of negotiations.

Mr. DREW: You see, one difficulty in that respect is that Mr. Turnbull has already been before another committee of parliament at which time he said that the air lines wanted to have fixed a per pound mail rate which the Post Office department thought was exorbitant. So, if there was any muddying of the waters, it has already been done, and I should think we might have the same privilege and the same opportunity as the Senate Committee in dealing with it.

The CHAIRMAN: In view of the fact that the shareholders of the Post Office department and the shareholders of T.C.A. are the same, and in view of what the president of T.C.A. and the minister have stated, would it not be well for this committee to be content, having discussed and aired the problem, because we will be meeting again?

Mr. FULTON: With another deficit before us, I suppose? You mean in another year's time?

The CHAIRMAN: I mean in another year. No one is being injured because the shareholders are identical in both these government institutions.

Mr. DREW: That is exactly why they should have the opportunity to examine it.

Mr. POULIOT: Would you have any objection to bringing to the attention of the Postmaster-General the discussion which has taken place tonight?

The CHAIRMAN: I would very much prefer the minister to do it rather than the chairman of the committee.

Mr. MUTCH: Have you any doubt about that?

Mr. CHAIRMAN: I have no doubt about that.

Mr. FRASER: Do you not think since both T.C.A. and the Post Office, as you say, have the same shareholders, that is the reason why negotiations have not been hurried up? One side does not want to hurry them, and the other side evidently does not feel that they have to hurry because, if they do have a deficit, they know that the taxpayer will pay it?

Mr. FULTON: I cannot agree with that. I think the position is this: the Minister of Finance told us the other day in the House, as I recall it, in his budget speech, that the Post Office is now producing an over-all revenue or is in a surplus position on ordinary operations.

Right Hon. Mr. HOWE: The surplus goes into the treasury of Canada and the deficit of T.C.A. comes out of the treasury of Canada.

Mr. FULTON: But there is a slight difference because, as the Minister of Finance told us in his budget speech, one of the facts which he had to bear in mind, and which he is bearing in mind in making his over-all forecast of revenues and expenditures, is—and I think he used these words—the possibility that we may have to meet a deficit on the Canadian National and on the Trans-Canada Air Lines, something which very evidently entered into his forecast of revenues and expenditures. He thought that we should allow leeway for revenues over expenditures, bearing in mind that we may be called upon to meet these deficits, or meet the deficit position of the great government-owned corporations, the Canadian National Railways and Trans-Canada Air Lines, which must be borne in mind and which enter into the picture. I do not want to use inaccurate words, but if it is a false picture we are getting with respect to the operations of T.C.A. —if parliament is being asked to vote money for a deficit which in fact does not exist—I submit it distorts the whole over-all fiscal picture in so far as revenues are concerned.

Right Hon. Mr. HOWE: In figuring his revenue the Minister of Finance figures the revenue from the Post Office Department. It would not change the picture if the revenue from the Post Office Department was less and the deficit of T.C.A. was less to the same extent.

Mr. FULTON: That might enable us to arrive at some idea of whether this all-up mail is a sound proposition. I do not see that T.C.A. ought to be required to carry on and increase its deficit by carrying all-up mail?

Right Hon. Mr. HOWE: I feel very strongly on this point and I do not think that it should either. However, the clerk has ruled that we have not the authority to summon the Postmaster General—

Mr. DREW: With respect, the clerk cannot do that at all; he has no right—

Right Hon. Mr. HOWE: He gave a legal opinion.

The CHAIRMAN: Well, all those in favour of the motion that the two witnesses be called?

Motion lost.

All those in favour of the report of the agenda committee being adopted?

Agreed.

Mr. GEORGE: I understand that we are short of copies of this evidence and so I would move that copies of minutes of proceedings and evidence be printed as may in the direction of the chairman be required.

Carried.

Mr. FULTON: I wonder if I might raise another matter. I see that Air Vice Marshal Cowley is no longer in attendance in the background but I would like to ask some questions having to do with an incident that occurred at Halifax airport recently. As the minister is present tonight perhaps he is in a position to deal with it?

Right Hon. Mr. HOWE: What was the incident?

Mr. FULTON: The incident concerned an American air lines plane—a trans-Atlantic plane which landed at Halifax.

Right Hon. Mr. HOWE: I know the situation.

Mr. FULTON: May I just complete what I had in mind. I was in Halifax on the day after the incident and this westbound plane was unable to land at Gander and came on to Halifax. While it was allowed to land at Halifax and refuel, it had passengers for this continent who were unable to clear because of lack of authority of the customs officials to clear the passengers. They were therefore compelled to return to Gander, some 400 miles, which is the port of entry, and to clear the passengers there and then proceed back the 400 miles and on to Montreal.

The CHAIRMAN: That point was raised before the committee and the full answer was given by Mr. McGregor. If you will read the evidence I am reasonably sure that you will find the answer.

Mr. FRASER: In an emergency case like that, Mr. Chairman, customs and immigration used to clear American planes at Oshawa but they do not do that any more?

Right Hon. Mr. HOWE: There are certain rules governing these matters. The rule is this. The designated point of entry to Canada is Gander with an alternate at Goose Bay. The alternate at Goose Bay is free—they can choose between those two places in any weather. If they can get into either of those airports they must use them. If the weather is closed in at those airports there are certain other alternative airports specified. There is an alternate at Sydney, an alternate at Stephenville, and an alternate at Moncton. Those are designated as weather alternates only. A plane cannot start out and file a flight plan to land at Moncton if there is no reason why it should not go to Gander or Goose Bay.

Dartmouth is a military airport. It is owned and operated by the air arm of the navy. T.C.A. is in there as tenant; it has landing lights there, but Dartmouth is not an international airport. There are no facilities and there is no agreement that provides for landing at that point. There is a provision that a plane can land anywhere if it is in trouble—land and take off—but, if it wants to land and unload pasengers and clear for another country it must go to the airport that is designated for that purpose. It may have appeared to be going to extremes to not get the appropriate officials to clear that plane but to do so would have been just to invite repetition.

The customs officials were tough in their interpretation of the rules. There was no rule that required them to clear the plane.

Mr. MUTCH: They could have gone on to—

Right Hon. Mr. HOWE: They could have gone to Sydney.

Mr. FULTON: I do not think so; I think Sydney was pretty well fog-bound too. However, the statement was made at that time that there were customs officials at Halifax—

Right Hon. Mr. HOWE: Yes, there are.

Mr. FULTON: —who could have cleared the passengers and they would not have had to have any more forms or any more officials; but they lacked the necessary authority.

Right Hon. Mr. HOWE: I thought they were tough, myself. It was not in anybody's agreement to clear a plane at that particular airport.

Mr. FULTON: What is the reason that Halifax is not an alternate?

Right Hon. Mr. HOWE: It is simply that if you are going to let planes clear through customs and immigration at any airport you are going to have a lot of organizing to do. For instance, we fly down to Nassau and we have to stop at Tampa. If, for weather reasons, we landed at Miami we would be sent back to Tampa to unload passengers because the U.S. officials are not supposed to clear us at Miami. I am sure you have had that experience, Mr. McGregor.

Mr. MCGREGOR: Yes, we could not offload passengers in Miami.

Mr. FULTON: No, you could not offload them but you are prepared to go on—I do not know whether there is a parallel there but, as I understand it, this particular aircraft was going on to its next normal point. It came down at Halifax instead of Gander but then it was prepared to go on to its next port of call, but it had to go back to Gander to clear its remaining passengers, notwithstanding the fact that they had the physical customs officials and forms—but they had no authority to do it.

Mr. MCGREGOR: That is correct but the reason it had to go back to Gander was to offload its Canadian de-planing passengers which was the parallel which I mentioned in connection with Tampa. If it had had no passengers except for New York it would not have had to go back to Gander. The Canadian customs would not have been interested provided they did not de-plane at Halifax. It could have gone right through. There are certain flights that, under certain conditions, do not land in Canada at all.

Mr. GEORGE: That plane actually had Canadian passengers?

Mr. MCGREGOR: Destined to get off in Canada.

Mr. FULTON: They had intended to get off at Gander?

Mr. MCGREGOR: That is as I understand it.

Mr. MCGREGOR: Is there any reason why Halifax should not be an alternate port of entry?

Right Hon. Mr. HOWE: It is a matter of expense, and organization. I do not know how many customs people we have at Gander but I should think about twenty—quite an elaborate layout is necessary. The more international airports you set up the more expense you have in connection with them.

Mr. FRASER: Moncton would likely be fogged in too?

The CHAIRMAN: Gentlemen, we have one small matter to attend to. The members of the committee will recall that when the C.N.R. report was before us Mr. Carter asked a number of questions. The answers were not then available but the president promised that he would make them available to the committee

and the understanding then was that, when received, we would table them and they would appear as an appendix to the report. I now have the questions and the answers.

Mr. MUTCH: I would move they be received.

Agreed.

The CHAIRMAN: Before adjourning, I know it would be the wish of the committee that I express to you, Mr. McGregor, and to you Mr. English and the other officials of T.C.A., our thanks for your kindness in appearing before the committee and being so patient.

Mr. POULIOT: As one of the senior members who sit around this table, Mr. Chairman, I wish to pay tribute to you personally because you have conducted the business of the committee very favourably with full knowledge—and you have treated your colleagues as real brothers. I am sure that has been appreciated by all.

Also, I join in what you have said about the president, Mr. McGregor, and the other officials of T.C.A. who have spoken with earnestness and sincerity to us. I can only congratulate them for their good work, which was started by the present Minister of Trade and Commerce. In spite of numerous difficulties there has been achieved a fine result that must be the pride of all of us.

The CHAIRMAN: Thank you Mr. Pouliot.

Right Hon. Mr. HOWE: Thank you Mr. Pouliot, and with that kind thought we might adjourn.

The CHAIRMAN: We shall adjourn at the call of the chair for the purpose of considering the report. Mr. Fulton, you indicated that you might be away for a few days? When do you expect to be back.

Mr. FULTON: I will be back by the end of the first week in May.

Mr. DREW: Just before we adjourn I would like to place one statement on the record. I do feel that in reference to the press reports of the meetings I may have conveyed an inaccurate impression. I was not in any way suggesting that the reports were not accurate but, in dealing with any long discussion, any press reports are of necessity only a very small part of the whole proceedings and do not give a complete picture. It was in relation to that feature that I made the comment. I do wish to place this remark on the record.

The CHAIRMAN: By the way, Mr. Drew, certain answers which you requested regarding trip passes, a quotation of T.C.A. North Star charter, and estimate of total miles to be flown in 1950, are also here now, and will be included in the proceedings as appendices.

(Information requested by Mr. Carter appears as Appendix "A".

(Information requested by Mr. Drew appears as Appendix "B".

The meeting adjourned to meet again at the call of the chair.

APPENDIX A

DEPARTMENT OF TRANSPORT

OTTAWA, April 25, 1950.

Dear SIR:

On instruction from Mr. J-C. Lessard, Deputy Minister, Department of Transport, I am enclosing herewith a letter from Mr. Donald Gordon, Chairman and President, Canadian National Railways, reciting answers to various questions asked by Mr. Carter at a recent session of the Select Standing Committee on Railways and Shipping, which are printed as an appendix in Volume No. 4 of the Minutes and Proceedings of the Committee of Thursday, March 30th.

It will be noted that this letter is directed to Mr. Carter, but I understand it was the intention to incorporate the answers in the report of the Committee, if the answers were available in time, and in view of this, I presume you may wish to incorporate the answers in the records of the Committee.

I may say that the Canadian National Railways are being advised that this letter is being forwarded to you for the above purpose instead of being directed to Mr. Carter personally.

Yours faithfully,

W. A. THORNTON,
Railway Auditor

H. Cleaver, Esq., M.P.,
House of Commons,
Ottawa.

CANADIAN NATIONAL RAILWAYS

MONTREAL, April 18, 1950

Dear Mr. CARTER:

At the conclusion of the recent meetings of the Sessional Committee on Railways and Shipping owned and operated by the Canadian National Railways you left with me a list of questions which, for convenient reference, are enumerated below with the answers thereto. Because of the necessity of compiling some of the information it has not been possible to write you earlier.

1. Q. (*a*) What proportion of $5·8 million revenue is derived from passenger fares? (*b*) How many passengers were carried?—A. (*a* & *b*) According to the Income Statement for the period April 1 to December 31, 1949, the total revenue for rail and steamship operations amounted to $7,746,495.06, and the percentage of revenue derived from passenger fares is in relation to the latter figure.

	No. of Passengers	Revenue	Percentage of Total Revenue
Carried locally in Newfoundland	252,791		
Number of rail passengers to and from the Mainland	15,480	$1,015,212.00	13·1%
Total Rail Passengers	268,271		
Passengers carried in Coastal Services	29,207	299,454.95	3·9
Grand Total	297,478	$1,314,666.95	17·0%

2. Q. If possible would C.N.R. furnish a breakdown of revenue and expenditure for each C.N.R. coastal boat?—A. Information in this detail is not available.

3. Q. Has C.N.R. (Newfoundland) requested additional ships for coastal service? If so, how many and for which part of coastal operation?—A. The C.N.R. has under consideration the purchase of one additional ship for service on the East Coast. If, or when, the proposed combination cargo, passenger automobile ferry is provided, this should release one and possibly two ships operating in the North Sydney—Port aux Basques service to augment the Newfoundland Coastal service.

4. Q. Are arrangements being made to provide the ships requested or required?—A. Please see answer to No. 3.

5. Q. What plans are under consideration to improve the coastal service generally and the S.W. coast service in particular?—A. Aside from the advantages to be derived, as indicated in answer to Questions 3 and 4, it is being developed whether the schedules of the existing steamers can be re-arranged to afford an overall improvement.

6. Q. Since C.N.R. coastal service is an integral part of Newfoundland communication system and since coastal regions are entirely dependent upon C.N.R. ships for passenger, freight and mail service, why were passenger fares on boats not reduced to a parity with reduction in train fares?—A. There was and is no indication to us that rates for these services were or are too high, and as there is no requirement in the terms of the Act of Union to make an adjustment in such fares and charges, no action was taken with respect to them.

7. Q. Is any consideration being given to the possible reduction of steamship fares?—A. In view of what is stated in answer to Question No. 6, no consideration is being given to the possible downward revision of steamship fares. These steamship operations are being carried on at a substantial loss and a reduction in fares would add to that loss.

8. Q. Do regulations of the Board of Transport Commissioners and Canadian Shipping Act now apply to Newfoundland generally and to costal boats operated by C.N.R.?—A. The Railway Act and the Canada Shipping Act (except Section 21 and Part VI) came into force in Newfoundland on April 1, 1949. However the provisions of these statutes and the regulations made thereunder apply to railways and ships owned by Canada and entrusted to Canadian National Railway Company for management and operation only to the extent specified therein or in related Acts. Generally speaking regulations of the Board of Transport Commissioners apply to the Newfoundland Railway to the same extent as to other entrusted lines such as the Intercolonial Railway, the National Transcontinental and the Hudson's Bay Railway. In so far as the coastal boats operated in Newfoundland by the Canadian National Railways are concerned, the Canada Shipping Act, except Section 21, Part VI, and such other sections as have been specifically or inferentially excluded by the regulations promulgated by Order-in-Council P.C. 5894 of October 22, 1940 are applicable.

9. Q. Is C.N.R. aware of the fact that rigid enforcement of these regulations will necessitate additional ships to maintain the same standard of service given by Newfoundland Government before Confederation when coastal boats were permitted to carry passengers in excess of the number for which they were registered?—A. Yes.

10. Q. Is any provision being made to provide for this contingency?—A. Yes, as outlined in answers to Questions 3, 4 and 5.

11. Q. Have bonuses and deferred payments been made to crews, including stewards and stewardesses, on C.N.R. coastal boats, the same as was paid to

railway employees? If not, what is the reason for the delay? Will these payments be made in the future and how soon?—A. No; wages and working conditions are a matter of negotiation between the Canadian National Railways and the certified bargaining representatives of the employees.

12. Q. Do the Captains of C.N.R. coastal boats enjoy civil servants status as when employed by Newfoundland Government, or has their status been changed? And to what extent?—A. Captains of railway boats were not civil servants and had the same pension rights as railway employees. This status will be continued.

13. Q. Do Captains and Masters of C.N.R. boats enjoy their former privileges of entertaining guests on board ships at Government expense?—A. Yes, as respecting only the tow ships operating in the North Sydney—Port aux Basques service.

14. Q. Is it C.N.R. practice to notify the Captain and Master first when members of the ship's crew are transferred from one ship to another, i.e. is the transfer made through the Captain or communicated direct from C.N. office to member of crew?—A. All changes and transfers of personnel are handled through the Master.

15. Q. Is it proposed to expand the drydock facilities at St. Johns? If so, when and to what extent?—A. No.

16. Q. Is C.N.R. under any responsibility to provide terminal facilities at Louisberg? If not, upon whom does this responsibility rest?—A. C.N.R. has no reponsibility to provide terminal facilities at Louisberg.

17. Q. What class of trains are used by C.N.R. to transport express parcels, second class mail, newspapers and parcel post?—A. Mail traffic, including second class mail, newspapers and parcel post moves as directed by the Post Office Department and on such trains as are authorized by officers of that Department. Normally mail traffic is handled on passenger trains or mixed trains (freight and passenger) and freight service is used only in cases of emergency. On our Newfoundland Lines owing to shortage of passenger train equipement, overflow of mail traffic ex Port aux Basques is carried on freight train immediately following the passenger trains. However, new passenger equipment for our Newfoundland Line is at present on order and when available for service the current practice of transporting overflow mail on freight trains will de discontinued. With respect to express, this type of traffic is also moved on passenger trains and mixed trains with the following exceptions: In the case of traffic arriving on the regular boat days at Port aux Basques, we are limited to handling perishables and rush express traffic on the regular passenger train from Port aux Basques to St. John's and, owing to the volume of business involved, it is necessary to handle some of it in freight equipment on an extra train leaving Port aux Basques approximately 10 hours following the departure of the regular passenger train and operating through to St. John's arriving approximately 24 hours later than the regular passenger service. There are occasions when it is necessary to transport express traffic from St. John's as far as Grand Falls on freight train No. 51 and freight extras because traffic is not received in time to be forwarded on the passenger trains, or alternatively the consist of the passenger trains is too heavy to permit handling of express traffic.

18. Q. Has C.N.R. received any representations re lay-off of employees at Port aux Basques? What action has been taken or is proposed to be taken in this matter?—A. Yes; this is not a lay-off but rather regulation of the number of stevedores per boat at one time. It is Canadian National practice to adjust staff requirements to volume of traffic handled.

19. Q. What is the present position with respect to the application of the Maritime freight rates to Newfoundland?—A. It is assumed that you have

reference to the Maritime Freight Rates Act and if this is so, then as to rates within Newfoundland, from Newfoundland to points in Canada and from preferred territory specified in the Act to Newfoundland, the provisions of the Act apply. On the other hand, if you have in mind the proceedings which have taken place before the Board of Transport Commissioners for Canada and the Cabinet, it is our understanding the Government of Newfoundland resubmitted its case to the Board of Transport Commissioners on the understanding the hearing will take place on such application some time during the current year.

20. Q. Have express rates increased since Confederation and by how much? —A. Prior to April 1, 1949, there were no through express rates and charges in effect between points in Newfoundland and points in Canada, however, effective on that date, the Canadian basis of computing through express rates and charges was placed in effect. The basis used by the former Newfoundland Railroad for constructing express rates and charges was entirely different from that used for constructing similar rates and charges in Canada, therefore, the adjustment involved some increases, particularly in instances where there were some exceptionally low rates and charges applying locally within Newfoundland, but generally speaking the adjustments represented decreases. There has not been a general increase in express rates and charges since Confederation.

21. Q. (*a*) Has any consideration been given to the elimination of Notre Dame Junction by including Lewisporte on the main line? (Note) Lewisporte is an important railhead and shipping centre for Notre Dame Bay. (*b*) With what result?—A. No. It would be impractical to include Lewisporte on the main line. Consideration is being given to strengthening the roadbed between Lewisporte and Notre Dame Junction to permit improved services.

Radio, Telephone, Telegraphs, Etc.

1. Q. Does C.N.R. plan to operate the radio telephone circuits installed by Newfoundland Government at the larger centres along the south coast from Ramea to Grand Bank?—A. Yes.

2. Q. If not, will these circuits be operated by Department of Transport and when will they be put in operation?—A. See answer to question (1). In summer of 1950.

3. Q. Why did C.N.T. take over all telegraphs and telephone lines in Newfoundland when in other Provinces similar lines between isolated settlements are operated by the Department of Transport?—A. This seems to have been decided as a matter of Government policy.

4. Q. What plans have been formulated or in process of formulation by C.N.T. to expand and improve telepragh and telephone facilities in Newfoundland?—A. Improvements completed in 1949 by C.N.R. (Canadian National Telegraphs) or to be completed by the end of 1950 are as follows:

1. Programme circuit for C.B.C. connecting radio stations at Corner Brook, Grand Falls, Gander and St. John's with Trans Canada network.

2. New building and automatic telephone exchange at Gander.

3. Radio telephone and telegraph circuits on south coast.

4. Installation of carrier telephone and telegragh facilities to provide additional circuits.

5. Reconstruction of pole lines.

Capital expenditures for improvements from April 1, 1949 to date were approximately $525,000. Further additional capital expenditures to the end of 1950 for improvements are estimated at $500,000.

5. Q. If no such plans are contemplated or under consideration will the Department of Transport take over the adminisration of those telephone and telegraph lines which have insufficient traffic to put them on paying basis but which in view of their isolated location nevertheless constitute an essential public utility as the only means of outside communication?—A. See answer to question (4).

6. Q. On what basis are C.N.T. telegraph offices classified?—A. *Offices operated by C.N.R. (C.N.T.) staff*:

(a) Schedule offices (at largest centres) ..... — 19

(b) Non schedule offices (at less important centres) ..... — 11

Offices operated by staff other than C.N.R. (C.N.T.)

(c) At post offices by Post Office Department staff (at smaller points) —438

(d) Telephone offices where post office facilities not available—allowance to individuals based on number of messages handled (at smaller outlying points) ..... —110

(e) Operated by C.N.R. (Railway) employees at railway stations —allowance to individuals based on number of messages handled — 5

7. Q. What is the present status of those C.N.T. employees who were Newfoundland civil servants at the time of Confederation and who are now employed in the different classes of C.N.T. offices in Newfoundland?—A. C.N.R. (C.N.T.) employees in 6(*a*) and (*b*) above have same employee status as all other C.N.R. (C.N.T.) employees in similar position classifications in Canada.

8. Q. Since the terms of Union are supposed to safeguard the status, rights and privileges of former civil servants so that no civil servant would suffer a disadvantage because of Confederation, what is the present position of the employees referred to in No. 7 above with respect to those privileges enjoyed as civil servants of the Newfoundland Government, i.e.

(a) Status

(b) Pension rights

(c) Sick leave with pay

(d) Annual leave with pay

(e) Wages, board and travelling expenses of relief operators (which were supplied free by Newfoundland Government).

A. See answer to question (7).

9. On what basis will pensions of employees referred to in No. 7 and No. 8 above be calculated?—A. See circular dated December 1, 1949 issued by R. C. Vaughan, President, Canadian National Railway Company, to all employees in the Newfoundland services, copy attached.

Yours sincerely

D. GORDON

C. W. Carter, Esq., M. P.,
House of Commons,
Ottawa, Ontario.

APPENDIX B

Replying to question by the Honourable G. A. Drew requesting an estimate of total miles to be flown year 1950.

	North American Twin Engine	North American North Star	Atlantic North Star	All Services Twin Engine	All Services North Star
January					
Revenue miles	676,000	692,000	239,000	676,000	931,000
Non revenue miles	50,000	15,000	29,000	50,000	44,000
February					
Revenue miles	618,000	622,000	225,000	618,000	847,000
Non revenue miles	50,000	15,000	29,000	50,000	44,000
March					
Revenue miles	673,000	703,000	250,000	673,000	953,000
Non revenue miles	50,000	15,000	29,000	50,000	44,000
April					
Revenue miles	758,000	707,000	327,000	758,000	1,034,000
Non revenue miles	50,000	15,000	29,000	50,000	44,000
May					
Revenue miles	815,000	815,000	286,000	815,000	1,101,000
Non revenue miles	35,000	15,000	25,000	35,000	40,000
June					
Revenue miles	896,000	836,000	330,000	896,000	1,166,000
Non revenue miles	35,000	15,000	25,000	35,000	40,000
July					
Revenue miles	922,000	855,000	345,000	922,000	1,200,000
Non revenue miles	32,000	10,000	23,000	32,000	33,000
August					
Revenue miles	922,000	855,000	347,000	922,000	1,202,000
Non revenue miles	32,000	10,000	23,000	32,000	33,000
September					
Revenue miles	891,000	827,000	340,000	891,000	1,167,000
Non revenue miles	32,000	10,000	23,000	32,000	33,000
October					
Revenue miles	785,000	770,000	310,000	785,000	1,080,000
Non revenue miles	48,000	10,000	23,000	48,000	33,000
November					
Revenue miles	728,000	669,000	252,000	728,000	921,000
Non revenue miles	48,000	15,000	23,000	48,000	38,000
December					
Revenue miles	776,000	665,000	284,000	776,000	949,000
Non revenue miles	48,000	15,000	23,000	48,000	38,000
TOTAL					
Revenue miles	9,460,000	9,016,000	3,535,000	9,460,000	12,551,000
Non revenue miles	510,000	160,000	304,000	510,000	464,000

Replying to a question by the Honourable G. A. Drew requesting quotation of TCA North Star charter to the Department of External Affairs.

20,919 miles $61,060.00 based on utilization of the aircraft for 30 days. Each additional day over 30 days assessed at $450.00.

Replying to question by Honourable G. A. Drew regarding Trip Passes Issued 1949.

Department of Transport	197
Post Office	3
TCA Employees—O.C.S.	6,764
TCA Employees & Dependents—Vacation	10,851
Total	17,815

APPENDIX C

TRANS-CANADA AIR LINES

Office of the President — MONTREAL, April 12, 1950.

HUGHES CLEAVER, Esq., M.P., Chairman,
Sessional Committee on Railways and
Shipping Owned, Operated and Controlled
by the Government,
House of Commons,
Ottawa, Canada.

Dear Mr. CLEAVER:

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government adjourned for the Easter recess after passing upon the Trans-Canada Air Lines Annual Report for the year 1949, and the related auditors' report, but immediately prior to adjournment items of evidence had been requested by members of the Committee on the understanding that this evidence would be available when it resumed consideration of Trans-Canada Air Lines matters. It has occurred to me that you might wish to make this evidence available to the Committee members requesting it, prior to the resumption of formal sessions of the Committee, and I am therefore forwarding to you herewith the following:

(1) In answer to a request made by the Hon. G. A. Drew for a record of Trans-Canada Air Lines' Rolls-Royce Merlin engine purchases since the introduction to service of the North Star M 1 and M 2 type aircraft, there is attached the required report in duplicate designated in the upper right hand corner, No. 1.

(2) In answer to a request made by the Hon. G. A. Drew for a record of the miles flown by Trans-Canada Air Lines' aircraft in 1949, segregated by types of aircraft, there is attached a report in duplicate giving this information, further segregated as between North American and Atlantic services, and designated in the upper right hand corner, No. 2.

(3) In answer to a request by the Hon. G. A. Drew for details of the meetings of the Board of Directors of Trans-Canada Air Lines during 1949 there is attached hereto a record of such meetings, designated in the upper right hand corner, No. 3. There is also attached a similar record of the meetings of the Board of Directors of Trans-Canada Air Lines (Atlantic) Limited, designated in the upper right hand corner, No. 4.

(4) A resolution, moved by the Hon. G. A. Drew and passed by the Committee, as I understood it, constituted a request that the terms of reference of the Committee be extended to include consideration of Trans-Canada Air Lines' 1950 "budget." Furthermore, at the close of proceedings, the Hon. G. A. Drew requested that there be furnished to the Committee a copy of Trans-Canada Air Lines' 1949 operating forecast and the related 1949 actual results.

It is to be noted that the resolution did not specify as to whether the budget to be considered was the company's capital budget or what might be referred to as its operating budget. The procedure followed by Trans-Canada Air Lines in the past has been to apply the term

"budget" only to its capital budget, and to refer to the consolidated record of estimated revenues and expenses for a forthcoming year as the "annual forecast." You may wish, therefore, to table only the relevant data with respect to the capital budget, assuming of course, that the terms of reference of the Committee will have been appropriately extended in the meantime, or you may wish to submit also the information which I am sure Mr. Drew was actually in search of, the operating forecasts. Your decision in this matter may be influenced by the fact that Trans-Canada Air Lines did not in 1949, and does not plan in 1950 to request the government for any additional capital either directly or through the agency of the Canadian National Railways.

In order that you may be in a position to deal with the matter in whatever manner may be decided by the Committee, I am forwarding herewith in duplicate a sheet designated in the upper right hand corner, No. 5, which shows this company's 1949 and 1950 capital budgets as approved by its Board of Directors giving the new vote, re-vote and total in each case, and the 1949 actual capital expenditures.

Also attached and designated in the upper right hand corner No. 6, is a statement in duplicate showing the forecast made late in 1948, of the 1949 operating results in total for the system, and segregated between major divisions of the system, related actual performance during 1949, and the comparable forecast made late in 1949 with respect to the year 1950.

I have not yet had made available to me a copy of the transcript of the Committee proceedings but a careful record was kept of the requests made for evidence other than that introduced at the sessions which have taken place, and I am quite certain that nothing was asked for that is not embodied in the above list, with the exception of what I regarded to be a personal request by Mr. Pouliot for traffic data covering a certain period of last year. This I have taken the liberty of furnishing Mr. Pouliot direct.

Please advise me if there is any further information which you may require on behalf of the Committee. I am holding myself available throughout the week of April 24th for resumption of Committee sessions, and I would hope that it may be found possible to conclude the proceedings during that week, as I am anxious to resume my system inspection programme as soon as possible.

Yours sincerely,

G. R. McGregor.

Replying to questions by Honourable G. A. Drew regarding number of Rolls Royce Merlin engines for North Star aircraft, types M1 and M2, purchased since introduction. The following includes those purchased as part of the aircraft, in addition to engines acquired for the necessary Spare complement:

Date	M1	M2	Cumulative Total
September, 1946	5		5
October, 1946		2	7
November, 1946	10	1	18
January, 1947	4	1	23
April, 1947	1	2	26
May, 1947		2	28
June, 1947	4	7	39
September, 1947		2	41
October, 1947		20	61
November, 1947		3	64
December, 1947		14	78
January, 1948		12	90
February, 1948		16	106
March, 1948		8	114
April, 1948		8	122
May, 1948		8	130
June, 1948		16	146
July, 1948		2	148
August, 1948		3	151
November, 1948		1	152
December, 1948*	24	4	132
December, 1949		‡1	131
Total	—	131	131

* - In December, 1948, 20 Merlin engines were returned to the R.C.A.F. with the five North Star M1 type aircraft, and four engines converted to type suitable for North Star M2 aircraft.

‡ - Refers to the retirement from service of an engine damaged beyond economical repair.

In answer to a question by the Honourable G. A. Drew requesting a segregation of Miles Flown by types of aircraft for the year 1949:

	Twin Engine	North Star	Total
North American			
Revenue	9,604,684	6,760,049	16,364,733
Non-Revenue	550,970	177,279	728,249
	10,155,654	6,937,328	17,092,982
Atlantic			
Revenue		4,158,523	4,158,523
Non-Revenue		346,894	346,894
		4,505,417	4,505,417
Grand Total	10,155,654	11,442,745	21,598,399

In reply to a question by the Hon. George Drew as to the number of Board of Directors meetings held during the year 1949 and the number in attendance at each:

BOARD OF DIRECTORS MEETINGS OF TRANS-CANADA AIR LINES, 1949

6 meetings, as follows:

January 28, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, G. Herring and W. H. Hobbs, Secretary.

March 25, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, J. A. Northey, R. C. Vaughan, C. P. Edwards, G. Herring and W. H. Hobbs.

June 24, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, G. Herring and D. I. Grant, Secretary.

September 30, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, R. A. C. Henry, and D. I. Grant.

October 28, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, R. A. C. Henry, and D. I. Grant.

December 16, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, R. A. C. Henry, and D. I. Grant. Mr. Donald Gordon attended the meeting.

BOARD OF DIRECTORS MEETINGS OF TRANS-CANADA AIR LINES (ATLANTIC) LIMITED, 1949

2 meetings, as follows:

January 28, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C.P. Edwards, G. Herring and W. H. Hobbs, Secretary.

June 24, 1949 at 360 McGill Street, Montreal.

Present: Messrs. G. R. McGregor, H. J. Symington, Wilfrid Gagnon, J. A. Northey, R. C. Vaughan, C. P. Edwards, G. Herring and D. I. Grant, Secretary.

TRANS-CANADA AIR LINES

Property and Equipment Budget

Year 1950

—	1949			Actual	1950		
	Budget				Budget		
	Revotes	New items	Total		Revotes	New items	Total
	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.	$ cts.
Airplanes	57,823 61	239,023 00	296,846 61	79,040 33	74,000 07	191,220 00	265,200 07
Airplane power plants	67,563 72	220,800 00	288,363 72	63,844 26	33,229 55	290,000 00	323,229 55
Aircraft component equipment	93,927 22	138,283 00	232,210 22	110,585 56	6,034 96	18,453 00	24,487 96
Ground communication facilities	8,914 35	115,450 00	124,364 35	29,741 64	14,150 41	22,775 00	36,925 41
Hangar and shop facilities	53,043 88	271,486 00	324,529 88	98,533 75	69,020 33	117,692 00	186,712 33
Ramp facilities	26,136 35	120,132 00	146,268 35	82,654 50	41,826 76	14,344 00	56,170 76
Motorized vehicles	45,003 47	85,874 00	130,877 47	72,289 98	16,033 95	35,905 00	51,938 95
Accommodation and office facilities	34,699 01	172,388 21	207,087 22	94,717 51	50,772 15	72,141 59	122,913 74
Medical equipment	.....	500 00	500 00	334 27	179 13	.....	179 13
Engineering facilities	270 00	16,162 00	16,432 00	6,911 80	2,097 35	1,681 00	3,778 35
Hotel, restaurant and food service facilities	978 16	44,866 00	45,844 16	12,504 00	5,759 82	7,683 00	13,442 82
Storage and distribution facilities	2,935 68	16,002 40	18,938 08	7,795 07	3,174 90	8,531 00	11,705 90
Miscellaneous facilities	.....	7,355 00	7,355 00	3,022 67	963 40	2,212 50	3,175 90
Buildings and improvements	60,976 89	135,721 32	196,698 21	122,704 24	19,039 01	139,918 00	158,957 01
Contingency fund	.....	563,000 00	563,000 00	.....	.....	503,922 41	503,922 41
	452,272 34	147,042 93	599,315 27	784,679 66	336,281 79	1,426,458 50	1,762,740 29

TRANS-CANADA AIR LINES

1949 FINANCIAL RESULTS COMPARED WITH 1949 FORECAST AND 1950 FORECAST

ALL SERVICES

	1949 Forecast[1]	1949 Actual	1950 Forecast[2]
Operating Revenues	$37,879,000	$36,746,356	$40,145,000
Operating Expenses	40,017,000	40,288,744	40,782,000
Operating Profit or (Loss)	(2,138,000)	(3,542,388)	(637,000)
Miscellaneous Income—Net	—	Cr. 13,739	144,000
Interest on Capital	765,000	761,466	750,000
Surplus or (Deficit)	$(2,903,000)	$(4,317,593)	$(1,243,000)

[1] Includes forecast wage increases resulting from labour negotiations in late fall of 1948. Includes increased charges for full year of North Star operations as compared with six months in 1948.

[2] Expense estimates in this column are based upon current wage scales.

TRANS-CANADA AIR LINES

1949 FINANCIAL RESULTS COMPARED WITH 1949 FORECAST AND 1950 FORECAST

ATLANTIC SERVICES

	1949 Forecast[1]	1949 Actual	1950 Forecast[2]
Operating Revenues	$11,124,000	$10,222,387	$ 9,555,000
Operating Expenses	13,008,000	12,714,826	10,587,000
Operating Profit or (Loss)	$(1,884,000)	$(2,492,439)	$(1,032,000)
Miscellaneous Income—Net	—	$Cr. 114,929[3]	—
Interest on Capital	300,000	290,781	232,000
Surplus or (Deficit)	$(2,184,000)	$(2,898,149)	$(1,264,000)

[1] Includes forecast wage increases resulting from labour negotiations in late fall of 1948.

[2] Expense estimates in this column are based upon current wage scales.

[3] Reflects loss through devaluation of sterling amounting to $97,605.

TRANS-CANADA AIR LINES

1949 FINANCIAL RESULTS COMPARED WITH 1949 FORECAST AND 1950 FORECAST

NORTH AMERICAN

	1949 Forecast[1]	1949 Actual	1950 Forecast[2]
Operating Revenues	$26,755,000	$26,523,969	$30,590,000
Operating Expenses	27,009,000	27,573,918	30,195,000
Operating Profit or (Loss)	(254,000)	(1,049,949)	395,000
Miscellaneous Income—Net	—	101,190[3]	144,000
Interest on Capital	465,000	470,685	518,000
Surplus or (Deficit)	(719,000)	(1,419,444)	21,000

[1] Includes forecast wage increases resulting from labour negotiations in late fall of 1948. Includes increased charges for full year of North Star operations as compared with six months in 1948.

[2] Expense estimates in this column are based upon current wage scales.

[3] Reflects profit through sale of U.S. Funds after devaluation amouting to $42,473.

TRANS-CANADA AIR LINES

1949 FINANCIAL RESULTS COMPARED WITH 1949 FORECAST AND 1950 FORECAST

NORTH ATLANTIC SERVICE

	1949 Forecast	1949 Actual	1950 Forecast
Operating Revenues	$10,033,000	$ 9,062,159	$ 7,991,000
Operating Expenses	10,608,000	10,472,472	7,987,000
Operating Profit or (Loss)	(575,000)	(1,410,313)	4,000
Miscellaneous Income—Net	—	Cr. 99,974	—
Interest on Capital	235,000	228,408	167,000
Surplus or (Deficit)	(810,000)	(1,738,695)	(163,000)

TRANS-CANADA AIR LINES

1949 FINANCIAL RESULTS COMPARED WITH 1949 FORECAST AND 1950 FORECAST

BERMUDA AND CARIBBEAN SERVICES

	1949 Forecast	1949 Actual	1950 Forecast
Operating Revenues	$ 1,091,000	$ 1,160,227	$ 1,564,000
Operating Expenses	2,400,000	2,242,353	2,600,000
Operating Profit or (Loss)	(1,309,000)	(1,082,126)	(1,036,000)
Miscellaneous Income—Net	—	Cr. 14,955	—
Interest on Capital	65,000	62,373	65,000
Surplus or (Deficit)	(1,374,000)	(1,159,454)	(1,101,000)

HOUSE OF COMMONS

1950

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS

No. 9

WEDNESDAY, MAY 10, 1950
THURSDAY, MAY 11, 1950

FIFTH REPORT TO THE HOUSE

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1950

60935

SESSIONAL COMMITTEE

on

RAILWAYS AND SHIPPING

OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: Hughes Cleaver, Esq.,
Vice-Chairman: H. B. McCulloch, Esq.,

Messrs.

Beaudry	Fraser	James
Bourget	Fulton	Knight
Carter	George	McLure
Cavers	Gillis	Mott
Chevrier	Hatfield	Mutch
Dechene	Healy	Pouliot
Drew	Helme	Thomas
Follwell	Howe	

Clerk: A. L. Burgess.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 10, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met at 11 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cavers, Cleaver, Dechene, Drew, Follwell, Fraser, Fulton, George, James, Knight, McCulloch, McLure, Pouliot, Thomas.

The Chairman submitted a draft of a Fifth Report to the House.

It was agreed that members be given an opportunity to study the draft and to prepare amendments in writing for submission at the next meeting.

At 4.15 o'clock p.m. the Committee adjourned until Thursday, May 11, at 10.30 o'clock a.m.

THURSDAY, May 11, 1950.

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government met *in camera* at 10.30 o'clock a.m., the Chairman, Mr. Hughes Cleaver, presiding.

Members present: Messrs. Carter, Cavers, Cleaver, Dechene, Drew, Follwell, Fraser, Fulton, George, Gillis, Helme, James, Knight, McCulloch, McLure, Mott, Pouliot, Thomas.

The Committee resumed consideration of the draft report submitted by the Chairman on May 9.

Mr. George moved that the report as drafted be approved and the Chairman ordered to present it to the House forthwith.

Mr. Drew moved in amendment that the following words be added to the report as drafted:

> Your Committee recommends that a uniform system should be adopted for the presentation of the accounts of the Canadian National Railways and Trans-Canada Air Lines, and that the consolidated balance sheet should show the accumulated surplus or deficit position in each case.

After discussion, and the question having been put on the said amendment, it was negatived on the following division:

Yeas: Messrs. Carter, Drew, Fraser, Fulton, McLure, Thomas,—6.

Nays: Messrs. Cavers, Dechene, Follwell, George, Gillis, Helme, James, McCulloch,—8.

Mr. Drew then moved, in amendment, that the following words be added to the report as drafted:

> Your Committee recommends that an accounting system should be adopted which will make it possible to determine the profit or loss on each operating route.

After discussion, and the question having been put on the said amendment, the Committee divided as follows:

Yeas: Messrs. Drew, Follwell, Fraser, Fulton, Gillis, James, McLure,—7.

Nays: Messrs. Carter, Cavers, Dechene, George, Helme, McCulloch, Thomas,—7.

And the voices being equal, the Chairman voted *Nay,* and declared the motion negatived.

Mr. Drew then moved in amendment, that the following words be added to the report as drafted:

> That the possibility of improvement in operating costs of Trans-Canada Air Lines be fully explored.

Ater discussion, and the question having been put on the said amendment, it was negatived on the following division:

Yeas: Messrs. Drew, Fraser, Fulton, McLure,—4.

Nays: Messrs. Carter, Cavers, Dechene, Follwell, George, Gillis, Helme, James, McCulloch, Mott, Thomas,—11.

Mr. Drew then moved in amendment, that the following words be added to the report as drafted:

> That it is desirable to consider whether Trans-Canada Air Lines should be under the authority of the same Minister as the Canadian National Railways, and also that the same Minister who is responsible for the administration of the Aeronautics Act should have ministerial responsibility for Trans-Canada Air Lines.

A point of order having been raised as to the power of the Committee to make a recommendation on a matter of Government policy, the Chairman ruled that the said amendment was in order.

After discussion, and the question having been put on the said amendment, it was negatived on the following division:

Yeas: Messrs. Drew, Fraser, Fulton, McLure, Thomas,—5.

Nays: Messrs. Carter, Cavers, Dechene, Follwell, George, Gillis, Helme, James, McCulloch, Mott,—10.

Mr. Gillis then moved that the following words be added after the words *The Annual Report was adopted* at the end of the twelfth paragraph of the said draft report:

> but your Committee recommends that the earliest possible consideration be given to the recommendation of the President of the Canadian National Railways that there be a reorganization of the capital structure of that system.

After discussion, and the question having been put on the said amendment, it was agreed to.

And the question having been put on the main motion, as amended, it was agreed to on the following division:

Yeas: Messrs. Carter, Cavers, Dechene, Follwell, George, Gillis, Helme, James, McCulloch, Mott, Thomas,—11.

Nays: Messrs. Drew, Fraser, Fulton, McLure,—4.

At 12.10 o'clock p.m. the Committee adjourned to the call of the Chair.

A. L. BURGESS,
Clerk of the Committee.

REPORT TO THE HOUSE

THURSDAY, May 11, 1950

The Sessional Committee on Railways and Shipping Owned, Operated and Controlled by the Government begs leave to present the following as its

FIFTH REPORT

Pursuant to the Order of Reference of the House of March 23, 1950, and the Third Report of this Committee which was concurred in by the House on April 21, 1950, your Committee had before it for consideration the following:

1. The Annual Reports for 1949 of the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Auditors' Report to Parliament in respect of the Canadian National Railway System and the Canadian National (West Indies) Steamships Limited.

2. The Annual Report of the Trans-Canada Air Lines for the year ended December 31, 1949, and the Auditors' Report to Parliament for the year ended December 31, 1949, in respect of Trans-Canada Air Lines.

3. The Annual Report of the Canadian National Railways Securities Trust for 1949.

4. The Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited, for the calendar year 1950.

5. The Budget of Trans-Canada Air Lines for the calendar year 1950.

6. Vote 493—Maritime Freight Rates Act, Canadian National Railways.

7. Vote 494—Maritime Freight Rates Act, railways other than Canadian National.

8. Vote 558—Prince Edward Island car ferry and terminals, deficit 1950.

9. Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950.

Your Committee held twenty-two meetings, during which the above named matters were considered and evidence adduced thereon.

The Annual Report of the Canadian National Railways for 1949, discloses a net income of $4,057,907.81. However, interest on the Funded Debt, due the public, amounted to $24,302,650.99, and interest on Government loans amounted to $21,798,283.58, bringing about a deficit of $42,043,026.76. The Annual Report was adopted, but your Committee recommends that the earliest possible consideration be given to the recommendation of the President of the Canadian National Railways that there be a reorganization of the capital structure of that system.

The Annual Report of the Canadian National (West Indies) Steampships Limited for 1949, discloses a net operating revenue of $12,399.00, and after payment of interest on bonds and Government advances, there was a deficit of $460,497.00. The balance in the Vessel Replacement Fund at the end of the year was $3,941,939.00, and in the Self Insurance Fund $2,048,545.00. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1949, shows a net deficit of $1,419,443.90 for the North American Services, and a deficit of $2,898,149.26 for Trans-Canada Air Lines (Atlantic) Limited. The Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railway System, the Canadian National (West Indies) Steamships Limited, and the Trans-Canada Air Lines, also the annual report of the Canadian National Railways Securities Trust for the calendar year 1949, were severally examined and adopted.

The Financial Budgets of the Canadian National Railways and the Canadian National (West Indies) Steamships Limited for the calendar year 1950, were examined and adopted.

The Property and Equipment Budget of Trans-Canada Air Lines for the year 1950, and the Operating Forecast of Trans-Canada Air Lines for the year 1950, were examined and adopted.

The following votes:

Votes 493—Maritime Freight Rates Act, Canadian National Railways;

Vote 494—Maritime Freight Rates Act, railways other than Canadian National;

Vote 558—Prince Edward Island car ferry and terminals, deficit 1950;

Vote 559—Canadian National (West Indies) Steamships Limited, deficit 1950,

were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., L.L.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways and Comptroller, Trans-Canada Air Lines; Mr. G. R. McGregor, President of Trans-Canada Air Lines; and Mr. W. F. English, Vice-President Operations, Trans-Canada Air Lines.

A copy of the printed evidence taken is tabled herewith.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.