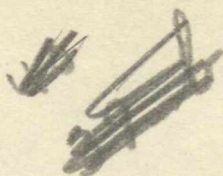






Rev. 10-A, 1



Canada. Parl. H of C. Stand-  
ing Comm.on Railways and  
Shipping Owned, Operated and  
Contr'd.by the Gov't.,1940-42.  
Minutes of proceedings and  
evidence.

DATE

NAME - NOM

Canada. Parliament. House of  
Commons. Standing Comm.on  
Railways and Shipping Owned,  
Operated and Contr'd.by the Gov't,  
1940-42.



J

103

H7

1940-42

R3

A1

c.1















SESSION 1940-41  
HOUSE OF COMMONS



# STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

---

TUESDAY, MAY 20, 1941

---

## WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines.
- Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines.
- Mr. R. B. Teakle, General Manager, Trans-Canada Air Lines.
- Mr. P. T. Coolican, Assistant Deputy Postmaster General.
- Mr. Geo. Herring, Superintendent Air and Land Services, Post Office Department.

MEMBERS OF THE COMMITTEE

J. P. Howden, *Chairman*

Messrs.

Bereovitch,  
Bradette,  
Donnelly,  
Dubuc,  
Emmerson,  
Ferland,  
Gray,  
Hanson (*Skeena*),  
Harris (*Danforth*),  
Hazen,  
Howden,  
Howe,

Jackman,  
Lockhart,  
McCulloch,  
Maybank,  
Nicholson,  
Parent,  
Pouliot,  
Ross (*Middlesex East*),  
Sanderson,  
Shaw,  
Sissons.

ANTOINE CHASSÉ,  
*Clerk of the Committee.*



## ORDERS OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, November 22, 1940.

*Ordered*,—That the Standing Committee on Railways and Shipping owned, operated and controlled by the Government, be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

THURSDAY, March 27th, 1941.

*Resolved*,—That Standing Order 63 of the House of Commons relating to the appointment of Standing Committees of the House, be amended by adding to the Standing Committees of the House for the present session a Standing Committee on Railways and Shipping owned, operated and controlled by the Government, to which will be referred accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines for the present session, for consideration and report to the House; provided however that nothing in the resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of: Messrs. Bercovitch, Black (*Cumberland*), Bradette, Diefenbaker, Donnelly, Dubuc, Emmerson, Ferland, Gray, Hansell, Hanson (*Skeena*), Harris (*Danforth*), Howden, Howe, Lockhart, MacInnis, McCulloch, Maybank, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

---

MONDAY, May 5, 1941.

*Ordered*,—That the names of Messrs. Jackman, Hazen, Shaw and Nicholson be substituted for the names of Messrs. Black (*Cumberland*), Diefenbaker, Hansell and MacInnis on the said Committee.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*



TUESDAY, May 6, 1941.

*Ordered*,—That the following Reports and Estimates be referred to the said Committee:—

Financial Budget of the Canadian National Railways and Canadian National Steamships for the calendar year 1941;

Annual Report of the Canadian National Railways System, for the year ended December 31, 1940;

Annual Report of the Canadian National (West Indies) Steamships Limited, for the year ended December 31, 1940;

Report of the firm of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railways System for the year ended December 31, 1940;

Vote No. 403—Maritime Freight Rates Act—Canadian National Railways Eastern Lines;

Vote No. 404—Maritime Freight Rates Act—Railways other than Canadian National Railways;

Vote No. 416—Canadian National (West Indies) Steamships, Ltd.—Capital—Advances;

Vote No. 417—Prince Edward Island Car Ferry and Terminals Deficit 1941.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

TUESDAY, May 20, 1941.

*Ordered*—That the said Committee be empowered to print, from day to day, 500 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 said Committee be empowered to sit while the House is sitting.

*Ordered*—That the quorum of the said Committee be reduced from 12 members to 8 members.

Attest.

ARTHUR BEAUCHESNE,  
*Clerk of the House.*

## REPORTS TO THE HOUSE

TUESDAY, May 20, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, begs leave to present the following as a

### FIRST REPORT

Your Committee recommends:—

1. That it be empowered to print, from day to day, 500 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;

2. That it be empowered to sit while the House is sitting;

3. That the quorum of the Committee be reduced from 12 members to 8 members.

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*



## MINUTES OF PROCEEDINGS

TUESDAY, May 20, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11 o'clock a.m.

*Members present:* Messrs. Bercovitch, Donnelly, Emmerson, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

The Clerk of the Committee read the Orders of Reference and invited nominations for Chairman.

Mr. McCulloch moved, seconded by Mr. Hanson (*Skeena*), that Mr. J. P. Howden be elected Chairman.

And the question being put on the said motion, it was agreed to.

And the Clerk of the Committee having declared Mr. J. P. Howden duly elected, he took the Chair. He thanked the members for the honour they had conferred again upon him and the Committee proceeded forthwith with its deliberations.

On motion of Mr. Donnelly, it was

*Resolved.*—That the Committee ask leave to print, from day to day, 500 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.

On motion of Mr. Donnelly, it was

*Resolved.*—That the Committee ask leave to reduce its quorum from 12 members to 8 members.

On motion of Mr. Donnelly, it was

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

On motion of Mr. Jackman, it was

*Resolved.*—That the Committee should commence its morning sittings at 10.30 a.m.

Hon. P. J. A. Cardin, the Minister, and the following officials of the Department of Transport were in attendance:

Mr. C. P. Edwards, Deputy Minister;  
Mr. G. W. Yates, Assistant Deputy Minister;  
Mr. F. M. MacLennan, Chief Treasury Officer;  
Mr. J. A. Wilson, Director of Air Services.



The President and general officers of the Canadian National Railways System, the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, were also in attendance viz:—

Mr. S. J. Hungerford, Chairman of the Board of Directors and President, Canadian National Railways System;

Mr. R. C. Vaughan, Vice-President, Canadian National Railways System;

Mr. T. H. Cooper, Comptroller, Canadian National Railways System;

Mr. W. M. Armstrong, Assistant Chief, Bureau of Research and Development, Canadian National Railways System;

Mr. D. B. Colyer, Vice-President, Trans-Canada Air Lines;

Mr. W. F. English, Assistant to Vice-President, Trans-Canada Air Lines;

Mr. R. B. Teakle, General Manager, Trans-Canada Air Lines;

Mr. W. S. Thompson, Director of Publicity, Canadian National Railways System and Trans-Canada Air Lines.

Mr. O. A. Matthews represented George A. Touche & Co., auditors.

At the request of the Chairman, Mr. Hungerford introduced the officials present and explained to the Committee the respective function of each of them.

The Committee then considered the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December 1940.

The report was read by Mr. W. M. Armstrong and during the discussion which followed he was assisted by Messrs. R. C. Vaughan, R. B. Teakle and T. H. Cooper.

In this same connection the Committee considered Vote No. 416 of the Estimates for the Fiscal Year ending March 31, 1942—Canadian National (West Indies) Steamships, Limited. Capital—Advances, \$20,000.

On motion of Mr. Hanson (*Skeena*), the Annual Report and Vote No. 416 were adopted.

The Committee thereafter took into consideration the Annual Report of Trans-Canada Air Lines for the year ended 31st December 1940.

Mr. D. B. Colyer read the report and during the discussion which followed was assisted by Messrs. W. F. English and T. H. Cooper. At the time of adjournment the report was still under study.

It was ordered that Mr. Geo Herring, Director of Trans-Canada Air Lines and Chief Superintendent of Air and Land Mail Services, Post Office Department, and Mr. P. T. Coolican, Assistant Deputy Postmaster-General be asked to attend the next sitting to give certain information before the Committee concerning Air Mail services.

At 1 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again at 4 o'clock p.m. this day.

---

The Committee met again at 4 o'clock p.m. Mr. P. J. Howden, the Chairman, presided.

*Members present:* Messrs. Bercovitch, Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Howe, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

*In attendance:* In addition to those mentioned at the morning sitting, Mr. P. T. Coolican, Assistant Deputy Postmaster General; and Mr. Geo. Herring, Superintendent of Air and Land Services, Post Office Department.



The Committee resumed consideration of the Annual Report of Trans-Canada Air Lines.

Messrs. Coolican and Herring supplied the Committee with certain data concerning Air mail services and on the completion of their evidence the Chairman expressed the gratitude of the Committee for their valuable help.

Further discussion took place, Messrs. D. B. Colyer, W. F. English and T. H. Cooper answering most of the questions.

On motion of Mr. Donnelly, the Annual Report of Trans-Canada Air Lines was adopted.

The Committee then passed to the consideration of the Annual Report of the Canadian National Railways System for the year ended 31st December 1940.

Mr. S. J. Hungerford, Chairman of the Board of Directors and President, read a statement to the Committee, as supplementing the Annual Report.

Mr. D. M. Armstrong, Assistant Chief, Bureau of Research and Development, Canadian National Railways System, followed by commencing to read the Annual Report. At the hour of adjournment Mr. Armstrong was still dealing with the Report.

At 5.55 o'clock p.m., on motion of Mr. McCulloch, the Committee adjourned to meet again at 8.30 o'clock p.m. this day.

---

The Committee met again at 8.30 o'clock p.m. Mr. P. J. Howden, the Chairman, presiding.

*Members present:* Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Maybank, Nicholson, Parent, Pouliot, Ross (*Middlesex East*), Sanderson, Shaw, Sissons.

*In attendance:* The same officials named as attending during the proceedings of the morning sitting.

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

Mr. Armstrong continued the presentation and he was joined in the general discussion by Mr. S. J. Hungerford, Mr. Vaughan and Mr. Cooper. At the hour of adjournment the Report was still under study.

At 10.20 o'clock p.m., on motion of Mr. Jackman, the Committee adjourned to meet again on Wednesday, May 21st., at 10.30 a.m.

ANTOINE CHASSÉ  
*Clerk of the Committee.*





## MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 20, 1941.

The Standing Committee on Railways and Shipping met at 11 a.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Gentlemen, if you will come to order we will proceed. I think, owing to the fact that we are pretty well on in the session and we have a good deal to cover, we will dispense with any preliminary remarks this morning. If anybody here has a motion to present it would be in order to receive it now.

Mr. DONNELLY: In order to expedite matters and so that we will have no trouble in getting a quorum probably it would be well to have a motion asking that the quorum be reduced from twelve to eight. I therefore move that the quorum be reduced from twelve to eight.

Mr. McCULLOCH: I second it.

Motion agreed to.

Mr. DONNELLY: I would also move, Mr. Chairman, that the committee be empowered to print from day to day 500 copies in English and 200 copies in French of the minutes and proceedings.

Mr. EMMERSON: I second it.

Motion agreed to.

Mr. DONNELLY: Mr. Chairman, as we are getting on to the end of the session and as we may have difficulty in finding time to carry on the work we have to do I think it would be well if we had a motion authorizing the committee to sit when the house is in session. Therefore I make that motion.

Mr. HANSON: I second the motion.

Motion agreed to.

Mr. JACKMAN: I hope that you will not let it conflict too much with the sittings of the house. It might be better if we started at 10 o'clock and have a full morning rather than take too long a time in the afternoon.

The CHAIRMAN: I think perhaps it is up to the members to decide. The officials are all here and have been here for some time. Is that merely a suggestion, Mr. Jackman, or do you want to make it in the form of a motion?

Mr. BERCOVITCH: I think 11 o'clock is early enough.

Mr. LOCKHART: There are a number of committees sitting. I think the suggestion is very good. You have cut down the quorum now. There are some members of this committee on other committees, and therefore it seems to me some consideration at least should be given to the suggestion, by the chairman himself, in calling the meetings.

The CHAIRMAN: I do not think you can leave it to the chairman. I think it is a recognized principle to call these meetings at 11 o'clock. If it is the desire of this committee to meet at 10 o'clock someone will have to make a motion to that effect.



Mr. JACKMAN: Suppose we split the difference. I would move an amendment that the committee sit at 10.30 rather than 11 o'clock.

Mr. NICHOLSON: I second it.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, before we proceed with the deliberations of the committee I think probably it would be desirable for the president of the Canadian National Railways system to present his assistant officials here so that we might have some idea of the name of the gentleman who may be speaking from time to time. It will only take a short time, and I will now ask Mr. Hungerford to introduce the gentlemen.

(Mr. Hungerford introduces officials of the Canadian National Railways to the meeting.)

Mr. HUNGERFORD: Mr. Chairman, we have really three reports before us, that of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines. It would be a matter of convenience to the officers if in this instance we could deal with the steamship or air lines first.

The CHAIRMAN: Is there any discussion on the matter or shall we adopt that procedure, gentlemen? The suggestion is made in order to expedite the work of the committee and for the convenience of the officials of the railway. If there is no objection then we will proceed with the consideration of the annual report of the Canadian National Steamship Lines Limited. It is customary to have it read. Would you like to have it read as usual? That is really the quickest way to deal with it.

MR. ARMSTRONG:

## ANNUAL REPORT

MONTREAL, 19th March, 1941.

The Honourable P. J. A. CARDIN, K.C., M.P.,  
Minister of Transport,  
Ottawa.

SIR,

On behalf of the Directors, I beg to submit the Annual Report of Canadian National (West Indies) Steamships, Limited, for the year ended 31st December, 1940.

It is pleasing to be able to report that the company again had a satisfactory year, notwithstanding the difficulties of operating under wartime conditions.

The comparative operating results are as follows:

	1940	1939	Increase	Per Cent
Operating revenues..	\$5,750,341 42	\$4,642,306 28	\$1,108,035 14	23·87
Operating expenses..	4,545,306 51	4,018,446 85	526,859 66	13·11
Operating profit....	<u>\$1,205,034 91</u>	<u>\$ 623,859 43</u>	<u>\$ 581,175 48</u>	

Operating revenues increased during the year \$1,108,035. Freight revenue increased \$1,550,703; passenger revenue decreased \$502,449; miscellaneous revenue increased \$59,781. There was a substantial increase in both export and import tonnage, which is reflected in the increase in freight revenue. Passenger revenue continued to be adversely affected by the war.



Operating expenses increased \$526,860, brought about by the increased costs of operating under war conditions and the additional tonnage handled. The increased expense was 13·11 per cent as compared with an increase of 23·87 per cent in revenue.

After providing for bond interest, but before depreciation and interest on Government advances, there was available \$666,101.57, which will be paid to the Government as interest on advances (current and arrears). The corresponding figure in 1939 was \$153,859.43.

The vessels of the fleet were operated during the year without serious casualty and have been maintained in a high state of efficiency.

The Directors again take the opportunity of expressing their appreciation of the loyal and efficient services rendered by the company's officers and employees, particularly under the stress of wartime conditions.

For the Directors,

S. J. HUNGERFORD,  
*President.*

The CHAIRMAN: Is there any discussion?

Mr. LOCKHART: Have any steamships been taken from the company? Has the use of any of these steamships been taken from the company and used specially for war purposes?

Mr. VAUGHAN: I do not know how much of this ought to go on the record, because our boats, so far as movements are concerned, are governed by instructions from the admiralty. One boat has been taken. I do not think it is desirable to place this on the record, but one boat has been requisitioned by the British admiralty.

Mr. LOCKHART: Just one?

Mr. VAUGHAN: Just one so far.

The CHAIRMAN: I think it would be well to remember the suggestion that has been thrown out. The operation of these lines is subject to the admiralty and possibly it would be as well if some facts were not asked for.

Mr. LOCKHART: Not to be asked for?

The CHAIRMAN: Not to be answered, if you like.

Mr. LOCKHART: The suggestion is quite in order, but I do not agree with the suggestion that these questions should not be asked. You mention an amount here of \$666,101.57, which will be paid to the government as interest on advances (current and arrears). What is the total amount of arrears outstanding prior to the presentation of the report?

Mr. COOPER: On December 31, 1940, the total interest arrears amounted to \$1,870,726. That is shown on the balance sheet on page 7.

The CHAIRMAN: We will go through the balance sheet, of course.

Mr. LOCKHART: What amount has been paid on the arrears of \$666,000, etc.?

Mr. COOPER: \$1,870,000 owing is after paying \$666,000.

The CHAIRMAN: Shall we proceed? Do you want to go through the balance sheet? Shall we have it read? It has been usual in the past to have it read.

Mr. HANSON: I think it is a good thing to have it in the record.

Mr. ARMSTRONG: Pages 6 and 7 are the consolidated balance sheet as of December 31, 1940. Shall we read these items?

The CHAIRMAN: I think you might as well.



## STANDING COMMITTEE

## CONSOLIDATED

AT DECEMBER

## ASSETS

## Investments:

Vessels .....	\$ 10,969,329 06	
Plant and Equipment .....	8,274 78	
Office Furniture and Fixtures .....	18,062 45	
		\$ 10,995,666 29

## Current Assets:

Cash in Banks .....	\$1,104,189 50		
Special Deposits .....	2,821 50		
		\$ 1,107,011 00	
Accounts Receivable .....	399,965 74		
Agents .....	315,261 10		
Inventories of Stores and Supplies .....	26,384 64		
Advances to Captains, Crews and Agents .....	12,728 29		
Amount due from Canadian National Railways			
Joint Insurance Fund .....	5,383 21		
			\$ 1,866,733 98
Insurance Fund .....			1,948,994 00
Discount on Funded Debt .....			43,838 87
Discount on Capital Stock .....			40,000 00
			<u>\$ 14,895,233 14</u>



## BALANCE SHEET

31st. 1940

## LIABILITIES

Capital Stock:			
Authorized and issued 400 Shares of \$100.00 each .....	\$	40,000	00
Funded Debt:			
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due in 1955..		9,400,000	00
Dominion of Canada Account:			
Notes Payable Secured by Mortgages on Vessels....	\$	933,071	83
Advances:			
Capital .....	\$	713,619	23
Working Capital .....		450,000	00
Deficits .....		5,059,960	94
	\$	6,223,580	17
Interest Accrued Unpaid .....		1,870,726	20
	\$	9,027,378	20
Current Liabilities:			
Dominion of Canada .....	\$	666,101	57
Canadian Government Merchant Marine, Limited (old account) .....		10,543	19
Accounts Payable .....		320,068	44
Interest Matured Unpaid .....		2,821	50
Unmatured Interest Accrued .....		156,666	67
Passage Money paid in Advance .....		77,771	62
Insured Loss Unpaid .....		86,947	18
		1,320,920	17
Insurance Reserve .....		1,948,994	00
Unadjusted Credits .....		37,233	34
Uncompleted Voyages—Suspense .....		84,917	70
Accrued Depreciation .....		3,719,788	60
Profit and Loss—Deficit .....		10,683,998	87
	\$	14,895,233	14

CONTINGENT LIABILITY—No contingent reserve is accrued for pensions. Pension payments are charged currently to operating expenses.

T. H. COOPER,  
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, 1940.

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 as at the 31st December, 1940 and that the relative Income and Profit and Loss Accounts for the year ended the 31st December, 1940 are correctly stated. 18th March, 1941.

GEORGE A. TOUCHE & CO.,  
Chartered Accountants.



Mr. BERCOVITCH: What is that "special deposits, \$2,821.50"?

Mr. COOPER: The amount in the bank to pay bond coupons.

Mr. BERCOVITCH: They have not been paid?

Mr. COOPER: Not presented; they are overdue. You see them on the opposite side of the balance sheet as "interest matured unpaid, \$2,821.50," and a corresponding amount is in the bank to meet these coupons as and when they are presented.

Mr. LOCKHART: What is meant by the item "agents, \$315,261.10"?

Mr. COOPER: Representatives in the various ports such as Halifax, Bermuda and the islands.

Mr. LOCKHART: Is it equipment at the ports?

Mr. COOPER: Not equipment, no. We have agents at the different ports and these are the amounts outstanding in the agency account.

Mr. BERCOVITCH: The amount the agents have on hand?

Mr. COOPER: Yes, due by the agent to the company.

Mr. ROSS: It is much larger than it was in 1939.

Mr. COOPER: Bigger business, for one thing.

Mr. JACKMAN: Are these agents employees of the company or independent?

Mr. COOPER: In some cases they are employees of the company. For instance, at Halifax; but at most of the islands they are commission agents.

Mr. JACKMAN: There is no credit risk particularly in connection with them?

Mr. COOPER: I do not think so.

Mr. BERCOVITCH: That insurance, \$1,948,994.00 is made up by salaries of the employees, contributions by the employees?

Mr. ARMSTRONG: No, that is the insurance fund not the pension fund.

Mr. BERCOVITCH: Insurance by whom, the Canadian Steamship Company?

Mr. ARMSTRONG: It is the insurance fund of the Canadian National.

Mr. COOPER: The Canadian National charges itself with premiums for insurance which go into this fund.

Mr. ROSS: They have increased by about \$400,000.

Mr. COOPER: We have been paying in more insurance on account of war risk.

Mr. HAZEN: How many vessels have you valued at \$10,000?

Mr. VAUGHAN: It is shown on page 10, eleven vessels.

Mr. JACKMAN: You do not carry special war risk insurance at the present time?

Mr. COOPER: We charge ourselves or our operations with war risk insurance through our own self insurance fund.

Mr. DONNELLY: How much have you raised?

Mr. COOPER: We charge ourselves at the going war risk rate. It changes from quarter to quarter. At the present time I think it is two per cent.

The CHAIRMAN: Gentlemen, I might suggest it is a little difficult to hear. This is a big room and everybody wants to hear, and I would therefore suggest that you speak louder.

Mr. JACKMAN: Have you had any claims against that fund because of the war?

Mr. COOPER: No, sir, no war risk claims.

Mr. JACKMAN: That accounts, I suppose, for the rather favourable working capital position at the present time?



Mr. COOPER: Yes, sir. We had no claims for war risk in 1940, which, of course, was very fortunate.

Mr. ROSS: May we hope that 1941 will be as fortunate.

Mr. HANSON: You have had none in 1941 either?

Mr. COOPER: No, not war risk.

Mr. JACKMAN: I understand you have more working capital than you actually require unless you have a big claim upon it for replacement or something.

Mr. COOPER: Yes, I think that is the possibility Mr. Jackman.

Mr. JACKMAN: You are not increasing the fleet at all at the present time and have not since the war? You have no intention of increasing the fleet just now?

Mr. VAUGHAN: I think it will probably decrease because confidentially some of our boats are likely to be taken from us.

Mr. JACKMAN: Do not answer this question if it is not proper. Are the railway operating the same lines that they had prior to the war with the exception—

Mr. VAUGHAN: Yes, these are all the routes covered by the Canada-West Indies agreement. These boats are all operating on regular schedules so far as we can keep them regular on these routes.

Mr. JACKMAN: Are the boats fully occupied with the bottoms pretty well filled both ways on the old lines?

Mr. VAUGHAN: Yes, they are doing pretty well. There is more general merchandise going from Canada to the West Indies now because the British trade is shut off to a large extent and traffic likely to be increased rather than decreased.

Mr. JACKMAN: It may be said then that the most effective use possible, in view of the war emergency, is being made of this fleet at the present time?

Mr. VAUGHAN: I think so, undoubtedly.

Mr. JACKMAN: Mr. Chairman, is there any necessary connection between the deficit of \$5,059,960.94 and the profit and loss deficit of \$10,683,998.87? How does the deficit of five million odd occur? What is the history of that account?

Mr. COOPER: The deficit of \$10,683,000 is made up of accrued depreciation \$3,719,000; interest unpaid due the government \$1,870,000, and the actual cash deficits incurred in operation, \$5,059,000, which cash deficits are being advanced by the government.

Mr. JACKMAN: The profit and loss deficit is the accretion from year to year of the losses sustained by the line. Just what is the nature of that deficit of \$5,059,960.94?

Mr. COOPER: That is the amount of the deficit for which we have had to borrow in cash from the government. To that you must add accrued depreciation which, so far as we are concerned, is not a cash item; it is a book-keeping entry, but it is chargeable to the P & L account. It is not borrowed from the government. In addition you have the interest due the government which again is not a cash item. You have the one cash item of five million, the accrued depreciation, which is a book-keeping item of \$3,719,788.60, and the accrued interest, which is a book-keeping item, of \$1,870,726.20. Those together make up the book deficit.

Mr. JACKMAN: In other words the five million deficit under "Advances" goes to make up part of the Profit and Loss deficit?

Mr. COOPER: Yes; it represents the portion of the total deficit which has been lost in operations and for which we have had to borrow from the government.



Mr. BERCOVITCH: So that really your deficit is five million instead of fourteen million?

Mr. COOPER: The cash deficit, yes, but the book deficit is ten million.

Mr. BERCOVITCH: On accrued depreciation did you pay any more this year than in former years?

Mr. COOPER: No; we carried on at the regular rate—3 per cent.

Mr. ROSS: Depreciation is less in 1940 than it was in 1939?

Mr. COOPER: On the balance sheet?

Mr. ROSS: Yes.

Mr. COOPER: No; in 1939 the depreciation was \$3,390,000 and at the end of 1940 it was \$3,719,000.

Mr. ROSS: Yes, quite right. It is less in 1940.

Mr. COOPER: No, sir, it is greater.

Mr. NICHOLSON: Have you the corresponding item in 1939 for this five million deficit?

Mr. COOPER: The cash deficit at the end of 1940 is similar to that at the end of 1939, because we did not have any deficit in 1940; we had a surplus, and the surplus we paid over to the government.

Mr. NICHOLSON: The item has not changed.

Mr. COOPER: There has been a refund to the government every year since 1936.

Mr. ROSS: As I read the report the accrued depreciation in 1939 was \$3,390,000, and in 1940 it was \$3,719,000. I claim it is less in 1940 than in 1939. I may have the figures mixed, but apparently not.

Mr. COOPER: \$3,700,000 is greater than \$3,300,000.

Mr. ROSS: Oh, yes, that is quite right.

Mr. HAZEN: For how many years has this deficit been accumulating?

Mr. COOPER: It goes back to the beginning of the service which was in 1929. In the first year it was \$862,000. There is a series of red figures up to the end of 1935; then we began to make operating profits. In 1936 the figure was \$87,000; in 1937 it was up \$188,000; in 1938 it was \$276,000; in 1939 it was \$153,000, and in 1940—\$666,000.

Mr. McCULLOCH: It does not take long to clear it off.

Mr. COOPER: The trouble is we have these big arrears of interest which we have to discharge before we can even think of paying back the advances for the deficit.

Mr. NICHOLSON: What was the profit and loss deficit as at 31st December, 1939?

Mr. COOPER: The book deficit was \$10,671,264.

The CHAIRMAN: Are there any further questions? If not, will you please proceed, Mr. Armstrong?

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st DECEMBER, 1940.

Balance at 31st December, 1939—Deficit.....	\$10,671,264 89
Loss as per Income Account, year 1940.....	12,733 98
Balance at 31st December, 1940—Deficit.....	<u>\$10,683,998 87</u>



## CONSOLIDATED INCOME ACCOUNT

	Year 1940	Year 1939
<b>Operating Revenue:</b>		
Freight .....	\$4,854,623 81	\$3,303,920 51
Passenger .....	565,269 13	1,067,718 55
Baggage, Express and Miscellaneous....	85,443 52	66,899 79
Subsidies .....	201,564 96	203,767 43
Charter .....	43,440 00	.....
Total .....	\$5,750,341 42	\$4,642,306 28
<b>Operating Expenses:</b>		
Closed Voyages.....	\$4,422,651 63	\$3,856,918 01
Lay Up Expense.....	.....	15,763 99
Management and Office Salaries.....	88,974 81	82,933 33
Rent and Taxes.....	9,466 94	9,466 97
Office Supplies and Expenses.....	22,295 03	22,131 19
Advertising .....	3,579 00	32,987 86
Interest and Exchange.....	1,660 90	1,754 50
Total .....	\$4,545,306 51	\$4,018,446 85
<i>Operating Ratio</i> .....	79.04%	86.50%
Operating Profit.....	\$1,205,034 91	\$ 623,859 43
Interest on Bonds held by Public.....	470,000 00	470,000 00
Exchange on U.S. Funds.....	68,933 34	.....
	\$ 666,101 57	\$ 153,859 43
<b>Other Charges:</b>		
Amortization of Discount.....	\$ 3,094 44	\$ 3,094 44
Interest due Government.....	346,661 24	346,365 75
Depreciation on Vessels.....	329,079 87	328,828 73
Net Income— <i>Deficit</i> .....	\$ 12,733 98	\$ 524,429 49

Mr. BERCOVITCH: What is this charter revenue?

Mr. COOPER: That is a boat that was requisitioned.

Mr. TEAKLE: That was the vessel which was requisitioned by the British admiralty.

Mr. HAZEN: Is that for a period of years?

Mr. VAUGHAN: They took the boat in October. That is from October to December, 1931.

Mr. HAZEN: That figure of \$43,440 represents one month?

Mr. VAUGHAN: It represents about two months and a half, I think.

Mr. HAZEN: What does that come to per year? Did they take it for the duration of the war

Mr. VAUGHAN: We expect so.

Mr. HAZEN: And they are paying about \$20,000 a month?

Mr. VAUGHAN: They are paying the usual fee which is paid by the British government to all vessel owners, which is on a regular basis.

Mr. HAZEN: Is that on a tonnage basis?

Mr. VAUGHAN: Yes, it is on a tonnage basis; also based on charges for interest, depreciation, administration, and so on.

Mr. ROSS: In the 1939 report, Mr. Chairman, there are "other revenues" amounting to \$15,000, but there is nothing included in the 1940 report. In the 1940 report the operating revenue was \$15,397. In 1938 it was \$20,000, but I do not see the item included in the operating revenue of the 1940 report.



Mr. COOPER: There has been a little redistribution there, but if you notice the total revenue shown in the 1940 report for the year 1939 is \$4,642,-306.28. That is the same figure as was reported in 1939. We have taken some of the accounts which were included in passenger revenue and other revenues and for better comparison have included in those years baggage, express and miscellaneous.

Mr. ROSS: Yes, I see.

Mr. BERCOVITCH: What are those subsidies?

Mr. COOPER: They are the payments by the West Indian Islands under the trade agreement. They amount to forty-five thousand five hundred pounds a year.

Mr. BERCOVITCH: Paid by the West Indian government?

Mr. COOPER: Bermuda, Jamaica, the Leeward Islands, the Windward Islands, Barbados, Trinidad, the Bahamas and British Honduras.

Mr. POULIOT: What is the total staff in Montreal?

Mr. VAUGHAN: The total staff in Montreal is 65.

Mr. POULIOT: How many bilingual employees have you, meaning by that those speaking a language other than English, either Spanish or French?

Mr. VAUGHAN: I could not tell you that.

Mr. POULIOT: You know that there are very few who are bilingual on the staff. I do not know that there is even one.

Mr. VAUGHAN: Oh, yes

Mr. POULIOT: If there is one, there are not two.

Mr. VAUGHAN: There are a number—

Mr. POULIOT: You know that there are very few. I know that very well. For many years there were only two who could speak French as well as English, and only one of them could speak Spanish and write it. You have some trade with people speaking Spanish?

Mr. VAUGHAN: Yes, we have.

Mr. POULIOT: And it is urgent to have somebody who is familiar with the language.

Mr. VAUGHAN: We have those who can speak well enough to get along. We never find ourselves under any handicap on account of the language. I think we have more French-Canadians than you have been informed of.

Mr. POULIOT: Could you give us precise data regarding that?

Mr. VAUGHAN: We will be glad to.

Mr. POULIOT: With regard to the Quebec office, who is in charge?

Mr. VAUGHAN: Mr. Trueman is in charge.

Mr. TEAKLE: We have a young man there named Lonergan who speaks French.

Mr. POULIOT: Yes, but the manager himself does not speak French.

Mr. TEAKLE: We do not have any difficulty there.

Mr. POULIOT: No, but you do not make progress. All the business is neglected on that account. It is impossible for one to talk with the manager except through an interpreter who is a young lad. In Quebec city it is tough.

Mr. TEAKLE: I do not quite see the point, because our business in Quebec has been increasing.

Mr. POULIOT: If you do not see it you are the only one; everybody in the room sees it.

Mr. TEAKLE: I happened to be a clerk there myself.

Mr. POULIOT: Have you anyone in Montreal who speaks French?



Mr. TEAKLE: I think our assistant freight traffic manager, Mr. Gauthier, is a French-Canadian, and we also have two other boys who speak French, Belanger and Pilon.

Mr. POULIOT: How old are they?

Mr. TEAKLE: I suppose they are lads of 23 or 24 years of age. There are others who can speak French. We have no difficulty there. A good many of us can read French, but we may be a little nervous about the proper pronunciation.

Mr. POULIOT: Parisian French. We call it Parisian French when it is no good.

Mr. TEAKLE: Perhaps it might be of interest to you if I told you that my oldest son completed his education in Paris and he teaches French in the High School in Montreal.

Mr. POULIOT: I congratulate you.

Mr. ARMSTRONG: Page 10 shows a list of the fleet, as well as the gross and deadweight tonnages at the end of the year.

## FLEET AS AT 31st DECEMBER, 1940

	Gross Tonnage	Deadweight Tonnage
Lady Drake.....	7,985	6,370
Lady Hawkins.....	7,989	6,370
Lady Nelson.....	7,970	6,370
Lady Rodney.....	8,194	4,665
Lady Somers.....	8,194	4,665
Cathcart .....	3,708	2,950
Cavelier .....	3,663	2,950
Chomedy .....	6,136	8,600
Colborne .....	6,230	8,650
Cornwallis .....	5,458	8,390
Connector .....	1,789	2,781
	<u>67,316</u>	<u>62,761</u>

Mr. POULIOT: What is the freight? Is it bananas or fruit and so on; what type of tonnage is that?

Mr. VAUGHAN: It is quite a lengthy statement. We shall be glad to produce it.

Mr. HAZEN: There is a big decrease in the account for advertising; is that on account of the war?

Mr. VAUGHAN: There are very few passengers travelling now, and there is not much use in advertising for them. There is a small advertising account because we have to advertise freight sailings and passenger sailings for the convenience of the public.

Mr. HAZEN: Has there been any increase in passenger sailings from Canada to the West Indies on account of the exchange difficulties with the United States and the fact that people have to get passports?

Mr. VAUGHAN: No, I would not say so. Of course, our passenger business is very much less than it was before the war, but I think our passenger business last year increased a little. There is more inter-island business because there are not the English boats, due to the war. We have carried some troops to the various islands for the Canadian government, but there are not very many people travelling down there for pleasure at the present time.

Mr. HAZEN: There are a good many Canadians who might want to go to Florida and other places in the United States in the winter time, at least they should not go there if they do, but they probably would like to go away somewhere; is there any possibility of developing that service to the West Indies?



Mr. VAUGHAN: There are a few people who go to Bermuda and Nassau, but not very many.

Mr. POULIOT: Would the committee be agreeable to have a detailed statement on freight published as an appendix to this report?

The CHAIRMAN: It is a matter for the committee.

Mr. TEAKLE: Might I say that if this request is to be granted by the committee I would ask that it be kept private because we are giving away to our competitors what we are doing, and I do not think we should do that.

Mr. POULIOT: That is all right.

Mr. HAZEN: In 1940-41 the dominion government advanced \$21,000 to the Canadian National Steamships Limited payable on demand as shown on page 51 of the estimates. Where is that shown in the statement here that we have?

Mr. ROSS: What is the amount?

Mr. HAZEN: \$21,000.

Mr. COOPER: The item of \$21,000 was a provision in the estimates, but no sum was drawn down under the appropriation; it was voted but not used.

Mr. HAZEN: You did not need it?

Mr. COOPER: No, sir.

Mr. JACKMAN: At the moment under the West Indies agreement are you allowed to raise your rates during this time, or are they frozen?

Mr. COOPER: I am sorry, I did not hear you.

Mr. JACKMAN: Have you been able to raise your freight rates during the last year or two, or are you bound to a certain schedule?

Mr. VAUGHAN: We cannot raise our freight rates without the approval of the Department of Trade and Commerce at Ottawa. There has been one increase in freight rates since 1939.

Mr. JACKMAN: The rate is probably not as high as it would be if you were free of the agreement?

Mr. VAUGHAN: We could get higher rates than we are asking to-day if we set out to get them, I think.

Mr. JACKMAN: I am still a little concerned to know whether or not these boats could be used on trans-Atlantic voyages rather than on the old route? Is there anything in the agreement which cannot be amended by a waiver or on the part of our government and the West Indies government?

Mr. VAUGHAN: They are getting full cargoes both ways. They are largely engaged coming north at the present time under an arrangement with the sugar controller, and the sugar controller is having the greatest difficulty in getting tonnage to bring sugar north as it is, and he could not bring in the requirements of Canadian sugar if it were not for those boats.

Mr. JACKMAN: If I recall correctly, a good many of the lake boats have been taken for trans-Atlantic work, and I was wondering whether or not one boat from this service would be a fair sacrifice, shall we call it, for the more dangerous voyages?

Mr. VAUGHAN: These boats are all subject to call by the shipping controller at Ottawa. We sent the Cornwallis to the U.K. last winter.

Mr. SHAW: We note that the exchange on United States funds in 1940 was in excess of \$68,000 without any corresponding item in 1939. What is the explanation?

Mr. COOPER: The answer to that is that our interest was paid on the 1st October, 1939, it was paid before the United States exchange went to a premium.

Mr. POULIOT: Will you be kind enough to tell me what is the eastern service and what is the western service?



Mr. ARMSTRONG: Those are shown on page 11, I think.

Mr. POULIOT: It is not described as the eastern and the western service.

Mr. ARMSTRONG: The western service is shown first and the eastern service is shown second.

Mr. POULIOT: From Halifax to Saint John?

Mr. ARMSTRONG: The list of the fleet, five Lady boats and six freighters are shown at the top of page 10. "Assignment of the fleet during 1940." The table shows eastern passenger and freight 3 vessels, eastern freight 3 vessels, western passenger and freight 2 vessels, western freight 2 vessels, Kingston, Jamaica and Belize, British Honduras 1 vessel, a total of 11 vessels. "Voyages completed during the year 1940." Eastern passenger and freight 26, eastern freight 23, western passenger and freight 22, western freight 26, Kingston—Belize 25, a total of 122 voyages.

Mr. POULIOT: I do not know yet what is the eastern service and what is the western service.

Mr. TEAKLE: The eastern service is designated as such so as to separate the one from the other. On page 11 it is the service from Halifax—it is the three Lady boats—and from Montreal. If I might explain it this way: we have the five Lady boats; two of the Lady boats hitherto have operated from Montreal in the summer and from Halifax in the winter to Bermuda, Nassau and Kingston, Jamaica. Supplementary to them are two freight boats which operate to Kingston.

Mr. POULIOT: What service do you call that?

Mr. TEAKLE: The western service. That terminates at Jamaica. The eastern service is the one that terminates at Demarara. There are boats operating out of Montreal in summer and Halifax and Saint John in winter, but they do not touch all the ports as do the three Lady boats. These are designated from Halifax and Saint John. In other words, Halifax has a definite eastern service of three Lady boats and Montreal has a definite eastern service of three freight boats, and the western service goes out of Montreal.

Mr. POULIOT: It is an office distinction.

Mr. TEAKLE: No, it was so described in the trade agreement of 1925.

Mr. POULIOT: It is the designation which appears in the agreement.

Mr. TEAKLE: Yes, and geographically the positions are such; the islands south of Bermuda are known as the eastern service, the islands west of Bermuda are known as the western service.

Mr. POULIOT: Thank you.

Mr. JACKMAN: May I revert to the liabilities side of the balance sheet again. There is the item under deficits, under advances of \$5 million odd dollars. Do you charge interest in the books against that?

Mr. COOPER: Yes, 5 per cent.

Mr. JACKMAN: I presume it should be funded if possible. It would be almost an impossibility to work that off even if you enjoyed remarkable prosperity.

Mr. COOPER: I do not think the company should issue securities for operating deficits; I think it should have been contributed by the government and written off.

Mr. JACKMAN: Of course, the government will hold the bag no matter what we call it, but on the books here it is not a current item, it is an advance from the government merely as a bookkeeping claim, I presume, rather than a certificate, and it makes the balance sheet look very badly. On the profit and loss side the deficit has grown to \$10,683,000. You will have interest paid to the government on the moneys which have gone to make up that deficit and



which have been lost, and part of it is included in the \$5 million in the balance which has been advanced by the government. This is interest charged in the books on that.

Mr. COOPER: The item of interest includes not only amounts advanced for deficits but also for capital and working capital. You see under Dominion of Canada account "Notes Payable Secured by Mortgages on Vessels" \$933,000; advances for capital \$713,000; advances for working capital, \$450,000; advances for deficits, \$5,059,000; and interest is accrued on those different items. The amount accrued in 1940 shown in the income statement is \$346,000. In the first place the interest accrued is set up as a liability and would appear in that item at the end of the year amounting to \$1,870,000; but during the year we earned over and above our cash disbursements \$666,000 which we paid off to the government and which they applied to reduce our interest.

Mr. JACKMAN: It can be said that all the money the government has advanced to the steamship lines either by way of capital or working capital or to cover up the deficits is bearing at least a bookkeeping interest charge?

Mr. COOPER: That is so.

Mr. JACKMAN: And last year you more than earned your interest and turned over the whole surplus that you had available out of earnings to the government to cover the current interest on something on back interest?

Mr. COOPER: Yes, that is correct.

The CHAIRMAN: There is an item in the estimates on page 51 in connection with this report, No. 416, \$20,000. Will you o.k. this item in your committee?

Mr. NICHOLSON: Why does this appear if it was not necessary last year?

Mr. COOPER: It is just a general contingency item in case something does crop up. If we do not need it we do not use it. Last year we had \$21,000 and did not use it. This year we are asking for \$20,000 and we may or may not use it. If we need it and there is no appropriation we run into difficulties.

Mr. ROSS: How is that sum of \$20,000 arrived at?

Mr. VAUGHAN: It is just an arbitrary sum. We do not know what we may need; we hope we will not need anything; but somebody may want something done on a boat to carry a few passengers—maybe the government may want it done—and it may be a capital expenditure.

Mr. JACKMAN: With a very comfortable working capital I do not know why you want to set up \$20,000, which is a rather small sum.

Mr. VAUGHAN: We have no authority to make capital expenditures no matter how small they may be.

Mr. JACKMAN: This is not only an authority to make a capital expenditure, it is an authority to draw down that amount of money from a source which is outside of the operation of the corporation. You do not need it very badly, surely?

Mr. VAUGHAN: We hope we shall not have to spend it at all, but it is the customary procedure that has to be gone through. If we need money for capital account it has to be authorized by this committee.

Mr. JACKMAN: But you are very strong as far as finances are concerned, and yet you want this authorization to get \$20,000 from the Canadian Treasury, is not that so?

Mr. COOPER: We are giving the government all the money we can.

Mr. DONNELLY: If you needed \$20,000 for a capital expenditure could you not take it out of revenue?

Mr. VAUGHAN: I do not think our accountant would let us charge up anything to operation which should go to capital.



Mr. JACKMAN: If you make any capital expenditure you have to get authorization from the government; are you not allowed \$5,000?

Mr. VAUGHAN: I think there is a small limit.

Mr. COOPER: Not as far as the government is concerned. We are supposed to present a budget to parliament every year which sets out our capital requirements. The requirement is stated in the Canadian National-Canadian Pacific Act of 1936. The Act does not refer to the West Indies, but it gives a general direction as to the control between the government and the railways and shipping. What I am saying is that although the Canadian National-Canadian Pacific Act does not apply to the steamships we apply its principles to all our operations. We are now asked if we could not finance capital expenditures, after it is authorized, out of working capital if our working capital is sufficient; what we would prefer to do would be, if our working capital is more than sufficient for current operations, to make a refund of the surplus and still draw down our capital expenditures so that the government books as well as our own will show directly the investments of the Crown in this service.

Mr. JACKMAN: Yes. I can see that it does not make very much difference.

Mr. COOPER: No.

Mr. JACKMAN: On the other hand, every year you are setting up a certain amount for insurance—\$1,948,000 at the present time—what do you do with that fund if you want to replace a capital ship which is lost or damaged by fire or marine casualty; do you have to get authorization to make use of that fund?

Mr. COOPER: No, we draw on the fund. In 1939 the fund stood at \$1,500,000; it has increased during the year by \$448,000 to \$1,948,000; premiums during the year, \$430,000; income from investments \$78,000. We had \$58,000 of losses and \$2,400 of administration expense. So \$58,000 of losses were taken out of the fund in 1940.

Mr. JACKMAN: And replace with equivalent assets?

Mr. COOPER: No, these were claims for cargoes.

Mr. JACKMAN: Paid to outsiders.

Mr. COOPER: Yes. Well, and the cost of repairing the ships. There would be something for repairs to ships. The arrangement is precisely the same as if our insurance were carried with outside underwriters; we charge the same premiums and make the same claims as if we were dealing with an outside underwriter.

Mr. JACKMAN: In regard to this insurance, you insure yourselves too?

Mr. COOPER: As far as the vessels themselves are concerned we insure against any damage or loss.

Mr. JACKMAN: Damage to yourself.

Mr. COOPER: To the ships. In addition, of course, the shippers carry their own insurance on the cargoes, but in certain events the owner—that is the ship owner—is responsible if negligence can be shown, and we insure against that hazard.

Mr. JACKMAN: The \$78,000 you have from investment in that fund, where is that included in the assets side—the \$78,000 income from investment must represent a figure of a million and a half or so?

Mr. COOPER: It is included in the figure of \$1,948,000.

Mr. JACKMAN: What type of security are these investments?

Mr. COOPER: They are mostly direct government obligations or obligations guaranteed by the government. Broadly speaking that is how that fund is invested. There will be some provincial, I think, and a few municipal bonds; but it is very well invested. It is invested jointly with the insurance fund of the Canadian National Railways.



Mr. JACKMAN: Inasmuch as you are paying to the government five per cent interest on advances from the government—you are probably not realizing that much on investments in this fund—why is it not possible to use that money to repay advances to the government? At the same time we must bear in mind you may have a call on that, if you lost a ship. Is there any way of saving a differential between 3, 3½ and 4 per cent that you perhaps may earn on the investment and the 5 per cent you are paying to the government in advances? Is there not a possible saving there?

Mr. COOPER: It would destroy the insurance fund.

Mr. JACKMAN: It does violate the integrity of the fund to some extent—

Mr. BERCOVITCH: To a considerable extent.

Mr. JACKMAN: At the same time this whole company is so bound up with the government I should think it might work in favour of the company to repay the 5 per cent loan in place of receiving 4 per cent on the retention of the fund.

Mr. COOPER: I don't think the government is justified in charging us 5 per cent in the first place.

Mr. JACKMAN: But it does.

Mr. COOPER: But it does.

The CHAIRMAN: Shall the item carry?

Mr. LOCKHART: No.

Mr. COOPER: There is no great harm, as I see it, with regard to these items between the government and the company. We give the government all the money we can earn; we cannot do any better than that. If you agree with the principle of self insurance you cannot begin to use the fund to pay your interest account.

Mr. POULIOT: This is what strikes me: the interest due the government is \$346,000. You have a deficit of \$12,700 and you ask for \$20,000. Well, now, you pay the government \$326,000—

Mr. COOPER: No, we paid them \$666,000.

Mr. POULIOT: Yes. That is all right. There has been a deficit fund since the start?

Mr. COOPER: Yes.

Mr. POULIOT: You pay interest on that?

Mr. COOPER: Yes.

Mr. POULIOT: Besides the interest on bonds?

Mr. COOPER: Yes.

Mr. POULIOT: These are two different matters.

Mr. COOPER: Yes.

Mr. POULIOT: Did the Canadian National Steamships approach the government for reduction of interest on advances, if not on bonds? I understand it is very difficult for you to ask for a reduction on bonds. They are in the hands of third parties, but as to the accumulated deficit, did the company approach the government for a reduction of interest that would prevent the placing of an item like \$20,000 in the estimates?

Mr. COOPER: We did.

Mr. POULIOT: Did you approach them?

Mr. COOPER: Yes, sir.

Mr. POULIOT: What is the interest now?

Mr. COOPER: Still 5 per cent.

Mr. POULIOT: You did not secure any reduction?



Mr. COOPER: No. I think at one time it was 6 per cent but they reduced it to 5 per cent.

Mr. POULIOT: It was reduced to 5?

Mr. COOPER: I think so.

Mr. POULIOT: Did you ask them to reduce it to  $4\frac{3}{4}$  per cent to wipe out the deficit?

Mr. COOPER: I suggested at one time it should be written off altogether, but the answer we received was to go on accumulating 5 per cent interest.

Mr. POULIOT: Will you ask it again?

Mr. COOPER: Perhaps the committee might make a recommendation.

Mr. VAUGHAN: I should like to point out these deficits were incurred in the early stages of the Canadian National Steamships. Before that the government paid a subsidy of approximately \$500,000 a year to a company for operating four or five little slow boats.

Mr. POULIOT: The last two years were the best since the company has been operating, were they not?

Mr. VAUGHAN: No.

Mr. COOPER: 1940 was the best year we have had, yes.

Mr. POULIOT: 1939 was the next best?

Mr. COOPER: No, I think the year before.

Mr. VAUGHAN: 1938 was the next best.

Mr. COOPER: 1938 was a little better than 1939.

Mr. LOCKHART: You anticipate 1941 will be equally good?

The CHAIRMAN: Shall the item carry?

Mr. COOPER: It is a long time between now and the end of 1941.

Mr. LOCKHART: In the light of the financial statement and the possibilities for good returns during the remainder of the year would it not be possible for us to lead the way so that the public might be relieved of this \$20,000? Would it not be possible to delete that for this year? Instead of following the practice of peace time and asking for amounts of money that apparently are not going to be needed, would it not be possible for us to delete that amount this year?

Mr. COOPER: From our point of view it would be quite all right. It is a matter for the government to pass on. It is not for the company to say that.

Mr. LOCKHART: The public sees this item in peace or war and they wonder why, in the light of your financial statement, this amount could not be deleted for one year at least.

Mr. POULIOT: Then Mr. Cooper, with regard to depreciation, how is that carried out? Is it established on the same basis as in previous years?

Mr. COOPER: Yes.

Mr. POULIOT: Do you take into account the appreciated value of your boats on account of the war in establishing depreciation?

Mr. COOPER: No.

Mr. POULIOT: You are wrong there. Your ships have more value now than they had two years ago.

Mr. COOPER: We do not depreciate against the cost of replacing these ships; we depreciate against the original cost of the ships. We are supposed to recover from operations the amount of money which is invested in the ships. The amount which is invested is the original cost, not replacement cost.

Mr. POULIOT: Yes, I know, but the value of these ships is higher now than it was two years ago.

Mr. COOPER: Undoubtedly.



Mr. POULIOT: You do not take that into account in establishing depreciation?

Mr. COOPER: No, sir, I do not think it is ever done.

Mr. POULIOT: You do not think it should be mentioned in the report, that although the depreciation is established on the old basis of so much the value of the ship is higher now than it appears according to the original cost.

Mr. COOPER: No, sir; I think that is evident.

Mr. POULIOT: It is evident?

Mr. COOPER: Yes, sir.

Mr. POULIOT: What would be the value of the ships now, having regard to present business conditions, about twice as much?

Mr. COOPER: I do not think it is possible to say. The British government have made some very elaborate studies of values of ships which have been requisitioned by them; but I do not think we can value these ships ourselves. If we could I do not think that we would be serving any very useful purpose other than satisfying our curiosity.

Mr. POULIOT: We would know what we have in hand.

Mr. JACKMAN: You would have to change it if you ran into a depression a few years hence. I think it would be better to keep a consistent value, whether cost value or some value you fix it at, and depreciate steadily from that rather than establish it on another basis having a high value to-day and a lower value because of a depression or some other reason to-morrow.

Mr. POULIOT: This is the first theoretical question we have had since the beginning of the session.

Mr. JACKMAN: May I ask what the rate of depreciation is on the investment—chiefly in vessels—of \$10,995,000 on which you wrote off \$329,000 odd last year, about 3 per cent?

Mr. COOPER: Three per cent.

Mr. JACKMAN: That is considered a fair rate for ships?

Mr. COOPER: Yes; we gave the ships a 25-year life and a 25 per cent salvage, and that produces 3 per cent.

Mr. JACKMAN: Straight line depreciation method of 3 per cent a year?

Mr. COOPER: Yes.

Mr. HAZEN: Did I understand you to say in your opinion the government was not justified in charging 5 per cent interest on advances made? It is sometimes a little difficult to hear here, but I thought you said that.

Mr. COOPER: I would not like to be on record as expressing an opinion against the policy of the government. What I wish to say is that it is the decision of the department—I suppose representing the government—that the company should continue to accrue interest on these advances at the rate of 5 per cent.

Mr. HAZEN: At one time you did ask that the interest be reduced.

Mr. COOPER: We suggested that it be reduced or cancelled.

Mr. HAZEN: When was that?

Mr. COOPER: I think it is four or five years ago.

Mr. HAZEN: You have not applied since that time to have it reduced?

Mr. COOPER: It has been mentioned informally.

Mr. LOCKHART: Frowned on.

Mr. COOPER: It is government policy, and I suggest it is not for the company to say.

Mr. LOCKHART: What do you think would be a fair rate of interest?



Mr. COOPER: I do not believe, in view of all the conditions, that we should be called upon to pay interest where there is not a revenue-producing asset. I think we can properly charge ourselves with interest on moneys against which we have an asset which is capable of earning interest. A deficit has no power to earn any return and it is just cluttering up the books so far as I am concerned to have it accrue interest.

Mr. POULIOT: Who are your competitors?

Mr. TEAKLE: Our main competitor is the Alcoa line, previously known as Ocean-Dominion line, out of the St. Lawrence and Halifax, the Pickford and Black line, and some other lines out of Halifax. If you give very much information out you are liable to get into difficulties. We have always made it a point, as any good steamship company does, to keep details of that kind private.

The CHAIRMAN: Shall the item carry?

Mr. DONNELLY: I have one question to ask. You have an insurance sum of \$1,948,991. That is your insurance fund. You have it invested in bonds, I presume?

Mr. COOPER: Yes.

Mr. DONNELLY: Can you tell me what those bonds are and the amount of each?

Mr. COOPER: I think there are about thirty different kinds of bonds.

Mr. DONNELLY: Have you just dominion and provincial bonds as a rule?

Mr. COOPER: No. There are quite a number altogether, including the railway and the West Indies fund. The amounts altogether are \$14,000,000 of securities. \$7,700,000 are system securities, \$4,500,000 dominion securities. We have a few provincial securities and some municipal securities that I prefer not to read.

Mr. DONNELLY: I was just referring to the \$1,000,000 odd in your insurance fund.

Mr. COOPER: There is no steamship fund separate from that of the railway. We keep the two funds as one and we make an accounting division of it for the purpose of setting up accounts of the steamship company separate from those of the railway.

Mr. BERCOVITCH: Do all your bonds bear interest?

Mr. COOPER: Yes, sir.

Mr. BERCOVITCH: I mean, pay interest.

Mr. COOPER: One of the provinces here is not paying interest.

Mr. DONNELLY: What province is that?

Mr. JACKMAN: May I revert to the fact that we pay 5 per cent on the advances from the dominion government and earn only from 3 to 4 per cent on some of these bonds. It perhaps would not make very much difference if all bonds held were dominion obligations. It would simply be washed out so far as the dominion was concerned, but once you go outside the dominion field and go into the securities of another taxing authority you are to an extent bonusing those provinces and municipalities to the extent of 1 or 2 per cent. It does not seem to me that it would be a difficult matter to have the dominion government to have an open account to hold this insurance fund of \$1,948,000. Surely the non-government bonds could be liquidated and an open account with the credit of the dominion behind it established for the benefit of the company. I do not think that would be too difficult to arrange; and answering the questions put by Mr. Bercovitch, the integrity of the fund would be completely maintained



if you had an open account with the credit of the dominion government behind it. If you had that you would not have to bother about all this interest and you would save some money.

The CHAIRMAN: That would be at the discretion of the dominion government, would it not?

Mr. JACKMAN: It would require an agreement with regard to their fund, and they would save the company a little money and make a better statement. Once you invest outside the securities of the dominion government or the guaranteed securities you are bonusing another taxing authority, which we as representatives of the Dominion of Canada ought not to do. I do not think it is necessary. Surely the Dominion of Canada would be good enough security for the insurance fund which is being built up from year to year. If you had a claim against the fund you could draw upon this open account with the dominion. If you did that you would save one per cent on \$2,000,000, which would be \$20,000, and that would eliminate the appropriation on page 51, No. 416.

Mr. COOPER: The amount of the provincial securities is not high. Moreover, they were acquired a number of years ago. That is not the present policy, and you might have to sacrifice them now.

Mr. JACKMAN: It would save the company much bother in looking after an investment account. I also suggest it would save you the possibility of loss in the future if you carried on with an open account from the dominion government.

Mr. BERCOVITCH: I think diversification, particularly when it comes to a pension fund and other funds, is absolutely essential.

Mr. JACKMAN: There could be no higher security than the Dominion of Canada.

Mr. BERCOVITCH: I am not suggesting that the Dominion of Canada is not a good security. The Dominion of Canada would do well to diversify its bonds. Diversification is the best method known of investing pension funds and other funds.

Mr. JACKMAN: It would not be out of order for the unemployment insurance fund to invest in securities other than those of the Dominion of Canada. As a matter of fact, it is expressly stated that the Bank of Canada shall handle the whole thing. I believe you would save some money if you adopted the policy I suggest.

Mr. POULIOT: Just import more rum and molasses and you will solve the problem.

Mr. LOCKHART: You are asking the committee to approve of this \$20,000 item?

The CHAIRMAN: Yes.

Mr. LOCKHART: Will somebody not say it would be quite possible to delete that item and strengthen the hands of the minister? I do not think he wants to ask for any more money than possible. In the light of all the circumstances and the information given here would it not be possible to delete that item?

Mr. VAUGHAN: We can certainly delete the item if the government will change its system of accounting. So long as the government requires us to put it in we must show it. Some of these boats may require a new tank or some other new part. That would be capital expenditure which we could not put in without authority.

Mr. POULIOT: Could we change not only the accounting but the accounts of the Department of Finance?

Mr. JACKMAN: In regard to this \$20,000, if you choose to spend that much on a capital item you do not have to get any further authority for the item.

Mr. VAUGHAN: No.



Mr. JACKMAN: It is a contingency item.

The CHAIRMAN: Is the report adopted?

Mr. HANSON: I move the adoption of the report.

Mr. McCULLOCH: I will second it.

The CHAIRMAN: Carried.

It is proposed now to go ahead with the Trans-Canada Air Lines, if that meets with your approval, gentlemen? Mr. Hungerford will introduce the officials of the Trans-Canada Air Lines.

Mr. HUNGERFORD: The gentleman on my left is Mr. D. B. Colyer, Vice-President of Trans-Canada Air Lines, and the gentleman to his left is Mr. W. F. English, his assistant.

Mr. POULIOT: Mr. Hungerford, could you give us some kind of a map showing the Trans-Canada Air Lines?

Mr. HUNGERFORD: Yes, you may have this.

Mr. ENGLISH:

TRANS-CANADA AIR LINES

FOURTH ANNUAL REPORT OF THE DIRECTORS OF TRANS-CANADA AIR LINES  
YEAR ENDED 31ST DECEMBER, 1940

*To the Shareholders:*

The Board of Directors submit herewith the Fourth Annual Report of Trans-Canada Air Lines, being for the year ended 31st December, 1940.

Development of the mail, express and passenger services was continued throughout the year. The policy followed was based upon the realization that the operations of Trans-Canada Air Lines are essential to the nation's war-time activity.

The aim has been to make the services of Trans-Canada Air Lines of maximum value to the Post Office Department, to the armed forces, to Canadian business in general and to those firms and individuals engaged particularly in war production.

It is gratifying to note the high degree of co-operation which has developed between Trans-Canada Air Lines and military aviation.

In mail, express and passenger operations there was substantial growth. The number of passengers carried increased by 31,611; express increased by 59,969 pounds, and mail by 360,704 pounds.

The principal events of the year were as follows:

January 1st—Air mail service to Moncton established. The service had previously been confined to training flights on daylight schedule.

February 15th—Passenger service to Moncton established.

April 1st—Second daily trip for air mail and express inaugurated on transcontinental service.

April 14th—Second daily trip for passengers inaugurated on transcontinental service.

July 15th—Air mail and air express service established between Toronto, London and Windsor.

August 1st—Passenger service established between Toronto, London and Windsor. Additional daily trip inaugurated between Toronto, Ottawa and Montreal.

December 1st—Transcontinental trips schedule to operate through Toronto to Ottawa and Montreal.



## OPERATING PERFORMANCE

Revenue plane miles flown during the year were 4,770,218 as compared with 2,760,090 in 1939. 97.3 per cent of the scheduled mileage was completed.

The following tables illustrate the expansion of the company's operations:—

## ROUTES OPERATED

December 31st, 1940

	Miles
Moncton—Vancouver (via Toronto).....	3,057
Toronto—Windsor .....	195
Lethbridge—Edmonton .....	288
Seattle—Vancouver .....	122
	3,662

## SCHEDULED MILES—DAILY

December 31, 1939		December 31, 1940	
Montreal—Vancouver (1 round trip).....	4,822	Montreal—Vancouver (via Toronto) (1 round trip).....	6,114
Moncton—Toronto (1 round trip).....	1,532	Montreal—Vancouver (via Toronto) (1 round trip).....	5,258
Montreal—Toronto (1 round trip)....	676	Montreal—Toronto (2 round trips)...	1,352
Toronto—North Bay (1 round trip)...	374	Toronto—Windsor (2 round trips)....	780
Lethbridge—Edmonton (2 round trips)	1,152	Lethbridge—Edmonton (2 round trips)	1,152
Seattle—Vancouver (2 round trips)...	488	Seattle—Vancouver (2 round trips)...	488
	9,044		15,144

	Plane Miles Flown			Hours Flown			Percentage of Scheduled Performance
	1940			1940			
	Revenue	Training	Total	Revenue	Training	Total	
January .....	275,223	39,944	315,167	1,733	228	1,961	96.04
February .....	259,346	59,131	318,477	1,646	342	1,988	98.00
March .....	270,200	85,463	355,663	1,737	479	2,216	95.00
April .....	377,711	47,113	424,824	2,354	265	2,619	98.00
May .....	432,331	102,790	535,121	2,690	576	3,266	100.00
June .....	409,297	36,002	445,299	2,523	204	2,727	99.00
July .....	443,933	24,173	468,106	2,753	137	2,890	99.10
August .....	488,559	22,384	510,943	3,052	125	3,177	99.50
September .....	467,335	25,329	492,664	2,924	145	3,069	99.00
October .....	477,705	17,065	494,770	2,970	95	3,065	99.30
November .....	440,804	16,529	457,333	2,755	94	2,849	93.70
December .....	427,775	12,842	440,617	2,651	74	2,725	90.60
Year 1940.....	4,770,219	488,765	5,258,984	29,788	2,764	32,552	97.30
Year 1939.....	2,760,090	365,303	3,125,393	17,403	2,096	19,499	98.10
	Plane Miles Flown Since Inception of Operations			Hours Flown Since Inception of Operations			
	Revenue	Training	Total	Revenue	Training	Total	
Sept. 1, 1937 to Dec. 31, 1937...	26,596	74,372	100,968	196	493	689	
Year 1938.....	1,122,179	826,167	1,948,346	7,266	5,285	12,551	
Year 1939.....	2,760,090	365,303	3,125,393	17,403	2,096	19,499	
Year 1940.....	4,770,219	488,765	5,258,984	29,788	2,764	32,552	
	8,679,084	1,754,607	10,433,691	54,653	10,638	65,291	

*Air Mail Service*

As of December 31st, 1940, 15,144 miles were flown daily in regular air mail service as compared with 8,188 miles at December 31st, 1939. The increased services during the year, and their effective dates, were:

January 1st—Montreal—Moncton.

April 1st—Montreal—Vancouver second schedule.

July 15th—Toronto—Windsor.

The increase in air mail carried, 1940 over 1939, amounted to 360,704 pounds or approximately 65 per cent.



Mail carried in 1940 was as follows:—

	Pounds
January .....	64,880
February .....	63,701
March .....	64,685
April .....	57,235
May .....	76,536
June .....	68,270
July .....	78,765
August .....	86,664
September .....	86,049
October .....	94,164
November .....	90,575
December .....	95,513
	<hr/>
	927,037

During 1940 the air mail rate paid the company by the Post Office Department was 60 cents per plane mile, and this rate will continue until March 31st, 1941, after which there will be a material reduction.

#### *Passenger Service*

Revenue passengers numbering 53,180 were carried in 1940 as compared with 21,569 in 1939, an increase of 150 per cent. The average passenger journey was 551 miles.

It was not possible fully to meet the demand on the transcontinental route during the Summer and early Autumn months, although the second daily service between Montreal and Vancouver was in operation from April 14th. The services between Montreal and Moncton and between Montreal, Toronto and Windsor were also insufficient to take care of all those desiring to use them.

#### *Air Express Service*

Air express service was extended during the year to all the routes operated in Canada. The number of shipments was 18,476; weight, 105,788 pounds. In 1939 the number of shipments was 10,897; weight, 45,819 pounds. Seventy-five per cent of the revenue from air express accrues to the air line and twenty-five per cent to the express company performing the pick-up and delivery service.

### PROPERTY AND EQUIPMENT

#### *Flight Equipment*

In 1940 the flight equipment of the company consisted of 15 Lockheed 14-H aircraft, equipment with two Pratt and Whitney Hornet engines each of 850 horsepower, hydromatic full-feathering propellers, and Bendix radio.

Required for existing and new services, six Lockheed Lodestar aircraft were purchased late in 1940 and have since been delivered. These aircraft have accommodation for fourteen passengers, compared with ten in the 14-H aircraft. The new aircraft are equipped with two Pratt and Whitney Twin-Row Wasp engines each of 1200 horsepower.

The company's technical staff continues to follow the latest developments in the field of aeronautical science.

#### *Ground Facilities*

The hangar at Moncton, construction of which was commenced in the Autumn of 1939, was completed in March 1940. The instrument shop at Winnipeg was enlarged during the summer to provide the additional accommodation necessary to take care of instrument repairs for the Royal Canadian Air Force. A second storey to the hangar annex at Winnipeg was completed during the Autumn to permit of expansion of shop facilities.



Under agreement with the Canadian National Telegraphs, teletype service linking the airports and traffic offices was installed during the year between Montreal and Winnipeg and between Toronto and Windsor. This service has been of assistance in the handling of reservations.

#### AIRWAYS FACILITIES

For the use of aviation in general—military, commercial and private—landing fields and other facilities at the airports owned by municipalities or by the Department of Transport were further improved during the year. Improvements were also effected at a number of the intermediate and emergency fields, certain of which are used in connection with the British Commonwealth Air Training Plan.

Airport and radio range facilities were completed by the Department of Transport at London and Windsor and administration buildings erected.

In the mountain section lighted landing fields with runways were established at Penticton and Kimberley and radio ranges installed. These new facilities provided practically a straight range course over the mountains and two additional fields.

Decision was reached by the authorities concerned, during the year, to transfer the St. Hubert Airport, Montreal, to the military, and to develop a new commercial airport for Montreal at Dorval. Work on the new site was commenced in the Autumn and it is anticipated that the field will be available for service during the late Summer of this year. The company, under arrangement with the Department of Transport, is constructing a 200-foot hangar at the new airport, work on which is well advanced.

The weather reporting service operated by the Meteorological Branch, Department of Transport, for military and civil aviation, was extended and its staff augmented.

#### OPERATING AGREEMENTS WITH OTHER AIR LINES

An agreement was entered into with Northeast Airlines, Inc., to provide radio coverage and the servicing of equipment at Montreal and Moncton, in connection with the operations of that company between Montreal and Boston and Moncton and Boston. A similar arrangement with the Western Air Express Corporation at Lethbridge, covering that company's operation between Lethbridge and Great Falls, Montana, will become effective with the inauguration of the service about April 1st.

#### TRAFFIC OFFICES

To meet the needs of the expanding passenger business, city traffic offices were opened during the year at Halifax, London, Windsor and Victoria.

#### PERSONNEL

Personnel as at December 31st, 1940, totalled 789, the comparative figures being as follows:—

	December 31st,	
	1939	1940
Administrative .....	12	13
Captains and first officers.....	54	89
Stewardesses .....	28	40
Maintenance and Overhaul.....	233	399
Communications and Dispatch.....	81	101
Station Staffs, Traffic and Clerical.....	89	147
	<u>497</u>	<u>789</u>

During the year the operation and traffic headquarters were transferred from Montreal to Winnipeg.



## FINANCIAL

The balance sheet of the company at December 31st, 1940, and income statement, are appended hereto.

*Balance Sheet*

The paid in capital of the company, \$3,750,000, which has all been raised by the issue of capital stock, was not increased during the year. The reserve for depreciation increased by \$697,912, and now stands at \$1,332,154. Self-insurance reserve was increased by \$89,488, to \$206,827.

*Property and Equipment*

Expenditures on property and equipment totalled \$1,158,659, as follows:—	
Purchase of six Lockheed Lodestar aircraft—complete.....	\$ 925,317
Purchase of two spare Pratt & Whitney Twin-row Wasp Engines.....	36,742
Remainder of cost of Moncton hangar.....	38,156
Addition of second storey to hangar annex, Winnipeg.....	27,478
Shop and servicing equipment.....	48,882
Radio equipment.....	25,370
Betterments to aircraft and aircraft equipment.....	15,507
Betterments to hangar and other buildings.....	17,243
Furniture and fixtures for offices and stations, and miscellaneous.....	23,964
	\$ 1,158,659

*Income Account*

The income account for the year, after providing for all operating costs including depreciation and interest on invested capital, shows a surplus of \$539,263. Notwithstanding rising prices, operating costs were reduced from 88.4 cents per mile to 76.9 cents per mile or 13%. The additional services operated during the year contributed to this reduction.

## GENERAL

*War Conditions*

Every phase of civil aviation has been affected by war conditions. Trans-Canada Air Lines is no exception. Many employees have been granted leave of absence to join the fighting forces, principally the Royal Canadian Air Force. The loss of one of the original Trans-Canada pilot group, Captain W. G. A. Coulson, killed on active service overseas, is recorded with regret.

The company's instrument shop at Winnipeg was doubled in capacity and is working full time in the overhaul and repair of aircraft instruments for the Royal Canadian Air Force. Under contract with the Department of Munitions and Supply a shop was established at Malton Airport (Toronto) for the overhaul and repair of military aircraft, and is now in operation.

The facilities of the company at the various airports across Canada are extensively used for the servicing of military aircraft, and radio coverage is furnished as required. Flight personnel of the company have assisted in the delivery of training aircraft purchased in the United States; in the ferrying of military and training aircraft between the different training depots in Canada; and in training civilian pilots proceeding overseas. A considerable amount of this work was done by employees in their own time as a contribution to the war effort.

*Trans-Atlantic Flights*

During the Summer and early Autumn, five round trips were operated over the North Atlantic route between Southampton, Foynes, Botwood, Montreal and New York by British Overseas Airways Corporation. Trans-Canada Air Lines, as agent of that corporation, handled the Canadian arrangements.



*Service Extensions*

It is proposed, about April 15th, to increase the present schedule between Montreal and Moncton from one to two round trips daily, and concurrently it is planned to extend the service to Halifax.

The rapid growth of mail and passenger business during the year indicated the desirability of a third transcontinental trip between Montreal, Toronto and Vancouver. The date for the inauguration of this schedule has not yet been decided upon as developments in the Spring will govern the decision.

Trans-Canada Air Lines' application for license to operate a direct service between Toronto and New York has been favourably reported upon by the Examiner of the Civil Aeronautics Board of the United States. As a Canadian license has already been granted it is planned to commence the service between the two cities as soon as possible after the United States' license is received—probably about April 15th—with an initial schedule of two round trips a day.

Under the terms of a recent understanding between the Governments of Canada and the United States regarding international air services, Trans-Canada is relinquishing its Vancouver-Seattle service. This service, owing to its competitive nature (a United States operator is also giving service) has not been profitable, and its abandonment releases equipment and personnel for other routes.

---

It is with deep regret that your Board record the loss of the passengers and crew in an accident to one of the Company's aircraft near Armstrong, Ontario, on February 6th, 1941. They desire to place on record their sympathy with the families of those who lost their lives. From the inception of passenger service to that date 8,165,000 miles had been flown by Trans-Canada aircraft without a fatality.

Acknowledgment is made of the loyal service of the Company's personnel during a year of increasingly exacting demands as a result of war conditions.

For the Directors,

S. J. HUNGERFORD,  
*President.*

Montreal, 19th March, 1941.

The CHAIRMAN: Is there any discussion?

Mr. JACKMAN: In the second paragraph of the report it says that the expansion is due chiefly to the nation's war time activity. I have always had a feeling that the expansion of this service to a great extent has taken place during 1940 and has, perhaps, two aspects to it: one is that it required more planes which might be extremely useful elsewhere and yet we have taken them for the expansion of the service in Canada. I feel that there are a great many people who travel on the Trans-Canada Air Lines who could just as easily travel on the trains except, perhaps, that there is a bit more comfort and expedition, but it really does not contribute to the war effort substantially. The same is true with mail. For instance, on some of the Royal Mail buses that collect the mails you see signs "Speed the War Effort, Use Air Mail." I think it is hardly necessary to tell business men who have mail concerning war contracts, etc., that there is a mail service. In other words, it is catering to an increase in the use of air mail by the Canadian public, and while I think that is entirely worthy during peace time, I feel that the aggressiveness in getting business both on passenger account and on mail account and perhaps on express account, about which I have no information, has been more strenuous than is warranted by the need for aeroplanes elsewhere. I should like to hear from the



proper officer some description of the class of passenger traffic and of air traffic that is carried if it is possible to get it. Undoubtedly, there are many cases of people using this service because of its relatively low competitive rates with train services and with ordinary mail services which induces them to use the plane whereas they might just as well, as far as the war effort is concerned, use the ordinary facilities.

Mr. COLYER: We have made a rather careful survey of our passengers and it indicates that between 60 and 70 per cent of the persons who travel on the T.C.A. are connected with the military effort or connected with supplies and so on—the war effort. We do not have information with regard to the air mail as to what proportion of the mail has to do with the war effort.

Mr. DONNELLY: The rate is 60 cents per mile, train mile, or it was on March 31st; what is it now?

Mr. COLYER: Forty-five cents.

Mr. POULIOT: Mr. Colyer, according to the map I have here the red line is the Trans-Canada Airways?

Mr. COLYER: Yes.

Mr. POULIOT: And these others are feeders?

Mr. COLYER: They are operated by—

Mr. POULIOT: —independent companies.

Mr. COLYER: Yes.

Mr. POULIOT: Is it your knowledge that the C.P.R. controls the stock of most of those feeders?

Mr. COLYER: I have read it in the papers.

Mr. POULIOT: You do not know anything officially about it?

Mr. COLYER: No, sir.

Mr. POULIOT: And those feeding lines are mostly north of the Trans-Canada Air Lines?

Mr. COLYER: To a large extent, yes.

Mr. POULIOT: They extend on the west to Vancouver island?

Mr. COLYER: Yes, sir.

Mr. POULIOT: And on the east and northeast they go from Montreal to Harrington harbour, Labrador?

Mr. COLYER: Yes, sir.

Mr. POULIOT: You have nothing to do with them?

Mr. COLYER: No, sir.

Mr. POULIOT: But what concerns us now is only the broader lines of the Trans-Canada Air Lines going from Vancouver to Halifax and from North Bay to Ottawa and from North Bay to New York through Toronto and from Toronto to Windsor?

Mr. COLYER: And from Lethbridge up to Edmonton.

Mr. POULIOT: Yes, I should have said from Lethbridge up to Edmonton. And besides that all the other services are independent from yours?

Mr. COLYER: We operate a service from Moncton to Prince Edward Island.

Mr. POULIOT: Oh, yes. That is all?

Mr. COLYER: Yes, that is all.

Mr. DONNELLY: How does 45 cents per train mile compare with the American rates?

Mr. COLYER: It is higher than the average rate down in the United States.

Mr. DONNELLY: What is the American rate?



Mr. COLYER: The rates vary for different companies, for different operations. I think the average rate down in the United States now is somewhere a little over 30 cents per plane mile.

Mr. BERCOVITCH: Is that per pound?

Mr. COLYER: No, per plane mile, for a certain unit of mail. I think their rates are based on a unit of 300 pounds. We carry all the mail. For example, on the transcontinental trips we have loads up over 1,000 pounds on the main transcontinental and our rate applies. In the United States they would have a sliding rate; they would get paid, say, 30 cents for the first 300 pounds and additional cents for the next increment.

Mr. BERCOVITCH: You do not work it out by the ounce—the price the citizen would have to pay when mailing a letter?

Mr. COLYER: The citizen, when he mails his letter, pays 6 cents for the first ounce and 5 cents for each additional ounce in Canada; in the United States they pay 6 cents straight throughout.

Mr. ROSS: How is the Toronto-New York trip working out?

Mr. COLYER: It has been in operation for passengers only since the 10th of May and the average passenger load has been about 60 per cent, so far, which is a very good load factor, but we are all carrying considerably in excess of 100 pounds of mail per trip. It looks as though as soon as business is developed and we get it publicized and advertised that it will be good business.

Mr. ROSS: Where are your landing facilities in New York?

Mr. COLYER: We are using La Guardia airport.

The CHAIRMAN: You now charge 45 cents per mile?

Mr. COLYER: Yes, that is right. The contract with the Post Office Department requires that we carry up to 100 pounds at the contract rate, even though the amount of mail has gone over the 1,000 pounds.

Mr. NICHOLSON: What is the policy in connection with issuing passes? I know that members of parliament are not entitled to passes. What is the policy on the T.C.A. with respect to passes?

Mr. COLYER: We do not issue any passes.

Mr. SHAW: Do you issue any special rates to certain classes?

Mr. COLYER: No, sir.

Mr. ROSS: I presume the postmaster-general would be entitled to a pass?

Mr. COLYER: That is provided for in our contract with the Post Office Department. When he is on business for the postal service he can use our service. I think we gave you an outline before the committee here last year in regard to passes. As far as the public are concerned or anyone outside we have no passes.

Mr. HANSON: Does the Post Office Department grant passes to more than the postmaster-general? For example, the inspector of postal service?

Mr. COLYER: If he is travelling on air mail business yes, sir.

Mr. LOCKHART: I should like to inquire into the statement made by Mr. Pouliot. At least, the newspaper statement has indicated that it was known latterly that feeder lines have apparently been passing into the hands of the other trunk railways. That would mean then that we are going to eliminate the difficulty that developed with the two trunk lines when the truck companies and buses moved into the feeder field. In this case with the air lines in the hands of the two railways that situation is to be eliminated in the future so far as air ways are concerned. In other words, the two trunk railway systems will be in control—the Trans-Canada Air Lines will control the trunk lines across Canada and the feeder lines will be under the control of the other trunk lines or railway lines. That is, apparently, what has developed.



Mr. COLYER: One would get that impression.

Mr. LOCKHART: That appears to be the true situation.

Mr. COLYER: So far as I know.

Mr. POULIOT: Last year in the estimates the item for air service was increased from \$2,250,000 to \$4,500,000; do you remember that?

Mr. COLYER: For air services?

Mr. POULIOT: For air mail.

Mr. COLYER: No, it was increased to about \$3,600,000.

Mr. POULIOT: Yes, but the amount mentioned in the estimate—I have not got the book here—

Mr. COLYER: You are correct, sir.

Mr. POULIOT: The amount mentioned in the estimates was twice as much as the previous year.

Mr. COLYER: Yes.

Mr. POULIOT: And was that on account of the fact that the amount of mail was twice as large or because some help was needed by the company for the purchase of new planes or other equipment?

Mr. COLYER: No, we do not buy our aircraft or any of these other items out of our earnings; they come from the capital account which is voted by parliament.

Mr. JACKMAN: Where is that item?

The CHAIRMAN: We have not come to it yet. We are out of order.

Mr. JACKMAN: May I ask this question: is it not so that the use made of the air lines for expediting the war effort could stand a much higher charge than is made both in connection with passenger rates and air mail rates?

Mr. COLYER: I would not know the answer to that; but the law under which the T.C.A. was created said that the rates would be competitive with those in the United States, so we are merely carrying out a law of parliament.

Mr. JACKMAN: A law that the Dominion of Canada has made.

Mr. DONNELLY: I move that we meet this afternoon at 4 o'clock.

The CHAIRMAN: In the course of our proceedings we will have some discussion on the postal service and I think we ought to have some representatives from the Post Office Department here, so we will get them here.

The committee adjourned to meet at 4 o'clock.

---

#### AFTERNOON SESSION

The committee resumed at 4 o'clock.

The CHAIRMAN: Order. When the committee rose for lunch we had just finished the first part of the Trans-Canada report, and we had hoped to have the Post Office officials with us for the afternoon session. We expect they will be here in a few moments. If any matters come up for which their presence is necessary we can hold them over for a few minutes. Have you any further discussion on these first two pages?

Mr. JACKMAN: When the committee rose we were discussing whether or not war traffic on the T.C.A. would stand a substantially higher rate than is presently charged, both in regard to passengers and mail. In other words, what I should like to see done in connection with T.C.A. is some reasonable limitation to the expansion of the service in war time. One way of doing that, of course, would be to charge a higher rate so that only those who really require the



service would make use of it. I understand that in the United States, for instance, the expansion of the air lines has not gone on in an unbounded fashion; but on the other hand it has been more or less subjected to a pro rating because of the fact that the planes, particularly the larger ones, are so badly needed for overseas.

Did not the manager say that the so-called war traffic would not stand a very substantially higher rate? Why is it not done in order to help eliminate some of the traffic which is merely cluttering up the lines in a time of war.

Mr. COLYER: Well, as I said this morning the Act which set up Trans-Canada Air Lines specifies the rate charged for passenger traffic will be competitive with that of the United States air lines. So it will be necessary to amend the Trans-Canada Act to put in passenger fares in excess of those now being charged.

Mr. JACKMAN: An amendment to the Act would not be insuperable.

Mr. COLYER: That is government policy.

Mr. JACKMAN: It would not be insuperable if the committee were agreeable to the contention which I have advanced.

Hon. Mr. HOWE: As I understand it, you think we should reduce the number of planes?

Mr. JACKMAN: You were not here this morning, Mr. Howe.

Hon. Mr. HOWE: No, I am sorry, I just came in.

Mr. JACKMAN: My contention is we should not encourage these services in war time except for war business. About one-third of the business, according to the best estimates the department can make, is not what you would call war business, either passengers or mail. One way of cutting down that traffic, so that you will not have to order new planes and thus detract from the war effort would be to raise the rates both on passengers and mail. I can hardly conceive of anyone who has any important business on war contracts and who want to get a letter down here in a hurry not being willing to pay a fairly large increase in the present rates, which are really very cheap competitively with the ordinary mail and ordinary transport on the railways.

Hon. Mr. HOWE: My suggestion would be that we are able to offer a low rate through having the volume of traffic. Raising the rates would probably decrease the traffic and so that the government would not be any further ahead.

Mr. JACKMAN: That is exactly what I want. I want the traffic decreased.

Hon. Mr. HOWE: All right, decrease the traffic, if you can get them all in one plane and get them to go at one time. We are using in the service about twenty planes that we own. Twenty airplanes at the present time are less than one per cent of the planes we own in Canada.

Mr. JACKMAN: That is counting planes that we have for protection, if you like. These are very valuable planes. What I do not agree with is the attitude of the government in encouraging this service and in requiring these very large planes which could be made into bombers or when the order was placed the same amount of many hours in American factories could have produced bombers. I feel we should not create a demand for or encourage this kind of thing at the present time. Naturally the Post Office wants to make a profit out of its air mail, and the line itself wants to make a profit from the passenger service. But we are not interested in passengers just now; we are interested in getting as many planes across the Atlantic as possible.

Mr. COLYER: I might say this, Mr. Jackman, when these planes were ordered and when they were built the factories were able to manufacture these in addition to those they were manufacturing for the United States and Great Britain. They definitely assured us of that. At the time these big aircraft that you are talking about were built—and it was a year ago—it did not interfere



with any orders that they had from Great Britain or the United States. It so happens that the situation in that respect has materially changed since. They do have orders now for much larger quantities of military aircraft, but not during the summer of 1940 when these planes were ordered.

Mr. JACKMAN: In that case the fault would probably lie with the allied purchasing commission or whatever they call it in New York which had not placed orders to use all the available manufacturing capacity of these American plants. However, if it were not detracting from the number of planes which go across the ocean I would not object so much.

Mr. COLYER: I am certain that is the case. It did not affect the number of bombing planes delivered to Great Britain or the United States at that time.

Mr. JACKMAN: I shall have to accept the statement and I am very glad to have it.

Hon. Mr. HOWE: We are in exactly the same position as the United States in ordering new equipment. The orders of the United States air lines were reduced to one-half; ours were reduced the same way. As a matter of fact, we have no orders in. We have equipment enough on hand now to do us for a while. Expansion is still going on in the United States, of course.

Mr. JACKMAN: It has been restricted.

Hon. Mr. HOWE: Expansion is not as rapid as it would be if there was no war; but expansion is still going on.

Mr. JACKMAN: We have been doing a wonderful job on this T.C.A. as a peacetime job. The expansion has been simply amazing and the profit is very good looking; but I should hate to think it was at the expense of our contribution to the war effort.

Hon. Mr. HOWE: We have very few people travelling in Canada for pleasure. I doubt if anyone travels to-day that is not directly or indirectly on war business.

Mr. HAZEN: We were told the percentage was between 60 and 75.

Mr. ROSS: Direct. How about indirect business?

Mr. JACKMAN: There is a lot of trotting about in these planes by people not on war business.

Mr. COLYER: I think it is quite evident to most anyone who travels that you find the number of lady passengers on the aircraft in the United States runs to probably 30 per cent or 40 per cent of the total passenger load. It is seldom that you have women passengers in Canada of more than one in ten, probably not more than one in 25, which is an indication that the people who are travelling are definitely on business or pretty much so.

Mr. JACKMAN: I wonder if we can have some information of what the expected policy of the T.C.A. will be for 1941. You have just got six new planes. The Minister of Munitions and Supply just stated that they should do for a while. What is the policy, let us say, for 1942 and 1943 if we are still in the war? Are you going to try to push this service on and expand it as you would in peace time or have you reached the place now where most of the travel on war contracts—that is, most of the increase in travel on war contracts—has ceased? Will you go on and expand it next year or will you only purchase the planes you require for replacement purposes?

Hon. Mr. HOWE: I think we will have to say government policy will be made known in due course. I do not think anyone can plan a year ahead on anything.

Mr. JACKMAN: I am not necessarily asking about government policy. We have been told about the increase in traffic. If there should not be a much greater increase in traffic in 1941 in connection with the war than there is



to-day—you will expect to reach your peak in the labour situation some time this fall—

Hon. Mr. HOWE: We will naturally keep our airplanes in proportion to the traffic that warrants. In fact there is no indication that the traffic is not on the increase at the moment.

Mr. JACKMAN: Is not on the increase?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: You are encouraging it all the time. As I mentioned here this morning, on the royal mail buses in Toronto you see little placards saying "feed the war effort; use air mail." People who see that are just ordinary people. Business men are acquainted with the service as given; they do not need any encouragement. But the ordinary person is led to believe that he will be helping the war effort by purchasing air mail stamps. You are encouraging the bulk of your air mail from substantially those people, and there is no connection whatsoever with the war there.

Hon. Mr. HOWE: We have ample capacity to carry mail and to carry passengers and we will be glad to have the business. The Toronto citizen would be glad to have the service if he knew how good it was.

Mr. JACKMAN: When your capacity gets up so high you may want a new plane or two. I do not think we should get any more planes now.

Mr. COLYER: Is it not proper to try to increase government income at the present time? That is what we are doing by promoting this air mail service.

Mr. JACKMAN: Not at the expense of buying planes which are needed overseas.

Mr. COLYER: We are encouraging people to buy stamps.

Mr. HAZEN: Are you not cutting into the Post Office service by these placards?

Mr. COLYER: I am sorry if I said something out of turn. As we see it an increase in traffic on the air lines helps both us and the Post Office Department.

Mr. HAZEN: If this mail was being carried by the railways they would be getting a certain amount of money they are not getting now.

Mr. COLYER: Just half as much as if it goes by air. The Post Office income from air mail letters is twice as much as if it goes by ordinary mail.

Mr. HAZEN: But it does not cost as much to carry it. Does it cost them half as much or less by mail than by air?

Mr. COLYER: I could not answer that.

Mr. HAZEN: You used the words "60 cents a mile." Is that 60 cents a hundred or what is it?

Mr. COLYER: Sixty cents for all mail.

Mr. HAZEN: A hundred pounds?

Mr. COLYER: No, for any quantity. We carry over a thousand pounds similarly. The 60 cents covers that.

Mr. HAZEN: All the mail that can be put into the plane you will carry at 60 cents a mile irrespective of weight?

Mr. COLYER: Yes, sir.

The CHAIRMAN: I might suggest to the members of the committee we would be in a much better position to deal with this question of air mail if we heard Mr. Coolican and Mr. Herring who are here.

Mr. NICHOLSON: On page 6 we have the number of pounds carried per month; I wonder if the members of the department could tell us what the picture is since the beginning of the present year? Are we having a similar



increase? Is there to be an increase in the amount of mail carried in 1941 as compared with 1940?

Mr. COOLICAN: I can give you figures for the calendar year 1940. I was rather quickly notified to come up here and I have not got the figures I intended to have.

In January, 1940, as compared with January, 1941, the gross weight of mail carried in January, 1940, was 64,880 pounds. In January, 1941, the gross weight carried was 82,920 pounds.

For the total year, 1940, the gross weight carried was 927,037 pounds. For 1941 we can only give you three months.

Mr. NICHOLSON: Have you February and March there?

Mr. COOLICAN: February and March?

Mr. NICHOLSON: Of 1941.

Mr. COOLICAN: Yes. 77,952 pounds for February and 89,745 for March. Now, in February, 1941, as compared with 1940, we went up to 82,487 pounds. In March it went up to 91,453 pounds. I have also the figures for April. In April it went up from 57,295 pounds in 1940, April, to 99,071 in April, 1941.

Mr. HANSON: What was the total subsidy for 1941 paid by the Post Office Department to the Trans-Canada Air Lines?

Mr. COOLICAN: The total amount paid in 1940, the calendar year, was \$1,854,074.

Mr. NICHOLSON: Have you any way of estimating the amount of revenue in the department?

Mr. COOLICAN: Yes. I beg your pardon; I want to make a correction. The actual total cost for the calendar year, 1940, to the post office department is \$2,832,363.

Hon. Mr. HOWE: That is for Trans-Canada?

Mr. COOLICAN: That is Trans-Canada only. The revenue from that during the same period was \$1,854,074.

Mr. HAZEN: Is that the total amount you received for mail—\$2,832,000?

Mr. COOLICAN: That is the cost?

Mr. HAZEN: The figures you just gave us?

Mr. COOLICAN: Yes; the cost.

Mr. HAZEN: That is the cost of carrying the mail?

Mr. COOLICAN: That is the cost of carrying the mail, yes. That is the amount of money we pay to the Trans-Canada Air Lines for carrying the amount of mail from which we obtained a revenue of \$1,854,074.

Mr. NICHOLSON: What difference would it make to the revenue if the rate were reduced from 60 cents to 45 cents?

Mr. COOLICAN: I have not got any comparative figures for what I have given you, because the mileage is constantly increased and the amount at 45 cents decreases the amount you pay; not on the same comparative mileage, it is a greater mileage for the coming year.

Mr. HAZEN: You say that is the amount of money we pay?

Mr. COOLICAN: To the post office.

Mr. HAZEN: Could you tell me how much money the post office department collected from the people who sent that mail?

Mr. COOLICAN: \$1,854,074.

Mr. HAZEN: In other words, it cost you more to send it than you received?

Mr. COOLICAN: Certainly. That is understandable because it is well known that we have not yet arrived at a volume of mail which will equal the cost of operation. It is coming up remarkably fast.



Mr. HAZEN: What was the amount you mentioned?

Mr. COOLICAN: \$1,854,074 in the calendar year 1940.

Mr. JACKMAN: Is that amount all reckoned from the sale of air mail stamps?

Mr. COOLICAN: From the weights of the mail.

Mr. JACKMAN: How do you get the revenue received from the air mail stamps?

Mr. COOLICAN: The only mail carried on the Trans-Canada is first-class mail, and the number of letters to the pound runs about 45 or 50. The rate is 6 cents for the first ounce, but out of that 6 cents there is the cost of the ordinary handling of the mail, and out of that 6 cents we allow 4 cents for the air mail, leaving the other 2 cents for the cost of carrying in other parts of the service.

Mr. JACKMAN: In other words, this amount of \$1,854,074 multiplied by 3 over 2 would be the total sale of air mail stamps.

Mr. COOLICAN: Put it this way: We estimate \$2 a pound.

Mr. JACKMAN: You estimate your revenue on the poundage of mail?

Mr. COOLICAN: On the poundage of mail.

Mr. JACKMAN: And not on the sale of stamps?

Mr. COOLICAN: Well, the cost of computation would be a little bother.

Mr. NICHOLSON: Assuming you have an increase of 65 per cent in 1941 as compared with 1940, with the reduced rate what are the possibilities of breaking even for the present year?

Mr. COOLICAN: Well, Mr. Herring will probably explain that.

Mr. GEO. HERRING: The best way to determine how soon we will arrive at that is to complete the amount of mail we still require to make ourselves self-supporting. When this statement was prepared it was down to the middle of last year, and we were optimistic when we said there was a 4 per cent increase in the volume of mail. We kept a close watch on that expecting at any minute to find that we were much too optimistic. We kept that right up to date. We got the whole of 1940 and we got it for the first four months of 1941. Basing it on the original estimate that we would obtain the same rate of increase this statement shows that in the month of April had we maintained the 4 per cent increase we would have required 529 pounds per day to make us self-supporting. The actual figures, based on the known results for April, show that we still required 308 pounds instead of 529. There has been a most phenomenal increase in the support of air mail. We have a gross which shows that with the 4 per cent increase per month between October and November of this year we would have been over the top. With the reduction in the rate from 60 to 45 cents and the increase in the expected rate of growth it looks to me as if we are going to hit the even somewhere round about July or August.

Mr. NICHOLSON: That is the information I wanted to get.

Mr. DONNELLY: Did I understand you to say that though you took the 6 cents for each letter you applied 4 cents of it to the plane carrying the mail and 2 cents of it for the handling of the mail otherwise?

Mr. HERRING: That is correct.

Mr. DONNELLY: If you took the full 6 cents for carrying the mail you would practically break even during the past year?

Mr. HERRING: We would have been over the top long since, but you cannot do that because there is always a certain amount of expenditure in connection with the handling of mail at the post office.

Mr. NICHOLSON: Some of the letters go part way by train?

Mr. HERRING: Yes.

Mr. HAZEN: Have you the figures for the cost of carrying mail by rail?



Mr. COOLICAN: Yes, but the rates on railways are space-mile rates. There is a 4 cent a mile rate for 3 feet in a baggage car, and we put into that 3 feet as much as we can. It is 35 cents per mile for a full railway mail car.

Mr. HAZEN: That would hold considerably more.

Mr. COOLICAN: Oh, yes; there is really no means of comparing that with the amount carried by air, because it contains all kinds of mail, like newspapers, parcels, third-class matter, and so on. On Trans-Canada we carry only first-class mail.

Mr. HAZEN: Have you noticed any reduction in the amount of mail carried by rail?

Mr. COOLICAN: No.

Mr. HAZEN: Since Trans-Canada came in.

Mr. COOLICAN: No. Say we carry half a ton a day by air, or approximately that, each way; distribute that over miles of railway mail cars with different kinds of numbers and you have nothing upon which to base an estimate.

Mr. HAZEN: I suppose Trans-Canada has affected to some extent the revenue derived through the carriage of mail by rail?

Mr. COOLICAN: I would not say so because most of this air mail business is really new business because of the speed involved.

Mr. HAZEN: Would not such people be inclined to send it anyway?

Mr. COOLICAN: Certainly.

Mr. HAZEN: Well, then, would not that revenue derived from the mail enure to the railways?

Mr. COOLICAN: Yes, if you can distribute that half a ton per day each way over the 18,000 miles of railway. I do not think it would be worth while getting these figures out. I suppose we could.

Mr. HANSON: The figure you gave us was based on the 60 cents per mile rate? That is what we were paying last year.

Mr. COOLICAN: It costs 60 cents per mile by air.

Mr. HANSON: It is now reduced to 45 cents?

Mr. COOLICAN: It is now reduced to 45 cents, yes.

Mr. HANSON: And the figure you gave us is based on the 60 cents per mile rate?

Mr. COOLICAN: For the year 1940, yes.

Mr. HANSON: If that were 45 cents per mile there would be a different picture?

Mr. COOLICAN: Oh, yes.

Mr. HANSON: You would just about break even then?

Hon. Mr. HOWE: What is the average cost of a letter first-class moving by rail?

Mr. COOLICAN: Out of 3 cents charged we figure that we make a clear 1 cent.

Hon. Mr. HOWE: So that when you only give the air lines credit for 4 cents you are sort of doing the post office a little bit?

Mr. COOLICAN: A little reserve.

Mr. NICHOLSON: In connection with the figure of \$2,832,000 does that include payments made to the United States for air mail carried to the United States?

Mr. COOLICAN: No; the figures I have given you apply only to the Trans-Canada Air Lines.



Mr. NICHOLSON: For letters carried within Canada?

Mr. COOLICAN: For letters carried within Canada by the Trans-Canada.

Mr. DONNELLY: Mr. Chairman, is anyone in the railway company able to give us an estimate of the effect that Trans-Canada carrying this mail has had upon the revenues from telegraphs?

Mr. HUNGERFORD: It is very difficult to say, sir. There has been a certain falling off in the night-letter business, but the other business has increased. It is practically impossible to say what the effect is. It probably had some effect, more particularly on night letters.

Mr. DONNELLY: It likely affected telephones too.

The CHAIRMAN: Is there any further discussion on this report?

Mr. MAYBANK: Did I get clear from Mr. Howe's question to you, Mr. Coolican, that you have six cent postage in the case of air mail and three cent postage in the case of mail that goes over the railroad; and in the one case you figure on a cent going to the post office, but in the air mail case you figure on two cents going to the post office. Of course, that is just a matter of accounting, but is that right?

Mr. COOLICAN: Yes; we attribute four cents to the air mail out of the six.

Mr. MAYBANK: Just keeping two cents for the other post office work?

Mr. COOLICAN: Yes.

The CHAIRMAN: Are you all through with the first part of this report? If so, we will move further on.

Mr. JACKMAN: No.

Mr. NICHOLSON: Mr. Chairman, I asked a question this morning with regard to passes. There was some conversation up in front there that I did not follow very well. Did I understand that passes were given to certain postal authorities in connection with the T.C.A.?

The CHAIRMAN: The postmaster general.

Mr. COLYER: We require under our contract with the Post Office Department to furnish transportation to postal officials travelling on air mail business.

Mr. NICHOLSON: I thought your first answer was that you said there were not any passes.

Mr. COLYER: I said there were not any passes as we ordinarily think of them to the general public; that is, to those not connected with the operation of the Trans-Canada Air Lines. We have a statement here that I think might probably answer all your questions. We prepared a similar statement at the committee hearing last year. The situation today is identical with what it was a year ago.

Mr. NICHOLSON: This is my first year on the committee.

Mr. JACKMAN: I suppose the operating capacity of the planes has been at an exceptionally high rate. Last year I think it was given in the report, or we had it in evidence anyway. How do you compare now with the American lines? I suppose you are very much higher.

Mr. COLYER: That is, our load factor?

Mr. JACKMAN: Yes, the load factor.

Mr. COLYER: We have the figures for April, last month. The load factor on the transcontinental was 74 per cent, which I think is considerably above the average in the United States.

Mr. JACKMAN: That is not much better than last year, is it?

Mr. COLYER: No. But when you are up around 70 to 75 per cent on a transcontinental line nearly 4,000 miles long, that is about as many passengers



as you can carry, because they are not all going from one end of the line to the other.

Mr. JACKMAN: Does that represent passengers only or the total available space on the plane for air mail and express? Is 74 per cent merely passengers or is it mail space?

Mr. COLYER: That is what we are speaking of entirely, passengers.

Mr. JACKMAN: Passengers only?

Mr. COLYER: Passenger space is what we are referring to.

Mr. JACKMAN: How are you on the air mail end of it?

Mr. COLYER: On some trips we are loaded right up to capacity with mail and express.

Mr. JACKMAN: You do not keep statistical figures on that. I suppose it is not quite so easy. It is easy to find out how many vacant seats there are, but it is not so easy to see how much cubic capacity there is.

Mr. COLYER: You could get yourself into a lot of statistics to try to do that, but it would not mean anything. We have got definitely a certain number of seats available there, and the amount of space that is available for mail and express varies from trip to trip and is tied in with weather conditions or airport conditions and various other factors such as the amount of gasoline that you have to carry on the plane to go between certain points, which will vary from day to day, so that it will be impossible to keep accurate figures as to the percentage of capacity for mail and express load.

Mr. HAZEN: Who holds the shares of the stock in this company?

Mr. COOPER: The Canadian National Railways company.

Mr. SHAW: I note that certain municipal airport facilities are used by the T.C.A. What type of contract is entered into in this regard where they are using municipal airports?

Mr. COLYER: Prior to the outbreak of the war, T.C.A. had contracts with different municipalities for the use of their airports. At the present time the government has taken over all the airports, so that our contracts now are with the Department of Transport, who control all of the airports that we use.

Mr. SHAW: This report, therefore, would not be entirely correct in stating that they are using municipally owned airports?

Mr. COLYER: Well, some of them are still municipally owned but controlled by the dominion government. I think that is correct.

Mr. MAYBANK: They have turned them over generally at a dollar a year to the dominion government?

Hon. Mr. HOWE: Yes.

Mr. SHAW: What I was getting at was what consideration is given to the owner for the fact that we have expropriated them for the duration of the war?

Mr. COLYER: We pay the Department of Transport and they in turn—I do not know just what they do.

Hon. Mr. HOWE: The Department of Transport pays all the operating expenses of airports and usually extends the facilities of the airport at the expense of the federal government. I do not think any municipalities will be any the worse for our having taken the airports over for the duration of the war.

Mr. MAYBANK: You add to the value of them all?

Hon. Mr. HOWE: We add to the value of the airports very greatly.

Mr. MAYBANK: And they will get a dollar a year and get them all back?

Hon. Mr. HOWE: After the war.



Mr. MAYBANK: With whatever you have put into them?

Hon. Mr. HOWE: Yes.

Mr. MAYBANK: Is that not the idea?

Hon. Mr. HOWE: Yes, that is the idea.

Mr. SHAW: And again where they are using certain intermediate emergency fields in connection with T.C.A. operations as well as the British Commonwealth Air Training Scheme, how do they determine the costs that are to be charged against the Department of Defence or the Department of National Defence for Air and the T.C.A.?

Hon. Mr. HOWE: The T.C.A. pays nothing for emergency fields. They do not use them except in grave emergency. They were all installed by others, either municipalities or the federal government. But T.C.A. never has paid for the use of these fields.

Mr. POULIOT: Mr. Coolican, do you know anything about the ownership of the feeder lines? Do you know if the stock is controlled by the C.P.R.?

Mr. COOLICAN: No, I do not know that.

Mr. POULIOT: You do not know that?

Mr. COOLICAN: No.

Mr. POULIOT: Could Mr. Howe tell us something about that.

Hon. Mr. HOWE: I only know what I have read in the press. I understand that the C.P.R. have—in fact, Mr. Beatty published in his annual report that he had bought control of several lines. One I think is the Mackenzie Airways and another is Starratt Airways; and I think there is a third that he has bought—the Yukon Southern.

Mr. MAYBANK: Would not the organization of the T.C.A. have knowledge of all the other flying companies, or at least some knowledge of all the other flying companies in Canada, Mr. Chairman? Would you have knowledge of organizations that might become competitors?

Mr. COLYER: I would expect that we would. Of course, at the moment—

Mr. MAYBANK: Can you not describe what has been going on recently with reference to the purchase of a number of these companies such as Mr. Howe has mentioned, leading, it would seem, to a straight across-Canada competitive route being established by the C.P.R.? Surely you are alive to that, I fancy, Mr. Colyer.

Mr. COLYER: I had not heard anything to the effect that the C.P.R. was starting to operate an east to west route across Canada.

Hon. Mr. HOWE: We are protected against that by legislation. The Trans-Canada Act provides there can be no competitive route against Trans-Canada.

Mr. MAYBANK: While the Act may provide that, is there not, as a matter of fact, going on at the present time a movement directed by the C.P.R. which would seem to indicate that some form of competition along that line is under way?

Hon. Mr. HOWE: I would not think so, no. I see no evidence of it. These routes are really north and south routes; and while they are competitive one with the other, I do not think any of them are competitive with the Trans-Canada.

Mr. COLYER: They are feeders of our line.

Mr. MAYBANK: At the moment they are feeders.

Mr. COLYER: They are bringing in traffic to the Trans-Canada.

Mr. MAYBANK: What would it take to connect them up?

Mr. COLYER: It would take another transcontinental route.



Mr. MAYBANK: Would it really take a transcontinental route? Would it not be really filling in a few gaps?

Mr. COLYER: No.

Mr. MAYBANK: That is not so?

Mr. COLYER: I do not see where it would.

Mr. MAYBANK: I am just asking for information. I do not know. Certainly there is a great deal of current talk to the effect that the C.P.R. has some such plan. Had you not heard it?

Mr. COLYER: Yes. I have heard rumours to that effect, but I do not see any evidence of it.

Mr. MAYBANK: You just do not see any evidence of that?

Mr. COLYER: No.

Mr. MAYBANK: That there is any such build-up?

Mr. COLYER: I just cannot see it unless government policy would be to set up two continental routes.

Mr. HANSON (*Skeena*): They would have to obtain a charter from the federal government.

Mr. COLYER: Under the law they would have to obtain a charter from the government or from the Board of Transport.

Mr. MAYBANK: The C. P. R. has sometimes been called the government on wheels, although I do not think it has been so in the last seven years. I will not go beyond that.

Mr. JACKMAN: I will go beyond that for you.

Mr. MAYBANK: Another gentleman says he will go further.

Mr. SISSONS: Would it not have been felt in the interests of the Canadian National to have acquired those feeder lines, Mr. Chairman? Was there any attempt made by the Canadian National to acquire those lines as feeders?

Mr. COLYER: I think Mr. Howe should answer that.

Hon. Mr. HOWE: I was just reading from a portion of the presidential address of the president of the Canadian Pacific railway. It says:—

“None of these companies,” the president stated, “are engaged in services which are competitive with those of Trans-Canada Air Lines, but they perform valuable functions complementary both to the services of that company and those of your railway.”

Answering your last question, it was never the intention to make Trans-Canada Air Lines anything other than a trunk line service. It was never the intention to close out private enterprise from the functions that it was serving at the time that Trans-Canada was organized. The purpose of the line was to form a connecting service from one coast to the other, into which private services can feed their traffic or take traffic to distribute to more and more areas. It is still the view of the management, I think—and it is my own view—that it is not wise to undertake any service which is not up to the standard, or cannot be brought up to the standard of main line operation and such international connections as Canada is called upon to operate.

Mr. SISSONS: Take the Yukon Southern; they are running to Alaska?

Hon. Mr. HOWE: That is in a little different position. It was always the set intention of the Trans-Canada to operate that when it became an international route. We believe that some day it will become an international route. Up to the present time there are no air fields in that country. It would be impossible to operate that type of equipment that Trans-Canada uses; but



air fields are being built, and it will, in a year or so, become possible to operate with that type of equipment. Then the question will come up as to whether it should be operated by Trans-Canada or a private company. In the meantime the service is only from month to month; that is, the contract with the Yukon Southern is only from month to month.

Mr. MAYBANK: What contract is that? You say the contract is only from month to month. That is a contract between whom?

Hon. Mr. HOWE: Between the post office and Yukon Southern.

Mr. SISSONS: Now, is not the Yukon-Southern growing too fast; would it not come under the control of the C.P.R. as soon as that passes out?

Hon. Mr. HOWE: We had better say that while the Yukon-Southern majority stock is owned by the C.P.R. there is still a private interest in the Yukon-Southern.

Mr. GRAY: Well, the matter referred to by Mr. Maybank and Mr. Colyer, that there is no fear of it competing with Trans-Canada by means of these northern routes being bought up by the C.P.R.; is there not a real danger when it comes to the calling of contracts for your post office mail carrying that you will get to a point where you have no competition in bids?

Mr. MAYBANK: Would you not have that difficulty now?

Mr. COOLICAN: The Act protects the Trans-Canada.

Mr. GRAY: I appreciate that, but how are you going to protect your north-south routes?

Mr. COOLICAN: Of course, there is the danger there to the T.C.A., say if any other company took over a possible operating of a number of routes, operated by a private company or somebody else—well, that is a matter of business, I think; if T.C.A. when it takes over the main thing will take over the rest of it, we will endeavour to find some other way of operating with these other companies.

Mr. MAYBANK: That is notice to the competition through the organization which at the moment may have a monopoly; is that what you suggest?

Mr. COOLICAN: Not exactly that way; the country is liable to develop in such a way that some part of it may obtain an importance which may require a better performance than can be found amongst the small privately operated companies. When that time does come of course we have to consider how the rest of the service may be tied in to it to establish a competent service.

Mr. McCULLOCH: What is the situation with regard to the airport at Sydney?

Hon. Mr. HOWE: I think the airport is completed. I understand that radio beams are being installed at the present time and should be ready by August or September perhaps.

Mr. McCULLOCH: Will air mail be taken from Sydney?

Hon. Mr. HOWE: I think it is the intention to extend the mail service to Sydney.

Mr. McCULLOCH: I think at that time they would have that field at New Glasgow ready.

Hon. Mr. HOWE: I cannot say as to that.

Mr. McCULLOCH: I understand the Post Office Department would get quite a revenue from the towns along the way from Sydney to Halifax.

Hon. Mr. HOWE: A considerable expenditure has been made at New Glasgow, but I am not sure just when that will be completed.

Mr. McCULLOCH: There has been about \$25,000 spent on it now.

Hon. Mr. HOWE: Yes.



Mr. McCULLOCH: And, of course, the town of New Glasgow bought the land with the understanding that there would be an airport put there.

Hon. Mr. HOWE: Yes.

Mr. McCULLOCH: And I think the town of New Glasgow is growing so fast now, due I suppose to the war, that it will be necessary for an airport of some kind to be put there, even if it is one of the smaller type.

The CHAIRMAN: Shall we proceed with the balance sheet?

Mr. NICHOLSON: I had a question about passes some time ago and I understood there was to be a supplementary statement.

Mr. ENGLISH: Shall I read this?

The CHAIRMAN: Yes, whatever the answer is.

Mr. ENGLISH: It is quite long. It is a statement prepared in the same form as was submitted to the committee last year.

### TRANS-CANADA AIR LINES NON-REVENUE PASSENGERS, 1940

The issuance of free transportation on Trans-Canada Air Lines is governed by:—

1. Regulations promulgated by the Board of Transport Commissioners for Canada.
2. Contract with Post Office Department.
3. Arrangements with Department of Transport in regard to use of airway facilities and weather service.
4. Regulations of the Company which provide that:—
  - (a) Free transportation is issued on a space available basis, i.e. a holder of free transportation must make way for a revenue passenger even at an intermediate stop before final destination.
  - (b) An employee is allowed one vacation pass for self and one for one dependent member of family per annum.

The statement which follows gives the number of non-revenue passengers carried from January 1, 1940, to December 31, 1940. It does not include members of flight crews, air engineers, radio technicians, or other operations personnel whose duties require them to ride the aircraft for the protection of the service.

Employees of Department of Transport on business relating to civil aviation .....	805
Vacation passes, T.C.A. employees .....	784
Vacation passes, dependents of T.C.A. employees .....	688
T.C.A. employees on Company business .....	440
Children, two years of age or under, accompanying revenue passengers	249
Employees of Post Office Department on business relating to air mail services .....	47
Courtesy trips to members of the Press .....	85
Employees of Canadian Broadcasting Corporation on plane-to-ground broadcasts .....	3
Employees of National Research Council on test flights .....	10
Employees of airplane and engine manufacturers on test flights .....	29
Courtesy trips to municipal airport authorities .....	3
Employees of British Overseas Airways Corporation re Trans-Atlantic service .....	4
Employees of Civil Aeronautics Authority on inspection flights.....	5
Deportees .....	1
Total .....	3,153

We have to report that to the Dominion Bureau of Statistics in that form, although it actually is not free transportation; a child of two years of age is carried free providing it is accompanied by a parent.



M. POULIOT: Is there a radio beam all the way through the system?

Hon. Mr. HOWE: Yes, everywhere Trans-Canada goes.

Mr. NICHOLSON: This is a very different picture from what I got this morning when I asked my question. I understood there were no passes granted. I wonder what the explanation is?

Mr. COLYER: T.C.A. does not grant passes to outsiders, those not connected with the company's operations.

Mr. NICHOLSON: I knew that members of parliament were not granted passes. That was stated this morning. This is the information I wanted to get this morning and I understood from the remarks made then that there were none of these passes being granted. I do think as a matter of policy it would be wise not to issue any passes. These departmental officials who are travelling on business have expense accounts and I think could very easily arrange with the department to have expenses paid in connection with travel by air. I wonder if there is any explanation now as to why so many people were carried free on these lines?

Mr. COLYER: It appears to the management of Trans-Canada Air Lines that it is proper to grant employees of the Department of Transport space-available passes when it is necessary for them to travel in connection with airport and airway matters on Trans-Canada Air Lines. The Department of Transport provides us with our airways which we use across Canada and its own employees visit the airports in connection with matters relating to them. It seems entirely proper that we should give them space-available transportation. In other words, if there is somebody there who wants to buy a ticket why the government representative cannot go. In fact that applies to Trans-Canada Air Lines' own employees when travelling on the business of the company; if an air passenger shows up for a seat the company employee waits, or if it is necessary that he go immediately he travels by train. In other words, whenever there is a passenger for an available seat on an airplane the seat is sold.

The CHAIRMAN: In other words, you only allow them to occupy spare space?

Mr. COLYER: That would otherwise be thrown away, yes.

Mr. ROSS: That applies to vacation passes too?

Mr. COLYER: That is right. I might also mention this as happening on several occasions, that Department of Transport employees when it was necessary for them to get from one place to another buy up space in order to get a seat for that particular trip.

Mr. MAYBANK: And that does not alter the picture at all for the people of Canada, except that just one passenger less was available for revenue purposes.

Mr. COLYER: That he had business which in his opinion warranted the expense.

Mr. MAYBANK: But the Canadian people paid it.

Mr. NICHOLSON: What is the objection to placing all travel of the T.C.A. on a pay basis?

Mr. COLYER: Well, we have employees of the company whose services are required at different points across the system and they travel on company business. We think it is very much in the interests of the company that these employees should have the privilege of a free ride over the system once during the year as a vacation pass, together with one dependent member of his family. I may say that our regulations governing the granting of passes are ten times more stringent than those applying on air lines down in the states. For example, most of the air lines in the states give their employees and dependent



members of their families five annual passes as against one on T.C.A. It is important from the standpoint of the company that its employees—that includes ground employees as well as others—should travel the system occasionally to know what the operation is like. They get a better appreciation of what the company is doing when they ride its airplanes from one point to another.

The CHAIRMAN: Mr. Colyer, I heard you state a moment ago that a return trip used two passes; you say your employees get one pass a year, how are they going to get back, do they have to pay their way?

Mr. COLYER: Well, they get two passes on that basis, they get a round trip pass.

Mr. POULIOT: Mr. Colyer, will you please compare the item on page 12, \$2,832,000, and divide it by the weight of the mail carried in 1940 on page 6; is it not true that the cost of mail carrying is a little more than \$3 per pound?

Mr. COLYER: Yes, during that particular period.

Mr. JACKMAN: And you paid, how much a pound?

Mr. COLYER: I said the cost of carrying it—that is shown on page 6—we carried 9,327,000 pounds of mail—and on page 12 it shows that we received from the Post Office Department \$2,800,000. Then you divide the one figure into the other and it gives you around \$3 a pound.

Mr. POULIOT: Now, Mr. Colyer, will you please tell us if there is any increase in the frequency of air mail due to the fact that the services that existed were profitable, in other words, was the increase in the frequency of mail due to the fact that the quantity of mail was so big that it could not be handled by one service?

Mr. COLYER: You mean, did the second transcontinental increase the volume of mail?

Mr. POULIOT: Well, I will give you an illustration; take, for instance, the service between Ottawa and Toronto, is it a double service now?

Mr. COLYER: We now operate five round trips a day.

Mr. POULIOT: Now, was that increased from one to two because the first service was so profitable to the company that the company could not handle the mail in the first service?

Mr. COLYER: No, sir.

Mr. POULIOT: Then was the increase from two to three for the same reason; and from three to four and from four to five?

Mr. COLYER: No.

Mr. POULIOT: Then, what was the reason?

Mr. COLYER: Well, the answer to your question is rather involved. It requires a certain cost to set up an air line operation to operate one trip a day; you probably have a cost of operation over a dollar a mile for each mile flown. When you double that and treble it and quadruple it and bring it all down you are finally getting to a cost where the fixed charges on your system are relatively low, where your cost of operation per mile is half or even a third of what it was originally; so that the additional trips put on between Toronto and Montreal while they do not give any increase in the volume of mail in proportion to the number of trips they were aided by the mere fact that they provided greater efficiency in the use of equipment and ground personnel, and everything, and brought it up to a point where the passenger loads that were being carried more than off-set the additional cost of putting on the additional trips.

Mr. POULIOT: Therefore, Mr. Colyer, it was a disguised form of governmental subsidy.



Hon. Mr. HOWE: No; it is just an attempt to make the passengers pay some of the air mail rates by putting on the five trips; getting passenger revenue there to carry the reduced cost of carrying the mail on that particular trip.

Mr. MAYBANK: Mr. Colyer, at what point do you reach the condition of constancy respecting cost? You said that on the second trip there is a considerable reduction in cost and on the third trip there is a further drop and so forth. Now, of course you cannot get it to the point where eventually you get it down to the point where it costs nothing. Have you found that point?

Mr. COLYER: I heard a learned professor one day say that when you got it down to eight trips between two points and then you added an additional trip you got a very little reduction in the overall cost. I do not believe that is correct.

Mr. MAYBANK: You do not think eight is the right figure?

Mr. COLYER: I think it is higher than that. For example, to-day the American air lines operate 23 trips a day between Boston and New York. It would be my guess if they put on the twenty-fourth trip there would be very little effect on their per mile cost. I think it is a lot higher than eight.

Mr. MAYBANK: At any rate, between Ottawa and Toronto you have not reached that condition yet?

Mr. COLYER: No, sir.

Mr. MAYBANK: You would expect a further cost reduction in the six trips; is that right?

Mr. COLYER: Yes.

Mr. MAYBANK: You think it would be a higher figure than eight which the learned professor mentioned?

Mr. COLYER: Yes.

Mr. POULIOT: This does not include the cost of airports?

Mr. COLYER: It includes the cost—

Mr. POULIOT: Airports are not built by your company.

Mr. COLYER: No, but we pay rent for the use of them.

Mr. POULIOT: You pay rent for the use of them?

Mr. COLYER: Yes.

Mr. POULIOT: Every company using these airports is probably doing the same. You pay rent. How is the rent calculated, according to the service or how is it calculated?

Mr. COLYER: We pay \$150 a month for the first schedule and \$100 for each additional schedule.

Mr. POULIOT: That is standard.

Mr. COLYER: Yes, that is generally speaking. That is not exactly correct. Initially we made our arrangements with the municipalities, and most of them were made on that basis of \$150 a month for the first schedule and \$100 for each additional one. But with some of them we were not able to make exactly that sort of arrangement, but they are similar to that. Since all of the airports are operated by the Department of Transport we pay them.

Mr. POULIOT: Have you a similar arrangement with the St. Hubert airport?

Mr. COLYER: Yes.

Mr. POULIOT: There is an airport there which you use, of course?

Mr. COLYER: We pay rent there on the scale that I have just mentioned.

The CHAIRMAN: Gentlemen, we do not want to curtail discussion, but we should like to get through with these reports.

Mr. POULIOT: Just a moment. Therefore your expenditure for airports is not a capital expenditure?



Mr. COLYER: No, it is an operating expense.

Mr. JACKMAN: Last year it would appear the T.C.A. received from the Post Office Department \$2,832,363, and the revenue that the Post Office Department calculate they received from the air mail was \$1,854,000. Therefore there was a loss to the Post Office Department of some \$978,000 odd. Would the gentleman from the Post Office Department give us a corresponding figure since the inception of the mail contract with the T.C.A.?

Mr. COOLICAN: I have not got them here but I can provide them.

Mr. JACKMAN: Would you put them on the record for us? I am referring to the deficit which the Post Office Department shouldered as between the revenue they received in connection with air mail and the amount they have paid to the T.C.A. for carrying the mail.

The CHAIRMAN: For the total period?

Mr. JACKMAN: Yes, since the inception, year by year.

Mr. MAYBANK: It would really mean adding this year to last year's statement.

Mr. JACKMAN: How many years have the Post Office Department had a contract with the T.C.A.?

Mr. COOLICAN: Since 1937.

Mr. JACKMAN: How old is the T.C.A.?

Mr. COOLICAN: Since 1937.

The CHAIRMAN: Shall this report carry?

Carried.

The CHAIRMAN: Page 10.

Mr. ENGLISH:



## BALANCE SHEET AT

## ASSETS

## Current Assets:

Cash .....	\$ 503,061 64	
Working Fund Advances .....	3,718 35	
Special Deposits .....	2,067 73	
Accounts Receivable .....	475,206 73	
Traffic Balances Receivable .....	139,791 66	
Balances Receivable from Agents .....	21,676 71	
Motor Fuels and Lubricating Oils .....	8,298 85	
Materials and Supplies .....	294,838 90	
Other Current Assets .....	14,066 80	
		\$1,462,727 37

## Deferred Debits:

Prepayments—Insurance .....	\$ 27,441 04	
Other Deferred Debits .....	2,871 45	
		30,312 49

## Capital Assets:

Property and Equipment .....	\$4,858,548 73	
Less Accrued Depreciation .....	1,332,153 71	
		3,526,395 02
		<u>\$5,019,434 88</u>

The CHAIRMAN: Gentlemen, before you proceed with the discussion of this portion may I say that probably we ought to let the officials of the Post Office Department go, and before doing so I should like to thank them for their courtesy.

Mr. JACKMAN: Perhaps I should add one more question to the questions I asked. Would they set forth opposite each year on the schedule of operating revenue the receipts from air mail and the amounts paid to the T.C.A. Just what the rate was for each year. It has been reduced from 60 cents to 45 cents.

Hon. Mr. HOWE: It has always been the same.

Mr. MAYBANK: Until recently. The 45-cent rate has gone in operation now?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: What is the present status of the contract between the Post Office and the T.C.A.? There was some amendment to the original agreement.

Hon. Mr. HOWE: Yes, an amendment to the Act deferred the automatic feature of the contract which allowed us to reduce the rate. There was a new contract to be made in 1941 and it provides a 60-cent rate till the 1st of April and a 45-cent rate thereafter. The change in the Act allowed us to give more reduction on the air mail than the automatic feature calls for.

Mr. COOLICAN: That goes into force on order in council. The contract originally made with the T.C.A. exists for ten years subject to variation in price which is done by estimating the amount of business done year by year, worked down according to the automatic feature of the contract.



31st DECEMBER, 1940.

## LIABILITIES

Current Liabilities:			
Accounts Payable .....	\$ 390,542 64		
Traffic Balances Payable .....	18,913 19		
Salaries and Wages .....	57,103 85		
Other Liabilities .....	43,173 69		
			\$ 509,733 37
Deferred Credits .....			13,611 12
Self Insurance Reserve .....			206,827 24
Capital Stock:			
Common Stock Subscribed—Par Value .....	\$5,000,000 00		
Less Uncalled Subscriptions to Common Stock .....	1,250,000 00		
			3,750,000 00
Surplus .....			539,263 15
			<u>\$5,019,434 88</u>

T. H. COOPER,  
Comptroller.

## CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st, December, 1940.

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 affairs of the Air Lines as at the 31st, December, 1940 and that the relative Income Account for the year ended the 31st, December, 1940 is correctly stated.

GEORGE A. TOUCHE & CO.  
Chartered Accountants.

18th. March, 1941.

Mr. JACKMAN: I have never seen the original contract. It is available, is it?

Hon. Mr. HOWE: The original Post Office contract?

Mr. COOLICAN: It is in the Act itself.

Mr. JACKMAN: In the statutes?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: The amendment is in statutory form too?

Hon. Mr. HOWE: Yes, that is right.

Mr. JACKMAN: As I recall it the automatic feature was to the effect that if the T.C.A. showed a profit that most of it or all of it was to be used in reducing the rate.

Hon. Mr. HOWE: Half of it. If we kept the automatic feature in we would have paid 53 cents a mile this year. Instead of that we are paying 45 cents a mile for the last eight months.

Mr. JACKMAN: The T.C.A. is doing exceedingly well, judging by this balance sheet.

Hon. Mr. HOWE: Yes, they are doing all right.

The CHAIRMAN: I think probably we should release Mr. Coolican and I should like to thank him and his assistant on behalf of the committee for their courtesy.

Mr. EMMERSON: I should like a further breakdown of the accounts receivable. Of what do they consist?



Mr. COOPER: Amounts due by the Post Office amounting to \$259,000 for the carriage of mail.

Mr. EMMERSON: \$259,000?

Mr. COOPER: \$259,000.

Mr. EMMERSON: What are the others?

Mr. COOPER: Department of Transport, \$38,000, Department of Munitions and Supply, \$25,000, National Defence department, \$10,000, British Ministry of Aircraft Production, \$15,000, Canadian Pacific Railway air services, \$9,000, British Overseas Aircraft Corporation, \$4,000, and different provinces for refund of gas tax.

Mr. MAYBANK: You do not pay the provincial gas tax?

Mr. COOPER: We pay it and collect it back.

Mr. NICHOLSON: The amount of \$21,000 balance receivable from agents is collectable, I presume?

Mr. COOPER: Yes, no doubt of that.

Mr. ROSS: In the 1939 report there was no item for other liabilities. In the 1930 report I notice there is an item of other liabilities to the extent of \$43,173. Roughly speaking, what does that include?

Mr. COOPER: \$43,000? We have some contractors' retained percentages and some provision for taxes.

Mr. ROSS: There was nothing like that in 1939.

Mr. COOPER: Presumably not, no.

Mr. ROSS: This is broken down mainly in the two items?

Mr. COOPER: Yes, it is in two items.

The CHAIRMAN: We shall now turn to page 12.

Mr. GRAY: I should like to go back to the point raised by Mr. Emmerson. I can understand the Post Office item and the provincial item, but I do not understand how these other amounts are made up. Are there services rendered in connection with them?

Mr. COOPER: Apart from the Post Office Department?

Mr. GRAY: Yes, I can understand the Post Office and the gasoline rebate.

Mr. ENGLISH: We are doing repair work, instrument repair work for the Royal Canadian Air Force.

Mr. GRAY: National defence?

Mr. ENGLISH: Yes, and the Department of Munitions and Supply have repairs on aircraft. They are all items of that nature.

Mr. EMMERSON: There are no services such as express and passenger service, transportation?

Mr. ENGLISH: No.

Mr. HAZEN: I should like to ask, Mr. Chairman, if this company owns any real estate.

Hon Mr. HOWE: It owns hangars.

Mr. HAZEN: These hangars would be built on the land. They own the hangars on the land but the land belongs to somebody else?

Mr. COLYER: We have a fifty-year lease at each place where we have a building.

Mr. HAZEN: You have a fifty-year lease on the property that you have your hangars on?

Mr. COLYER: Yes, sir.

Mr. HAZEN: At the end of that term who owns the improvements?



Mr. COLYER: We have set up in our operating costs a depreciation account. We depreciate a building over the fifty-year lease so it does not have any value on the books of the company at the end of the lease. The different leases that we have made with different municipalities provide different arrangements. It provides for renewals of the leases or we would have the privilege of disposing of the building or we could remove the building.

Mr. HAZEN: I thought you said you paid \$150 a schedule for the rent of the—

Mr. COLYER: For the use of the air field.

Mr. HAZEN: What does that amount to?

Mr. COLYER: \$150 each a month, \$1,800 a year for the first schedule.

Mr. DONNELLY: What do you write off for depreciation?

Mr. COOPER: 2 per cent.

Mr. ENGLISH:

## INCOME ACCOUNT

YEAR ENDED 31st DECEMBER, 1940

Gross Revenue:		
Passenger .....		\$1,574,217 33
Mail .....		2,832,363 20
Express .....		39,488 84
Excess Baggage .....		9,192 36
Other Transportation .....		27,744 63
Incidental Services .....		109,377 03
Total .....		<u>\$4,592,383 39</u>
Operating Expenses:		
Aircraft—		
Operation and Maintenance .....	\$2,041,590 04	
Depreciation .....	595,723 68	
		\$2,637,313 72
Ground Facilities—		
Operation and Maintenance .....	\$ 688,869 99	
Depreciation .....	105,775 50	
		794,645 49
Incidental Services .....		63,830 97
Traffic and General Administration .....		301,256 51
Tax Accruals .....		58,887 35
Exchange, etc. ....		9,686 20
Interest on Capital Invested .....		187,500 00
Total .....		<u>\$4,053,120 24</u>
Surplus .....		<u>\$ 539,263 15</u>

## STATISTICAL DATA

YEAR ENDED 31st DECEMBER, 1940

Route Mileage Operated .....	3,662
Plane Miles Flown—Revenue .....	4,770,219
Plane Miles Flown—Training .....	488,765
Revenue Passengers Carried .....	53,180
Percentage of Passenger Occupancy .....	63%
Average Passenger Journey—Miles .....	551
Mail Carried (Pounds) .....	927,037
Express Carried (Pounds) .....	105,788
Excess Baggage Carried (Pounds) .....	50,559

Mr. JACKMAN: The percentage of passenger occupancy, 63 per cent, is not quite the same as was given to us before.

Mr. COLYER: That is the entire system, and when I gave you 74 per cent I was speaking of the Transcontinental.

The CHAIRMAN: Is there any further discussion?



Mr. JACKMAN: Yes.

Mr. ROSS: Under the "Income Account" what are these incidental services, \$109,377.03?

Mr. COLYER: That is on gasoline and oil and the sale of services to the Department of Munitions and Supply and the R.C.A.F., and so on.

Mr. GRAY: How does that percentage compare with the Trans-Canada lines in the United States?

Mr. COLYER: I think our load factor is higher.

Mr. JACKMAN: Inasmuch as we have not get competing lines to compare with this, could you tell us something about your operating ratios as compared with the American Lines?

Mr. COLYER: They are just about the same.

Mr. JACKMAN: You are not higher than the typical American Lines?

Mr. COLYER: We are higher than some—97·3. There may be some that are higher.

Mr. JACKMAN: You are a fast growing company; it might be expected that you would have some developmental expenses which some of the older lines in the States would not have.

Mr. COLYER: We have had them every year.

Mr. JACKMAN: But your operating expense to your gross revenue compares favourably with the American Lines?

Mr. COLYER: Well, some of the air lines down in the States made a very large profit and some of them lost money. It worked out that Trans-Canada showed a profit at the end of the year of over \$500,000. I think the American Air Lines showed a profit of approximately \$2,000,000 last year.

Mr. JACKMAN: It is a little difficult to ask the management whether or not it is good, because we have no way of telling inasmuch as we have not got comparable air lines against which to check your results; so I am really asking for a frank statement from the management as to how its costs are as compared with its revenue, also how its administrative charges compare as to percentages of its total revenue, comparatively speaking.

Mr. COLYER: I do not know whether I should answer your question directly or not, because I might be accused of belittling ourselves or of boasting, one way or the other.

Mr. JACKMAN: That is all right.

Mr. COLYER: We think Trans-Canada Air Lines has operated efficiently, or with an efficiency comparable with the air lines in the United States. At least, we hope that it has.

Mr. JACKMAN: I am sure the spirit and endeavour is there but does that result suggest the same conclusion?

The CHAIRMAN: Do I understand that you are asking for a definite report with regard to their operations?

Mr. JACKMAN: I should like to know how it compares with comparable lines in the States as regards certain definite ratio lines of management.

The CHAIRMAN: Probably the officials would be prepared to supply you with a report but it might just as well not go into the record.

Mr. JACKMAN: I should think there is no secret about it.

Mr. COLYER: I think Mr. Howe could probably tell you; he knows about the air lines in the States and he knows about Trans-Canada.

Hon. Mr. HOWE: We have certain factors that work against us. Our planes cost about 50 per cent more than the planes in the United States on account of the duty. Our gasoline costs probably 50 per cent more than in



the United States. Even absorbing these costs, I think that our efficiency compares very well with the situation in the States. As we develop traffic here, I believe we are headed for just as low rates in Canada as they have in the United States, and I think we can still offer those rates and maintain profitable operations.

Mr. JACKMAN: For instance, "Traffic and general administration \$301,256.51" against a gross revenue of \$4,592,383.39 does seem like a pretty fair percentage for a line of this size.

Mr. COLYER: I would say that our costs in that respect are lower than the average costs in the United States. We have made those comparisons ourselves. Where we are handicapped is in our operating costs; that is, the expense of buying equipment, buying spare parts, and so on. We have figures, and I think our figures are fairly accurate, and these figures of our operating costs are increased by 20 per cent on account of the direct taxes that we are required to pay in the way of duty, sales tax and so on. We might go just one step further and show you that you have got a fairly satisfactory picture as far as Trans-Canada Air Lines is concerned when you take that into consideration. It was mentioned a little while ago that the difference between the income of the Post Office Department and the amount it paid Trans-Canada to perform the services was approximately \$1,000,000 for the year 1940. Of that \$1,000,000 Trans-Canada has \$539,000 in the bank. It is still the property of the Dominion Government. Twenty per cent of our operating costs were direct contributions to the Dominion Government. Twenty per cent of \$4,000,000 gives you nearly \$800,000 which the Dominion Government collected on account of the operation of the Trans-Canada Air Lines. So, when you take the whole thing into consideration, the fact that Trans-Canada is owned and operated by the Dominion Government and the Post Office Department is owned and operated by the Dominion Government, you have something net there besides the money which Trans-Canada has in the bank.

Mr. JACKMAN: I am sure the minister will be very glad I asked the question.

Mr. DONNELLY: I move that the annual report of Trans-Canada Air Lines be adopted.

Mr. JACKMAN: I have one or two questions yet, Mr. Chairman. Did the Trans-Canada have any deficits for which cash was advanced by the government?

Mr. COLYER: Yes, sir. Until this year we had a deficit every year.

Mr. JACKMAN: Which was advanced by the government?

Mr. COLYER: Under the Trans-Canada Act we were reimbursed in the amount of our deficit each year.

Mr. JACKMAN: I wonder if we could have that set forth in a table in the evidence?

Mr. COLYER: We have the figures here.

Our deficit for 1937 was \$11,005.07.

For 1938 the deficit was \$818,025.86.

For the year 1939 our deficit was \$411,656.59.

Mr. JACKMAN: I notice you have "Interest on capital invested \$187,500." It is rather odd to describe what you are paying for capital stock as interest.

Hon. Mr. HOWE: It is so stated in the Act. The Act provides that the railway will be paid 5 per cent interest on its investment.

Mr. JACKMAN: Even though it is stock?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: It is obvious that the air lines is becoming embarrassed with the working capital in the form of cash just now.



Hon. Mr. HOWE: No.

Mr. JACKMAN: What are you going to do with it, buy some of the new loan or declare a dividend?

Hon. Mr. HOWE: If it gets too burdensome we may use it to retire stock, or something of that sort.

Mr. COLYER: The earning of \$530,000 last year has precluded the necessity for our calling in some of the authorized capital stock. We have still \$1,250,000 worth of capital that has not been called.

Mr. JACKMAN: Are the fares on the planes subject to this new 10 per cent tax?

Mr. COLYER: Yes, sir.

Hon. Mr. HOWE: Gasoline is also subject to the 3 per cent tax.

Mr. HANSON: Mr. Chairman, I second Mr. Donnelly's motion.

The CHAIRMAN: Gentlemen, it has been moved by Dr. Donnelly and seconded that the report of the Trans-Canada Air Lines be adopted as read. All in favour. (Carried).

Just before we declare it fully carried I should like to refer to your point, Mr. Hanson, about our not having completely covered this first part of the report signed by Mr. Hungerford. We had better get it straightened out before it goes in.

Mr. HANSON: You stopped reading at "Property and Equipment."

The CHAIRMAN: I thought we read it all.

Mr. HANSON: You did not read page 7 at all.

Mr. JACKMAN: You stopped there.

The CHAIRMAN: Is it your wish that the whole thing be embodied in the record?

Mr. HANSON: I so move.

The CHAIRMAN: Is it the intention of the committee to meet to-night?

Mr. McCULLOCH: I move that we meet at 8.30 o'clock; there are a lot of these officials from Montreal who want to get back.

Mr. DONNELLY: I second that motion.

Mr. JACKMAN: I object to the motion.

The motion carried:

The CHAIRMAN: The next is the annual report of the Canadian National Railway system. Mr. Hungerford would like to make a few observations in connection with the Canadian National Railways before we proceed with the consideration of the report.

Mr. HUNGERFORD: I should just like to touch on a few of the highlights of the report and the affairs of the company in 1940. The statement I have prepared reads as follows:—

As supplementing the annual report of the Canadian National Railways, the following observations will, I think, be of use to the committee:—

The gross revenues of the Canadian National Railways in 1940 were \$247,500,000. After the payment of all operating expenses, the net operating revenues were \$45,000,000, an improvement of \$24,000,000 over 1939. From net operating revenues were deducted taxes of \$6,250,000 and other charges, leaving \$38,000,000 for fixed charges. The fixed charges were \$53,000,000, \$49,000,000 of this being interest on securities in the hands of the public. The railway failed to earn by the sum of \$17,000,000 its total fixed charges of \$53,000,000. As stated in the annual report,



your directors are hopeful that this year the property will earn its fixed charges, provided that there is no considerable disturbance in present traffic levels, wage scales or material prices.

The following facts regarding the performance of the Canadian National Railways in 1940 indicate the increased efficiency of operation on the system:

The average amount of freight carried per train was greater than in any previous year.

Freight was transported over the rails at an average speed approximately 40 per cent greater than in 1923.

Freight train performance per hour was the best ever attained, being an improvement of more than 75 per cent since 1923.

The utilization obtained from freight cars was greater than ever before.

Fuel efficiency in freight service was the highest ever attained.

The number of freight cars in need of repairs was the lowest on record.

The effect of this general improvement in efficiency measured in dollars and cents is seen in a comparison of the operating results in 1940 with the operating results for 1924. The gross revenues were almost identical in those two years, but the net revenue in 1940 was \$26,000,000 greater than in 1924. Furthermore, during the intervening years, 1924-1940, the average revenue received for hauling freight (per ton mile) was reduced by 11 per cent. Had the same average freight rates been in effect in 1940 as in 1924, the net revenue last year would have been improved by an additional \$25,000,000. Comparisons with other years show the same continuing improvement in operating performance.

The 1940 operating ratio—that is the relationship of operating expenses to operating revenues—was the lowest for any year in the system's history.

As mentioned in the annual report, Canada's participation in the war has brought greatly increased demands upon the national railway system and upon the railways generally. During the great war 1914-1918, Canadian railways performed a magnificent task, handicapped as they were with uncompleted lines and inadequate equipment but notwithstanding tremendous efforts, congestion did occur and traffic embargoes were numerous. At the present time the freight traffic volume is 45 per cent in excess of the peak year of the last war, a fact not generally recognized. The increased tonnage is, moreover, being handled without serious delays to traffic.

The CHAIRMAN: I will now ask you to proceed with the report, Mr. Armstrong.

Mr. ARMSTRONG: This is the report of the Canadian National railways system for 1940. It reads:—

Montreal, 19th March, 1941.

The Honourable P. J. A. Cardin, K.C., M.P.,  
Minister of Transport,  
Ottawa.

Sir,—In conformity with sections 14 and 15 of The Canadian National—Canadian Pacific Act, 1936, the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1940.



## RESULT OF OPERATIONS

	1940	1939	Increase or Decrease
Operating Revenues .....	\$247,527,224 81	\$203,820,186 62	\$43,707,038 19
Operating Expenses .....	202,519,812 88	182,965,768 18	19,554,044 70
Net Operating Revenue.....	\$ 45,007,411 93	\$ 20,854,418 44	\$24,152,993 49
Other Income and Profit and Loss Requirements .....	11,532,968 88	10,219,395 11	1,313,573 77
Net available for Interest.....	\$ 33,474,443 05	\$ 10,635,023 33	\$22,839,419 72
Interest on Funded Debt held by Public	48,701,523 73	49,814,377 90	1,112,854 17
Interest on Government Loans.....	1,737,963 50	916,165 01	821,798 49
Cash Deficit .....	\$ 16,965,044 18	\$ 40,095,519 58	\$23,130,475 40

Canada's participation in the war has brought greatly increased demands upon the National Railway system. These demands have been met in full.

It is gratifying to be able to report an improvement in the financial results. It will be noted net operating revenue, which represents the amount of gross revenue remaining after the payment of all operating expenses, was \$45,007,000. This is an improvement of \$24,152,000 or 116 per cent over the corresponding figure for 1939. The operating ratio in 1940 was 81·82 per cent, which is the lowest in the history of the system. Of every additional dollar of revenue, operating expenses absorbed 45 cents, leaving 55 cents available for taxes and fixed charges. Net available for interest was \$33,474,000, an increase of \$22,839,000 over 1939.

*Operating Revenues*

Operating revenues totalled \$247,527,000, an increase of \$43,707,000 or 21·4 per cent over the preceding year. The increase was singularly uniform over the different services: freight revenues increased 21·4 per cent; passenger revenues 21·8 per cent; and mail, express and miscellaneous revenues 21·4 per cent. The increase on the lines of the company in Canada was 22·7 per cent and on the lines in the United States 14·5 per cent.

Freight revenue increased \$34,307,000; passenger revenue \$3,885,000. Details of the traffic handled are shown elsewhere in this report, but the bare statistical tabulations inadequately record the increased use of rail transportation in the national war effort. Behind these figures are to be discerned the movement of large numbers of men for training and active service, the long trains of construction material and equipment moving to new training centres and munition plants, the supply of war materials to the places of manufacture, and the ever increasing movement to ocean ports of war materials and the products of the mines, forests and farms of Canada.

*Operating Expenses*

Operating expenses totalled \$202,519,000, an increase of \$19,554,000 or 10·7 per cent over the preceding year. The relationship between increased revenue and expense is considered satisfactory, and the railway and its equipment have been adequately maintained.

The additional traffic created additional employment for railway workers. The number of employees increased by 4,702 to 82,831.

Prior to 1940 it was the practice of the railway to charge operating expenses with the loss on equipment destroyed or worn out in service when the equipment units were retired permanently from service. It is improbable there will be in the immediate future retirements on the same scale as in recent years, and in order that the operating expenditure accounts for each year may bear their proportionate share of equipment retirement costs, irrespective of the date of retirement, the directors decided to adopt depreciation accounting on rolling stock and floating equipment owned by Canadian National-Canadian Lines, effective from



January 1st, 1940. A similar practice by Canadian National Lines in the United States has been in effect for some time under regulations of the Interstate Commerce Commission, so that there is now in effect throughout the system a uniform method of accounting for equipment retirements which conforms to the general practice followed by Class I roads in the United States. The depreciation charge against the 1940 rail line operating accounts was \$11,307,000.

#### *Other Income and Profit and Loss Requirements*

The accounts in this group show an increased charge of \$1,313,000 over 1939.

Taxes amounted to \$7,039,000, approximately the same as in 1939. This figure is exclusive of sales taxes which are added to the cost of materials and which amounted to \$4,214,900 in 1940. The net operating income from hotels was \$502,000: the corresponding amount in 1939 was \$302,000. The net cost of acquiring United States and sterling exchange increased \$1,151,000. Per diem payments for foreign line freight cars increased \$560,000.

#### *Interest Charges*

The total requirements for interest on funded debt held by the public in 1940 were \$48,701,000, being \$1,112,000 less than in 1939.

Interest payments to the Government on temporary loans for capital purposes were \$1,737,000, being \$821,000 more than in 1939.

#### *Cash Deficit*

The net operating revenue for the year 1940 was \$45,007,000. Taxes, interest on funded debt, interest paid to the Government, etc., totalled \$61,972,000, leaving a cash deficit for the year of \$16,965,000, an improvement of \$23,130,000 compared with 1939. Full details are given in the accounting statements accompanying this report.

### CAPITAL EXPENDITURE ACCOUNT

The net expenditures on property investment account for the year 1940 amounted to \$17,398,971, made up as follows:

Equipment purchased or built.....	\$17,098,358
Equipment retired.....	8,348,943
General betterments to equipment.....	51,377
Equipment conversions and transfers.....	168,325
Express and miscellaneous equipment.....	169,738
Yard extension at Turcot, Que.....	134,673
New engine terminal at Fairview, N.S.....	305,608
Locomotive erecting shop at Moncton, N.B.....	290,416
Coaling plants at Campbellton and Chipman, N.B.....	41,918
Track extensions on New Glasgow division, N.S.....	98,454
Track extensions at Truro, N.S.....	85,583
Yard extensions at Moncton, N.B.....	225,135
Montreal Terminal Development.....	3,599,076
General additions and betterments, less retirements.....	3,815,903
	<u>\$17,398,971</u>

The extension and rearrangement of yard, terminal and track facilities above referred to were necessary for the efficient handling of the increased traffic to and from Atlantic ports.

The following equipment was acquired during the year: 2,765 box cars, 500 flat cars and 25 Northern type locomotives (all of which were ordered in 1939 to meet anticipated war requirements), and 5 mail express cars, 4 coaches, 25 baggage cars, 60 refrigerator cars, 150 ballast cars, 15 cabooses and 21 work units.

The following equipment was retired during the year: 25 locomotives, 2,018 freight train cars, 23 passenger train cars, 834 work units and 6 units of floating equipment. The loss has been charged to depreciation reserve.



## FINANCE

No security issues fell due for retirement during the year other than the normal annual payments of principal under equipment trust, sinking fund and serial issues, which totalled \$8,548,182. This amount was financed through temporary loans from the Government.

No public financing was done. Under an arrangement made between the Government, the Canadian Pacific Railway Company and Canadian National Railway Company for the acquisition by the two railways of the additional rolling stock ordered in 1939 to meet anticipated war requirements, to be financed in the first instance by the Government, a hire-purchase agreement was entered into by this company, dated December 7th, 1940, under which the company is obligated to pay a principal sum of \$14,879,524 in fifteen annual instalments, 1941-1955, with interest at the rate of  $3\frac{1}{2}$  per cent per annum.

*Redemption of Debenture Stock*

The outstanding funded debt of the Canadian National Railway Company has included £24,624,455 of 4% perpetual consolidated debenture stock issued by the former Grand Trunk Railway Company of Canada, payment of the interest on which was guaranteed by the Dominion pursuant to the provisions of The Grand Trunk Railway Acquisition Act, 1919. Under an order dated October 26th, 1940, made by H. M. Treasury of the United Kingdom, such portion of the said debenture stock as was held by residents in the United Kingdom was transferred to the Treasury. The vesting price was £103.17.4 per £100 stock surrendered, payable November 26th, 1940, plus £0.7.1 accrued interest. The vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the Treasury at the vesting price. By Order in Council P.C. 6002 dated October 25th, 1940, made under and by virtue of the Canadian National Railways' Financing and Guarantee Act, 1940, and the War Measures Act, the company was authorized to purchase the securities and the Minister of Finance was authorized to make loans to the company for the purpose, such loans to bear interest at the rate of  $3\frac{1}{2}$ % per annum, to be repayable on demand and secured by promissory notes and by the securities so purchased.

At the date of closing the 1940 accounts the amount of securities held by residents of the United Kingdom had not been definitely determined, and the accounts have been closed on the basis that a total of £22,500,000 will be redeemed. Any necessary adjustment will be entered in the accounts for the year 1941. The redemption of this amount at the prevailing sterling exchange rate effects a reduction in the outstanding debt of the railway of \$5,503,500. This has been accounted for as a capital gain through the Proprietor's Equity Account. The transaction has also resulted in an annual interest saving of \$740,000, but against this the railway will lose the present benefit (\$357,000) obtained through the payment of interest in sterling.

Under date of December 14th, an offer was made by the company to acquire from residents of Canada their holdings of this stock at a price of 94.55% flat in Canadian funds (equivalent to a sterling price of £103.17.4 per £100 converted at the rate of \$4.43 to the £) on January 15th, 1941, or at the sterling price if preferred by the holder. The stock acquired under the terms of this offer will be accounted for in the 1941 accounts.



*Co-operation*

During the year the Board of Transport Commissioners granted permission to abandon the following lines of railway in co-operation with the Canadian

## Pacific Railway:

From	To	Province	Railway	Mileage
Joliette .....	Montfort Jet.....	Quebec .....	Can. Nat.....	31.6
Carbo .....	Cushing Jet.....	Quebec .....	Can. Nat.....	24.6
Arnprior .....	Eganville .....	Ontario .....	Can. Nat.....	37.9
Alex .....	Nevis .....	Alberta .....	Can. Nat.....	9.5
Red Deer Jet.....	Red Deer.....	Alberta .....	Can. Nat.....	5.1
				108.7

In addition to the above, the Board issued a judgment recommending the abandonment of 18.9 miles of the Canadian Pacific and 12.6 miles of the Canadian National, between Dranoel and Medonte, in Ontario, but no approving order has yet been issued. The Board refused the application for abandonment of the Canadian National line between Louise and Deloraine, Manitoba, a distance of 56.7 miles. Application to abandon the Canadian Pacific line between Cataract and Fergus, Ontario (24.7 miles) was made during the year and this, with other previous applications in co-operation with the Canadian Pacific Railway and Northern Alberta Railways, representing 133.8 miles of Canadian National lines, 219.2 miles of Canadian Pacific lines and 29.8 miles of the Northern Alberta Railways, is now before the Board awaiting its decision.

*Branch Line Abandonments*

Applications were made during the year to the Board of Transport Commissioners for permission to abandon the following Canadian National unprofitable light traffic branch lines:

From	To	Province	Mileage	
Hampton .....	St. Martins.....	New Brunswick.....	28.8	
Marmora .....	Cordova Mines.....	Ontario .....	6.2	
Alvinston .....	Kingscourt .....	Ontario .....	9.7	
Parisville .....	Deschaillons .....	Quebec .....	3.5	
Tweed .....	Yarker .....	Ontario .....	33.9	
Napanee .....	Deseronto .....	Ontario .....	6.3	
Whitby .....	Port Perry.....	Ontario .....	17.5	
Clinton .....	Wingham .....	Ontario .....	22.9	
				128.8

The first three mentioned applications were granted by the Board: decisions are pending in the other cases. In addition, the Board approved of the application submitted in 1939 for abandonment of the line between Fortierville and St. Gregoire, Quebec, a distance of 27.3 miles.

*Special War Activities*

There are no limitations to the willingness of the company or its employees to serve the war effort in any direction. The company's plant facilities and its skilled personnel constitute a reserve always available in time of national emergency, and this reserve is being utilized in numerous ways. Employees who have enlisted for active service number 1,859. Fifty-three officers and employees have been loaned to the Government for the duration of the war, and a large number of officers and employees with special qualifications have been loaned to the Government for temporary periods. The company's Land and Survey Departments were employed by the Government to look after the acquisition of sites for airports, munition plants, etc. The St. Malo Shops at Quebec have been turned over completely to the Department of Munitions and Supply and the railway work transferred to other railway shops. The "Prince Robert" and "Prince David" have been taken over for naval



service by the Department of National Defence. The shipbuilding facilities of the company are being utilized for the construction of naval vessels; machine tools are being manufactured in the railway shops and preparations are under way for the manufacture of guns, gun carriages, etc. War saving stamps are on sale by all railway express and telegraph agents as well as in the shops and terminals.

#### *Outlook for 1941*

The outlook for 1941 is for a further substantial increase in traffic, and the directors are hopeful the property will earn its fixed charges and will not require any appropriation by Parliament on deficit account. To accomplish this result the net revenue, after payment of operating expenses, will need to be in the neighbourhood of \$63 millions, this being the amount required to pay taxes, interest due to the public and to the Government, etc. This forecast is based on present traffic trends and on a continuation of existing wage scales and material price levels. The situation of course contains many factors impossible of prediction, and the forecast will be viewed accordingly, but with these reservations the directors believe this year will afford an opportunity for the railway system again to demonstrate its ability to pay its way given an amount of traffic commensurate with its capacity. But much more important than the relief thus afforded to the national budget is the ability of the National Railway System to meet the needs for efficient transportation service required by the tremendous effort which the Dominion is making for the successful prosecution of the war. The railway will be tested during 1941 as never before. The condition of the railway, its motive power and rolling stock is good. The employees are loyal, capable, and keen to do all that is required of them. The directors are confident the National Railway System will continue to meet all demands upon it in this most decisive period in Canada's history.

For the Board of Directors,

S. J. HUNGERFORD,  
*Chairman.*

Mr. POULIOT: Could we adjourn until to-morrow morning?

The CHAIRMAN: It is now five minutes to six; shall we proceed with discussion or adjourn until this evening?

Some Hon. MEMBERS: Adjourn.

The committee adjourned at 5.55 o'clock p.m. to meet again at 8.30 o'clock this day.

---

#### (EVENING SESSION)

#### *The Committee Resumed at 8:30 P.M.*

The CHAIRMAN: Order, gentlemen. We finished reading the report before the dinner recess; now it is in your hands.

Mr. NICHOLSON: I wish the president would make some reference to the possibility of wage increases during the year having some effect on the net revenues for the coming year. What is the present position in connection with the dispute over wages with the employees of the two companies?

Mr. HUNGERFORD: The matter is before conciliation boards at the present time. That is all we can say.

Mr. NICHOLSON: I note there is a net income in connection with hotel operations of \$502,000. Are there any of the hotels that have been operating at a loss for the year and if so would you tell us about them.

Mr. COOPER: The Charlottetown hotel lost \$4,636; the Pictou Lodge lost \$6,507; the Fort Garry lost \$31,105; Macdonald hotel lost \$347; the Nova



Scotian had a profit of \$84,000; the Chateau had a profit of \$395,000; the Prince Arthur had a profit of \$2,000; the Minaki Lodge, \$5,000 profit; Prince Edward hotel \$2,000 profit; Jasper Park \$41,000 profit; the Bessborough \$13,312 profit.

Mr. NICHOLSON: That is good business for the company.

Mr. HANSON: What about the Vancouver hotel?

Mr. COOPER: The Vancouver hotel is operated jointly by the Canadian National and the Canadian Pacific. In 1940 it had an operating profit after taxes and depreciation of \$73,701.

Mr. JACKMAN: I wonder if we might have a statement on the hotels amplified by the submission of a small operating statement giving gross revenue, expenses, operation, net revenue, taxes and also additional capital expenditure for each hotel during the past year?

Mr. COOPER: Yes. We will have a statement prepared and have it printed with the minutes.

Mr. JACKMAN: Yes, have it incorporated in the minutes. In connection with the jointly operated hotel in Vancouver I see that you had an item of depreciation there. Are you setting up depreciation on the hotels now?

Mr. COOPER: Did I say depreciation?

Mr. JACKMAN: Yes. You said after depreciation and taxes.

Mr. COOPER: In the agreement respecting the operation of the Vancouver hotel is a requirement that we take up depreciation on the furniture and furnishings at the rate of 5 per cent per annum, but not on the building or fixtures. We depreciate the furniture and furnishings but not the structure or the fittings.

Mr. JACKMAN: Do you make use of the legal term "fixtures"? Do you depreciate fixtures?

Mr. COOPER: No; furniture and furnishings only are subject to depreciation.

Mr. JACKMAN: It is an arbitrary classification that you have. I cannot find out what the classification is unless we know just what you happen to put into it. It is not known elsewhere what the difference is between fixtures and real estate.

Mr. COOPER: I do not quite understand—

Mr. JACKMAN: "Fixtures" have a definite legal connotation. If you say that you depreciate fixtures or real estate I know what you are speaking about.

Mr. COOPER: For instance, a bath would be a fixture, but we do not depreciate baths or electric light fixtures or things like that; we depreciate the moveables.

The CHAIRMAN: We call them furnishings.

Mr. JACKMAN: Let us have a statement. A fixture is something that is moveable and is taken away by the tenant.

Mr. COOPER: No, not a fixture.

Mr. ROSS: That is a furnishing.

Mr. NICHOLSON: Have you a statement for the last five years showing the profit and loss for those hotels? Is that available? Could you let us know how last year's business compared with the previous five year's business?

Mr. COOPER: We have filed in the minutes of this committee year by year a statement of the hotel operations by the individuals hotels.

Mr. NICHOLSON: I am a new member.

Mr. COOPER: Instead of a statement for the year 1940 we will make the statement for five years.



Mr. NICHOLSON: I would like to have an idea of the profit and loss for the entire system of hotels for those five years. I do not want the details of each.

Mr. COOPER: We can give that.

Mr. JACKMAN: How much were the total capital expenditures last year on the hotels system and also for 1939 if you have that?

Mr. COOPER: 1940, the capital expenditures on the hotels operated by the Canadian National Railways were \$118,240.

Mr. JACKMAN: For 1939?

Mr. COOPER: \$68,723.

Mr. NICHOLSON: In connection with this item "Branch Line Abandonement", I notice by the press in connection with this branch from Clinton to Wingham, 22.9 miles—I understand there is a township by the name of Hullet threatening court action as the result of the proposal to close this line. I believe there is some agreement going back to the time when the line was first built that held the company responsible for certain payments if the service should be discontinued. Have you any information on this subject?

Mr. ARMSTRONG: The Board of Transport Commissioners has given permission to the railway to abandon the line, despite the agreements, but the board has issued the order, without prejudice to any claim which the township may take in the courts against the railway. Of course, no claim has been taken so there is no action necessary.

Mr. SHAW: Is the decision of the Board of Transport Commissioners final in this regard or has the minister authority over the deliberation of that body?

Hon. Mr. CARDIN: Not the minister, but there is an appeal to the Governor in Council.

Mr. NICHOLSON: You say that no action has been taken by the township in this case?

Mr. ARMSTRONG: No court action.

Mr. NICHOLSON: The press despatch I saw indicated that the township had taken some action.

Mr. ARMSTRONG: I believe they have taken the matter up with the railway. As far as I know there is no case in the court.

Mr. ROSS: The line has not been abandoned, has it?

Mr. ARMSTRONG: No, it has not yet been taken up or dismantled.

Mr. NICHOLSON: The service has been discontinued on that line.

Mr. ARMSTRONG: Yes.

Mr. SHAW: With regard to this same matter where the C.P.R. and the C.N.R. have parallel lines and one has been removed, what effect is that likely to have upon the freight rate, because after all they have been operating on a competitive basis and we find people greatly concerned in certain areas over this matter. Is there any measure of control over the freight rates structure?

Mr. ARMSTRONG: Only through the Board of Transport Commissioners.

Mr. SHAW: Will they set the rate or will you appeal to them?

Mr. ARMSTRONG: I do not know that they will set the rates, but they will adjudicate on any application that is made in connection with the rates.

Mr. MAYBANK: As far as the public are concerned they can only bring it to the attention of the Board of Transport Commissioners by letter or some other similarly informal way.

Mr. ARMSTRONG: There is a case in point, the line from Arnprior to Eganville, which is now before the board. It is on that very point in connection with



increased freight rates on account of the abandonment of the Canadian National and the re-routing of the traffic along the longer route. That is now before the board.

Mr. JACKMAN: There is the item "Other Income and Profit and Loss Requirements \$11,532,000" odd; I suppose that is broken down elsewhere in the account?

Mr. COOPER: Yes, on page 13.

The CHAIRMAN: Had we not better get through with this and then proceed?

Mr. NICHOLSON: There is one other question I would like to raise. I have travelled over some of these branch lines in Ontario and I was struck with the frequency of the service and the small number of people travelling. On several occasions I have had a private car almost to myself. In western Canada with that kind of traffic available people would be lucky if they had a service two or three times a week. Could we have any information as to whether those branch lines in Ontario are paying or not or whether they are being operated at a loss?

Mr. ARMSTRONG: Have you any particular line in mind?

Mr. NICHOLSON: I was up in Wellington, Gray and Bruce. There seemed to be very few people travelling and they had one passenger train each way and one mixed train each way.

Mr. ARMSTRONG: There is, of course, quite a mileage in the Canadian National which in the public interest is operated at a loss. That is to give service to the public. There are many miles operated as a public convenience, and if we applied to the Board of Transport Commissioners we probably would not get permission to abandon because of the public inconvenience that would follow. I think we applied at one time a program of 800 miles of line and the board granted somewhere in the neighbourhood of 400 or 500; the balance was considered to be necessary in the public interest. The particular line you mention, I am not certain whether it is in that category or not, but there is quite a number of them.

Mr. NICHOLSON: I have had experience with boards of trade in the west on a number of occasions trying to get passenger service and a tri-weekly mixed service, and we have had great difficulty in getting improved service. The argument has been that the revenue would not warrant any improved service. I wonder if the same argument was used down in eastern Canada where they have such good service in most places.

Mr. ARMSTRONG: I do not think there is any untoward discrimination, if that is what you mean.

Mr. MAYBANK: Your operating revenue should be pretty close to \$44,000,000. You say that is due to the generally changed conditions arising from the war mainly. There is no special explanation for that?

Mr. ARMSTRONG: No.

Mr. MAYBANK: And the heavier traffic due to the war?

Mr. ARMSTRONG: Very largely due to the war, yes.

Mr. MAYBANK: You are up about \$20,000,000 on expenses.

Mr. ARMSTRONG: Yes, sir.

Mr. MAYBANK: I suppose that is partly personnel, is it? In a not completely exact way but in a general way, can you give us a reason for that increase?

Mr. ARMSTRONG: When you get additional traffic you cannot absorb it all with your regular train service; naturally you must increase your train service. We think we have a fair record for last year in that for every dollar we took in in additional revenue we spent 45 cents. That is, in the opinion of the railroad, a very good operating ratio on additional business. That is additional labour and material.



Mr. MAYBANK: To what extent has personnel increased?

Mr. ARMSTRONG: 4,702.

Mr. MAYBANK: On what page does that appear?

Mr. ARMSTRONG: Page 5. The personnel increased to 82,831, which is an increase of 4,702 over 1939.

The CHAIRMAN: What about these redemption operations, Mr. Armstrong? They were not able to touch these permanent 6 per cent bonds, were they?

Mr. COOPER: No.

The CHAIRMAN: I was wondering if conditions brought about by the war would have any effect on their being able to overcome that difficulty.

Mr. COOPER: This, of course, is a matter between the finance department, the Bank of Canada and the Bank of England. The only securities which were dealt with last year were the Grand Trunk 4's.

Mr. JACKMAN: There is a 6 per cent issue out in sterling?

The CHAIRMAN: Permanent bonds.

The CHAIRMAN: Perhaps we had better wait until we get to it.

Mr. MAYBANK: It comes in on the page on redemption work.

The CHAIRMAN: Let us leave it, then.

Mr. MAYBANK: I mean I thought it should come in here. It is under that word "redemption" that you read out yourself.

The CHAIRMAN: I do not think so. I think it makes a shoe horn into it.

Mr. MAYBANK: I have no desire to deal with it at the moment. I thought it was all right.

Mr. JACKMAN: In connection with soldier fares where they get half the rate, does the government pay the other half or do the railroads carry them at half the rate

Mr. ARMSTRONG: At the present time there is a special fare for troops on furlough; that is all the railroads get.

Mr. JACKMAN: The railroads bear the burden?

Mr. ARMSTRONG: Yes.

Mr. HAZEN: Are the directors looking ahead to the time when peace will come again with a view to adopting methods or policies to improve the position of the railroads after the war? That may be rather a pretty broad question, but as this railroad has been going behind, as I understand it, at the rate of a million dollars a week previous to the war coming on. Now we are in a much better position. Have the directors been looking ahead to when peace comes again with a view to endeavouring to improve the situation that we had prior to the war coming on when you got this additional business on account of the war.

Mr. HUNGERFORD: I think the experience of the war in respect to the increase in traffic and the improved financial result clearly indicates that what is wrong is the lack of traffic and I do not see what the directors can do about that after the war as it will depend entirely upon the conditions that obtain at that time.

Mr. HAZEN: In all probability after this war we will experience a depression and be up against hard times. Are you looking forward to improving that situation at all? Have you considered it?

Mr. HUNGERFORD: My point is this: I do not see what can be done on the part of the directors or anybody else to anticipate that condition. We do not know what it will be and if the circumstances are such that the traffic is greatly reduced I do not know how the directors or anybody else can produce the traffic.



Mr. HAZEN: What is the present relationship between the C.N.R. and the C.P.R.? Are they co-operating now in the working of their respective roads?

Mr. HUNGERFORD: To a certain extent, yes. There always has been a very considerable measure of co-operation; there are a very large number of co-operative agreements in force between the two railroads at the present time. Many of them have been in existence for years.

Mr. HANSON: Would the chairman of the railroad give us some information on this co-operation and co-ordination? Is it based on a 50-50 split or mileage basis or what is it based on? Is it based on one horse and one rabbit, or something like that? We have discussed co-operation and co-ordination in this committee for a number of years and I should like an explanation from the chairman of the railroad as to how it is worked out and what it is based on.

Mr. ARMSTRONG: The co-operative projects which have been gone ahead with are first studied by a joint committee of the two railroads; that is, the technical officers of the two railroads. There is a Joint Co-operative Committee so-called, consisting of the engineering and accounting officers of the two roads, who study the projects. For example, let us take one of these line abandonment projects shown on page 7. They come to an agreement, that is, not a legal agreement, but they come to an agreement on a report and they recommend to their respective executives that a certain project be gone ahead with. All of these projects are on a 50-50 basis, that is, in dollars and cents as closely as they can be estimated.

Mr. HANSON: Are they based on mileage?

Mr. ARMSTRONG: The economy from the co-ordination project or co-operative project is divided equally between the railroads as closely as it can be done. For example, with regard to a line abandonment the items which would enter into the economy would be a reduction in maintenance expenses by abandoning one line and using the other. The economy due to less transportation expenses—they can cut out some train service, they can cut out some station services, and so on. Now, the salvage of the line is another item. The interest on the salvage from the line is taken into the economy. There may be a loss of revenue which they estimate, and for another thing there may be interest on the cost of connections or changes which they may have to put into force to get the project going. After that has been all added up the economy may be, say \$20,000 per year. The agreement is so arranged that each company gets \$10,000 per year.

Mr. HANSON: Has that worked out satisfactorily?

Mr. ARMSTRONG: I would say as far as the division of economy is concerned there is no kick by either company.

Mr. HANSON: Has there been any duplication of facilities? For instance, during war time a plant may be established on one line. Has there been a duplication of effort to get business there?

Mr. ARMSTRONG: I would say, generally speaking, no.

Mr. SANDERSON: The pool trains come into this picture, do they not? What about the pool trains; has that system worked out to the advantage of both railroads?

Mr. ARMSTRONG: At the time the pool was put in effect, sir—that was in 1933 and 1934—the economy was very close to \$1,000,000 per year to both companies. Of course that was a very splendid opportunity, because there was duplicate service between Montreal and Toronto, Montreal and Quebec, and Ottawa and Toronto, and it has worked out quite well. Since the traffic has picked up it has sometimes been necessary to add trains or sections of regular trains. Where the Canadian Pacific had one train and we had one train



it was cut to one—in other words, it was cut in half, at the time the pool agreement went into effect. Now we sometimes have three or four sections of those trains.

Mr. SANDERSON: From Ottawa to Toronto, for instance?

Mr. ARMSTRONG: Yes, and from Montreal to Toronto, too.

Mr. SANDERSON: And Montreal to Toronto.

Mr. SHAW: Take the case where the C.P.R. has abandoned a line running parallel to the C.N.R. I have in mind the Red Deer, Alberta, to Rocky Mountain House, serving a coal mining area. Is the C.P.R. likely to use the C.N.R. road and run their traffic over that road?

Mr. ARMSTRONG: In that particular case the C.P.R. does not intend to take any running rights over the Canadian National. I should have said there are two types of abandonment, one where a line is abandoned and the railroad which abandons it takes running rights over the parallel line. The second case is where the railroad abandons and completely gets out of the territory; leaves the territory to the other railroad. The line from Red Deer to Rocky Mountain House is the second case. The Canadian Pacific would withdraw from that territory entirely.

Mr. MAYBANK: In so far as the other case is concerned it is a matter of agreement or else it is a matter of the judgment of the transport board or both bodies; is not that right?

Mr. ARMSTRONG: That is right. The railroads get together and say we can make an economy. They go to the board and say, "Have we permission to abandon in the public interest?" and the board balances public interest against the economy and gives its judgment.

Mr. MAYBANK: The soliciting department of the railroad or the statistical department of the railroad or some other department have at all times, I suppose, tried to have a fairly good idea of the amount of traffic in the country and where it is to come from. They are always watching these possibilities. Can you say how many miles of passenger traffic there have been due to the movement of troops? Have you any such information?

Mr. ARMSTRONG: No, sir, we have not any here.

Mr. MAYBANK: What I am getting at exactly is simply this:—I do not care whether it is measured that way or any other way—what I am getting at is this: Are you getting your share of that section of the government business or is the C.P.R. getting the lion's share of it?

Mr. ARMSTRONG: I would say we want to get as much as we possibly can.

Mr. MAYBANK: I know that is probably correct but it is not answering the question. You know how much there has been or you can find out how much there has been. Now, what I want to know is whether the C.P.R. in its endeavour to get business is beating you out who, I believe, rely a little bit more particularly in a case like this on being given the business.

Mr. HUNGERFORD: That is a very difficult question to answer, Mr. Maybank, because of the many variable factors in connection with it. I do not think it is possible to give you a definite answer in regard to that.

Mr. MAYBANK: I think so. I thought we could not be quite definite about it when I asked the question, but I want to go as near as possible to definiteness about it, because I want to say frankly there is a very great deal of complaint about that sort of thing. Sometimes I am able to run it down and find it to be ill founded. Now, when a complaint is ill founded I should like to see it. But if there is a valid complaint here then we should like to try to discover some way of correcting it. The simple question is—it could be put in a variety of ways—is the C.N.R. getting a fair share of that type of business.



Mr. HUNGERFORD: Are you speaking of government business particularly?

Mr. MAYBANK: I am speaking of troop movements, and I wanted to follow that from there to the other types of traffic that are resulting from the war and also the location of factories.

Mr. HUNGERFORD: We can easily determine the amount of money that was paid us by the government for troop movements in a given time. Whether we could get the information as to how much was paid to the Canadian Pacific, I do not know.

Mr. ARMSTRONG: Speaking of the figures from memory, during the first eighteen months of the war there was about five and one quarter millions of gross revenue on troops—

Mr. MAYBANK: I am sorry, I did not catch that.

Mr. ARMSTRONG: There was about five and one quarter millions gross revenue paid by the government on the movement of army, navy and air force.

Mr. MAYBANK: Five and a quarter million paid to you?

Mr. ARMSTRONG:—No; paid to—

Mr. MAYBANK: Paid by the government wholly?

Mr. ARMSTRONG: Right.

Mr. MAYBANK: Paid for armed force movements?

Mr. ARMSTRONG: Of that there was approximately two million, six hundred thousand paid to the Canadian Pacific and about two million six paid to the Canadian National.

Mr. MAYBANK: Two million and six?

Mr. ARMSTRONG: Yes. Those are payments to the railways.

Mr. MAYBANK: You used the same figure both times—two million and six?

Mr. ARMSTRONG: Right. It is practically fifty-fifty. The government pays that money to the railway which originates the movement; that is, if they start, for instance, on the C.P.R. and end on the Canadian National, on a movement from Petawawa to Halifax, they pay that to the Canadian Pacific. Then there is an inter-company payment.

Mr. MAYBANK: Yes. They pay you your mileage share. It would be mileage, I suppose?

Mr. ARMSTRONG: Well, it is a matter of the division of the fare on the usual tariff basis. When the adjustment is made the Canadian National has slightly more than the Canadian Pacific.

Mr. MAYBANK: They have paid you a little bit more than they paid the C.P.R.?

Mr. ARMSTRONG: Right. I have not got the exact figures.

Mr. HANSON: We had a report tabled in the House of Commons a short time ago showing that the Canadian Pacific had received over one million dollars more than the Canadian National for transporting troops since the war began. The mileage of the Canadian National, as I understand it, is more than the mileage of the Canadian Pacific. If the C.P.R. received so much more than the C.N.R., according to the report that was tabled I would like to know upon what the fifty-fifty co-operation is based. If it is based on mileage, we should have the benefit of the doubt. Mr. Armstrong said it was based on the originating point, and he cited Petawawa as an example. If it originated at a point like Winnipeg, or practically any of the bigger centres in Canada where the two lines are running, I should like to have the low-down on how it is arrived at; whether it is based on mileage or based, as I said before, on a horse and rabbit plan. There must be a good basis for it.



Mr. ARMSTRONG: The basis of division is not defined by the railways; it is up to the people who route the traffic.

Mr. HANSON: You do not mean to say that the Canadian Pacific is more alert in trying to get traffic than the Canadian National?

Mr. ARMSTRONG: I doubt that.

Mr. HANSON: So do I. I think the Canadian National is just as alert in trying to get business as any other lines, but whether they are handicapped in any way is what the committee would like to know.

The CHAIRMAN: I think these men want to know whether the Canadian National is getting a raw deal.

Mr. MAYBANK: That is it. I have no grievance at all against the C.P.R.; I just want to see that this railroad gets a fair shake all the time. I know that you cannot answer some of these questions directly but you might start us off and we might get another answer some place else.

Mr. ARMSTRONG: I have the figures here, if you would like to put them in the record.

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: For the first eighteen months of the war, taking September, 1939, and February, 1941, inclusive, this is the report that was filed in the house, and the figures are as follows:

The Canadian National \$2,573,000.

The Canadian Pacific \$2,628,000. That is, as I say, before the adjustment is made for inner-line account. I would say it is slightly in favour of the Canadian National. It is a very difficult thing to get because this pool that we speak of comes into it; that is, the division of all traffic that goes through the pool. We get fifty-fifty, but the question is who actually originated it and brought it into the pool.

Mr. MAYBANK: Where they start off with more in the way of payments than you but you end up with more than they, the first thing that teaches us is that more traffic originates with them?

Mr. ARMSTRONG: I would say that would be correct. That would be a fair assumption, anyway. We handle these troop movements for overseas east of Quebec.

Mr. MAYBANK: East of Quebec?

Mr. ARMSTRONG: East of Quebec city.

Mr. HUNGERFORD: If a movement originates on the Canadian National Railways, they take them through; if they originate on the Canadian Pacific they can only take them as far east as Quebec and turn them over to us at that point.

Mr. MAYBANK: Yes. That would mean, then, would it not, that in view of the fact that you get all the business east of Quebec, because you have to get it—

Mr. ARMSTRONG: That is only on the overseas traffic, of course, which is not the biggest proportion.

Mr. MAYBANK: Only on the overseas traffic?

Mr. ARMSTRONG: Only on these troops which move east of Quebec.

Mr. MAYBANK: Yes. I said in view of the fact that you get all of that which is east of Quebec—which you really have to get—then the fact is that every place else in Canada where there are two lines the business must be first of all in a greater number of cases given to the C.P.R.? That is right, is it not?

Mr. HUNGERFORD: There are the figures.

Mr. ARMSTRONG: The figures would indicate that, yes, definitely.



Mr. MAYBANK: There is not any other factor that might be mentioned that would vitiate that conclusion being drawn?

Mr. ARMSTRONG: None that I know of.

Mr. MAYBANK: What is the ratio between the two on mileage?

Mr. ARMSTRONG: About fifty-six—forty-four.

Mr. NICHOLSON: Fifty-six C.N. and forty-four C.P.?

Mr. ARMSTRONG: Yes.

Mr. MAYBANK: West of Quebec, what would you say? What would you cut off and what ratio would you then give?

Mr. ARMSTRONG: I do not know definitely what you would cut off. You would cut off more on our line.

Mr. MAYBANK: What did you say the ratio was?

Mr. ARMSTRONG: About fifty-six—forty-four, I believe.

The CHAIRMAN: Fifty-six is C.N.R.

Mr. MAYBANK: Are you getting that now?

Mr. ARMSTRONG: I am just checking the figures. The main line mileage splits 21,799 for the C.N.R. as compared with 16,829 for the C.P.R. 56 per cent is C.N. and 44 per cent C.P. That is in Canada.

Mr. MAYBANK: In Canada?

Mr. ARMSTRONG: Yes.

Mr. MAYBANK: You would not want to mix up any of the other lines in this discussion. That is the whole?

Mr. ARMSTRONG: That is the main line mileage, meaning the miles of road.

Mr. MAYBANK: That means any road which is what other people would call a train road? You are excluding all manner of side tracks, but you do not mean to say that is just east to west main lines?

Mr. ARMSTRONG: That is main lines exclusive of yards, terminals, siding, etc.

Mr. MAYBANK: Now, could you give us the same thing east of Quebec, not now, perhaps, but later?

Mr. ARMSTRONG: We could, I think, make a division of it, yes. That is, east of Quebec city?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: We can do that.

Mr. MAYBANK: What about the freight traffic connected with the war?

Mr. ARMSTRONG: We have not available any figures that I know of that would indicate what proportion of the business is being handled by the Canadian National or the Canadian Pacific.

Mr. ROSS: Have you the freight earnings of the CPR for 1939?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: Mr. Hungerford says he could have Mr. Fraser here in the morning to discuss this matter.

Mr. HUNGERFORD: He is the Vice-president of traffic and he is in the city and might remain here all night. I will make an effort to get him up here in the morning.

Mr. MAYBANK: That is quite satisfactory.

The CHAIRMAN: This is the one occasion in the year when you have the opportunity to have a good, healthy discussion of this matter, and it is not in my mind to curtail it, but still we do not want to waste any time.

Mr. HANSON: We are not wasting any time, Mr. Chairman.



Mr. EMMERSON: There is an entry here giving the personnel of the C.N.R. which amounts to about 5 per cent, roughly speaking, over the whole system. Have you any figures that would show the increase by regions?

Mr. ARMSTRONG: The increase by regions of what figures? I am afraid I did not catch your question.

Mr. EMMERSON: On page 5 you have shown the employees as 4,702, bringing the total up to 82,831. That is roughly about 5 per cent for the whole system. Have you any figures showing the increase by regions?

Mr. ARMSTRONG: We have not got them here, sir, but they could be supplied.

Mr. NICHOLSON: Could you also supply the profit according to regions, so that we may see where the increased business is?

Mr. ARMSTRONG: I am expressing my own opinion; that does not mean very much. There are arbitrary divisions made of revenues and expenses between regions; for operating purposes the railway gets out certain figures. As to whether a region is profitable or not, I do not think you will find that from those figures.

Mr. MAYBANK: Could you give the amount of troop traffic and the amount you got, originating west of Quebec?

Mr. ARMSTRONG: May I say, first of all, that the figures, which I read, were supplied by the Department of National Defence, not by the railways. I think the Department of National Defence would be in a much better position to give them.

Mr. MAYBANK: They could supply the total?

Mr. ARMSTRONG: I would think so.

Mr. MAYBANK: You could only give the amount that you get which originated west of Quebec. You could give that, could you not?

Mr. ARMSTRONG: When you say originating west of Quebec and went all of the way through, that is, the total revenue on everything originating west of Quebec. Is that your point?

Mr. MAYBANK: Not only that originated on your line but which originated on other lines west of Quebec?

Mr. ARMSTRONG: That could only come from the Department of National Defence. These figures which I quoted are in the return filed in the House of Commons.

Mr. MAYBANK: They could only give the total; but you could give that which you got, could you not?

Mr. ARMSTRONG: Yes, I think so. My question was, do you want the earnings we get on all traffic originating west of Quebec carried right through to its destination?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: That could be obtained.

The CHAIRMAN: All traffic?

Mr. MAYBANK: Well, all this kind of traffic.

The CHAIRMAN: I know. You mean military traffic?

Mr. MAYBANK: Yes; and of course this is only passenger traffic. This is only troop traffic or armed forces.

Mr. POULIOT: I should just like to ask a question here, Mr. Armstrong. When you made that percentage division of passenger traffic for the Department of National Defence between both railways, did you take into account the passenger traffic which is given by the department to the Canadian Pacific Steamships?



Mr. ARMSTRONG: No, sir.

Mr. POULIOT: This is a different share that does not enter into that division of traffic? You laid it aside and you considered only both railways?

Mr. ARMSTRONG: Your question is that this is only railway traffic, not steamship traffic?

Mr. POULIOT: Yes, to a certain point. But I want to know if in the separation of shares between both railways, the traffic that is given by the Department of National Defence to the C.P. Steamships is taken into account?

Mr. ARMSTRONG: I think you would have to ask the Department of National Defence. But I understand that this is only railway traffic.

Mr. POULIOT: Those are not your figures. Those are figures of the Department of National Defence?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: Which you cannot check definitely?

Mr. ARMSTRONG: We have checked the Canadian National and it is approximately correct.

Mr. POULIOT: Yes, but you have not the other side of the picture.

Mr. ARMSTRONG: We have not the other side of the picture.

Mr. MAYBANK: Was all of this which you have just been telling us about this movement of the armed forces strictly an eastern movement, or was it anywhere?

Mr. ARMSTRONG: That was anywhere in Canada.

Mr. DONNELLY: You were asked a while ago, I think, for the gross freight on the C.P.R.

Mr. ARMSTRONG: Yes.

Mr. DONNELLY: It is found on page 22 of the C.P.R. report.

Mr. ROSS: The 1939 figures I checked over.

Mr. DONNELLY: This is 1940, compared with our 1940. I think it is well to compare those.

Mr. ROSS: Yes.

Mr. ARMSTRONG: The C.P.R. revenues for freight, according to their report, were in 1940 \$134,659,475.

Mr. ROSS: Gross earnings.

Mr. DONNELLY: Is that page 22?

Mr. ARMSTRONG: Page 36.

Mr. DONNELLY: Of the C.P.R. report?

Mr. ARMSTRONG: Page 36 of the Canadian Pacific report.

Mr. DONNELLY: When I got the Canadian Pacific, I was on page 22.

Mr. ROSS: There is a difference of a million dollars there.

Mr. ARMSTRONG: They have two different figures there. I do not know what the difference is.

Mr. MAYBANK: Yes; 134 and 135.

Mr. ROSS: Can we take the 1939 figures then?

Mr. ARMSTRONG: We cannot tell you what the difference is, but there are figures shown on page 36 of the Canadian Pacific report, comparing 1939 and 1940 freight revenues; 1940 is shown as \$134,659,475, and for 1939, \$119,347,237.

Mr. MAYBANK: Nearly a 13 per cent increase.

Mr. DONNELLY: On page 22 they give you what their revenue was for freight, passenger, mail and express.

Mr. MAYBANK: The same wording exactly. I think the word "gross" is used in it somewhere.



The CHAIRMAN: Well, gentlemen, we are really considering the report of the Canadian National.

Mr. NICHOLSON: There is one other question I should like to ask before you pass on, Mr. Chairman, and it is in connection with freight rates on scrap metal. As a result of appeals made by the National War Services a great many people have piled scrap iron along the sidings in western Canada. The reason it is not moving is that the National War Services say they cannot get reduced freight rates, that freight rates are so high that this scrap is practically worthless as far as the local shipping points are concerned. I wonder if there is any possibility of having this scrap moved to where it can be used? What is the policy in connection with reducing the freight rates for purposes of this sort?

Mr. MAYBANK: Out around Winnipeg you did carry some of that scrap iron on an O.C.S. basis for a while, did you not?

Mr. HUNGERFORD: We gather it together at certain points; then dispose of it from there.

Mr. MAYBANK: I beg your pardon?

Mr. HUNGERFORD: We gather the scrap up and move it in, as O.C.S. material, to certain specified points and then we sell the scrap from those points.

Mr. MAYBANK: You mean that is what you do with your own?

Mr. VAUGHAN: The steel controller has set the price at all important centres for scrap, and we cannot get the gross price at those centres and we have to deliver this and absorb the freight, whatever it may be, to those points.

Mr. MAYBANK: You are speaking of your scrap?

Mr. VAUGHAN: Yes. But it has been set on most other classes of scrap too.

Mr. MAYBANK: But my question was that I think you did make an arrangement with scrap dealers on an O.C.S. basis or an O.C.S. basis plus 10 per cent or something like that out around Winnipeg, and it ran for a while.

Mr. VAUGHAN: I do not think we ever made any such arrangement.

Mr. MAYBANK: No? I was told that by a scrap iron dealer at the time they met at some sort of convention here a little while ago.

Mr. VAUGHAN: That was not true. We sell our scrap at the delivered price.

Mr. NICHOLSON: I have been receiving a great deal of correspondence from people in the west. They are annoyed at seeing scrap piled up there. It is rather unsightly. The National War Services blame the railways for refusing to budge on the rates. What is the policy? What are prospects of this scrap moving?

Mr. VAUGHAN: I think that has been gone into fully with the freight traffic department of the various railways and they have adopted freight rates which they think are fair under the circumstances.

Mr. ARMSTRONG: It is really a matter for the railway association—that is, the railways together—to do something about it.

Mr. NICHOLSON: The National War Services said they would advise me when reduced rates were available. I have not got any information yet.

Mr. POULIOT: Mr. Armstrong, do you have for the freight more definite statistics than for passenger traffic of the army?

Mr. ARMSTRONG: No, sir. We have not. We have not got anything comparable, for example, with this return which was made in the House of Commons.

Mr. POULIOT: But do you have it from the Department of Munitions and Supply?

Mr. ARMSTRONG: No, sir. That is a statement of what we got and the Canadian Pacific got? Is that your point?

Mr. POULIOT: Yes.



Mr. ARMSTRONG: No, sir. We get no such statement that I know of.

Mr. POULIOT: But it is easier to check freight traffic than to check passenger traffic, is it not?

Mr. ARMSTRONG: I do not know that it would be, no sir. With freight traffic, you would have to check all bills; every bill that covered a shipment would have to be abstracted to find out where it was coming from and going to.

Mr. POULIOT: How do you manage to try to get your share of the freight?

Mr. ARMSTRONG: Well—

Mr. POULIOT: Is that a secret?

Mr. ARMSTRONG: No. I think that is a question which Mr. Hungerford suggested Mr. Fraser might well answer. Mr. Fraser is vice-president of traffic, and that is within his province.

Mr. JACKMAN: Would it throw any light on this question, inasmuch as most of the increase is stimulated directly or indirectly by war traffic, if you take the increase in operating revenues of the Canadian National and compare it with the 1939 total; and also take the gross earnings, which I believe is a comparable item, for the C.P.R. with operating expenses in the C.N.R. and make a comparison? I have just made one here. It would appear that the gross earnings of the C.P.R. went up 13 per cent and the gross earnings of the C.N.R. went up 21 per cent. But it would seem that, inasmuch as the increase is due to more business, the C.N.R. has certainly done infinitely better than the C.P.R., it has been getting more business. Are those comparable figures that I have been using?

Mr. ARMSTRONG: That is a matter for some argument as to whether they are or are not comparable.

Mr. JACKMAN: What is that?

Mr. ARMSTRONG: I say that is a matter of some argument.

Mr. ROSS: Where do you get those figures?

Mr. JACKMAN: The C.N.R. went up \$43,407,000 on the 1939 basis of \$203,820,000, which is 21 per cent. The C.P.R. went up \$19,684,000 on the 1939 basis of \$151,280,000, which is only a 13 per cent increase as against 21 per cent for the C.N.R. Are those reasonable and comparable figures?

Mr. ARMSTRONG: First of all, Mr. Jackman, the figures for the Canadian National are for the system, including the States.

Mr. JACKMAN: I realize that.

Mr. ARMSTRONG: And the Canadian Pacific figures, of course, are for Canada.

Mr. JACKMAN: That is Canada only?

Mr. ARMSTRONG: Canada only, because the only lines they have in the States are running through Maine.

Mr. JACKMAN: Does that include steamships and hotels?

Mr. ARMSTRONG: Not in gross revenues.

Mr. JACKMAN: Not in gross revenues?

Mr. ARMSTRONG: There are several differences between the way the accounting for the Canadian Pacific is done and our own, as to what is shown in revenues and what is shown in expenses.

Mr. JACKMAN: It would not appear that you are lagging very much?

Mr. ARMSTRONG: No. You may find however in previous years that the ratios were the other way.

Mr. JACKMAN: Yes.



Mr. ARMSTRONG: Then in 1941 you will find that the Canadian Pacific is a little better than we are in increases.

Mr. JACKMAN: Yes.

Mr. ARMSTRONG: It fluctuates backwards and forwards, one year with another.

The CHAIRMAN: Can we leave this matter here, gentlemen, until Mr. Fraser appears tomorrow, when he will probably be able to give more definite information, and proceed with the report?

Mr. MAYBANK: It is agreeable to me.

The CHAIRMAN: Suppose we move on to page 10.

Mr. POULIOT: But we can go back?

The CHAIRMAN: Yes, we can go back.

Mr. JACKMAN: On that point raised by Mr. Hazen in regard to staff; I note there was an increase of 4,702 employees. Can anything worth while in the way of reducing what you might call surplus employees be made at this time? I have in mind the fact that there are competing services, and even looking at the two railways together there is overstaffing of the railways but perhaps no overstaffing as to either one of the railways considered by itself; and you have added 4,702 employees during the last year; are those mostly young men you have taken on?

Mr. HUNGERFORD: If I understand your question correctly; we only employ the bare number of employees necessary to carry on the work at any given time.

Mr. POULIOT: Well, Mr. Armstrong, isn't it true that in many cases men are working overtime or time and a half?

Mr. ARMSTRONG: There are some, yes.

Mr. POULIOT: And do you not have some trouble with the Brotherhoods who want their own men to work overtime to the detriment of other people who should be working there? You do not consider that from that angle?

Mr. HUNGERFORD: There are no men working overtime unless the circumstances make it necessary at that particular time and place.

Mr. POULIOT: Well, I know very well, Mr. Hungerford, that it happens at times that the Brotherhoods oppose the employment of new men just to give their own members an opportunity to work overtime, and I find it unfair, and I know it; and, of course, there should surely be something done by the management to correct it, to see that the man who has two days work is checked so that the other one who might be starving can have a chance. I do not think it is fair at all; and of course it does not come to the notice of the management, it is done by some people underneath who try to pull the strings in order to have more influence and serve their own friends. It is not fair. I know the Brotherhoods are very powerful and there must be a check at times.

Mr. MAYBANK: It is not a fact on the contrary that in general all of the Brotherhoods voluntarily put themselves on short time in order to employ as many more men as could be given work; has not that been the system in vogue for a number of years?

Mr. HUNGERFORD: That was done during the period of the depression.

Mr. MAYBANK: And it lasted until only a short time ago. For example, all the running trades voluntarily put themselves on certain mileage limits that they could not exceed—that was only changed a short time ago, wasn't it?

Mr. POULIOT: Some Brotherhoods do that, not all.

Mr. MAYBANK: Not all, perhaps, although it is the general rule throughout the country; I do not know a particular place.

The CHAIRMAN: Yes, and all the shop men were taking a four-day week in order to spread employment around.



Mr. POULIOT: Perhaps that is done, but it is not always done.

The CHAIRMAN: I think it will be found that overtime only goes into effect when the company has not got the men to do the necessary work and the job is required to be done within a certain time, so the men capable of doing it are called upon to do it.

Mr. POULIOT: That is your view.

The CHAIRMAN: No, I know that.

Mr. POULIOT: That may be all right in your constituency but it is not in mine; with all due respect to the chair.

Mr. JACKMAN: The point I was trying to arrive at was in any previous talk in years gone by about the co-ordination of any part of the service we heard a great deal about man-power and the economies to be made by amalgamation, yet at the present time in the face of the present difficulties we find it has been necessary to take on a substantial number of men. Is it not possible to co-ordinate any of the services; express, telegraphs, or things of that kind, particularly when the men are needed elsewhere?

Mr. HUNGERFORD: I think it would be a great mistake to disturb any organization at the present time under war conditions.

Mr. JACKMAN: That is a rather conclusive answer; and I presume that applies also to the telegraph and express divisions of your business?

Mr. HUNGERFORD: The telegraph facilities of both companies as far as I know are almost fully occupied at the present time.

Mr. JACKMAN: And neither one could take over the work of the other without taking on virtually all the personnel.

Mr. HUNGERFORD: I do not know whether that could be done in peacetime or not, it may be debatable, but it certainly should not be done in wartime when the load is increasing every day.

Mr. JACKMAN: You are not then, in view of the large volume of business which is going through at the present time, going to try to reach any solution of Canada's railway problem?

Mr. HUNGERFORD: I do not think there is any short-cut of that kind possible.

Mr. JACKMAN: At the present time.

The CHAIRMAN: I think we will proceed with page 10, gentlemen; Mr. Armstrong.



Mr. ARMSTRONG:

## CONSOLIDATED BALANCE SHEET

		ASSETS		
Investments:				
Investment in Road and Equipment..	\$1,874,172,774	14		
Improvements on Leased Property....	4,389,124	27		
Miscellaneous Physical Property.....	62,361,526	50		
				\$1,940,923,424 91
Sinking Funds:				
System Securities at par.....	\$	389,304	13	
Other Assets at cost.....		275,406	92	
				664,711 05
Deposits in lieu of Mortgaged Property				
Sold:				
System Securities at par.....	\$	1,829,500	00	
Other Assets at cost.....		2,591,613	83	
				4,421,113 83
Investments in Affiliated Companies.....				38,554,956 14
Other Investments:				
System Securities at par.....	\$	80,000	00	
Other Assets at cost.....		697,197	27	
				777,197 27
				\$1,985,341,403 20
Current Assets:				
Cash .....	\$	9,768,880	06	
Special Deposits.....		7,494,365	74	
Bills Receivable.....		100,000	00	
Traffic and Car-Service Balances—Debit.....		1,356,928	42	
Net Balances Receivable from Agents and Conductors..		8,691,734	50	
Miscellaneous Accounts Receivable... \$	8,785,332	75		
Dominion Government—Balance due under 1940 Budget.....		287,623	95	
				9,072,956 70
Material and Supplies.....		32,602,939	42	
Interest and Dividends Receivable.....		266,051	58	
Rents Receivable.....		120,924	28	
Other Current Assets.....		1,418,871	35	
				70,893,652 05
Deferred Assets:				
Working Fund Advances.....	\$	198,838	78	
C.N.R. Insurance Fund:				
System Securities at par.....	\$	7,778,183	52	
Other Assets at cost.....		4,604,645	90	
				12,382,829 42
Other Funds.....		14,506	25	
Other Deferred Assets.....		4,859,320	62	
				17,455,495 07
Unadjusted Debits:				
Rents and Insurance Premiums paid in advance.....	\$	226,170	71	
Discount on Capital Stock.....		189,500	00	
Discount on Funded Debt.....		11,255,697	62	
Other Unadjusted Debits.....		2,855,216	81	
				14,526,585 14
				<u>\$2,088,217,135 46</u>



AT 31st DECEMBER, 1940.

		LIABILITIES	
Stocks:			
Capital Stocks of Subsidiary Companies owned by Public .....			\$ 4,566,600 00
Long Term Debt:			
Funded Debt Unmatured .....			1,199,816,334 09
Dominion of Canada (Accounts treated as assets in Public Accounts of Canada):			
Loans .....		\$113,882,334 43	
Canadian Government Railways—Working Capital....		16,771,980 54	
			130,654,314 97
Current Liabilities:			
Traffic and Car-Service Balances—Credit .....		\$ 4,362,915 01	
Audited Accounts and Wages Payable .....		10,418,008 04	
Miscellaneous Accounts Payable .....		3,163,352 51	
Interest Matured Unpaid .....		8,235,472 04	
Unmatured Interest Accrued .....		9,324,714 20	
Unmatured Rents Accrued .....		410,191 07	
Accrued Tax Liability .....		1,606,240 60	
Other Current Liabilities .....		1,915,697 88	
			39,436,591 35
Deferred Liabilities .....			8,405,149 94
Unadjusted Credits and Reserves:			
C.N.R. Insurance Reserve .....		\$ 12,382,829 42	
Accrued Depreciation .....		18,600,790 50	
Other Unadjusted Credits and Reserves .....		4,895,335 88	
			35,878,955 80
Dominion Government—Proprietor's Equity (See Note)			
Represented by:—			
1,000,000 shares of no par value capital stock of Canadian National Railway Company issued in exchange for the residual value of Canadian Northern capital stock .....		\$ 18,000,000 00	
5,000,000 shares of no par value capital stock issued by Securities Trust to the Government in consideration for the transfer of securities, advances, claims for unpaid interest and collateral securities .....		265,706,605 62	
Dominion Government Capital Expenditures for Canadian Government Rys .....		385,752,583 69	
			669,459,189 31
Contingent Liabilities:			
For major contingent liabilities, including pension plans, see page 21.			
			\$2,088,217,135 46

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,  
Comptroller.



The CHAIRMAN: All right, gentlemen, proceed. Is there any debate on this sheet or shall we go on?

Mr. HAZEN: Under the heading "assets and deposits in lieu of mortgage property sold, system securities at par"; might that be explained. I do not understand that item?

Mr. COOPER: Under some of the trust deeds securing the bonds of the company, it is a requirement that if any of the mortgaged property is sold the proceeds from the sale should be deposited with the trustee and held for the ultimate redemption of the issue.

Mr. HAZEN: What bonds are they?

Mr. COOPER: There are quite a number of bonds. I could give you the different issues involved in that item.

Mr. HAZEN: Are they C.N.R.?

Mr. COOPER: They are principally bonds of the Canadian Northern and the Grand Trunk Pacific Railway companies.

Mr. POULIOT: Are they held by the government?

Mr. COOPER: They are assets of the railway in the hands of the trustees, under the various mortgages.

Mr. POULIOT: To speak in a broad way, what amount is held by the government and what amount by individuals including companies?

Mr. COOPER: Not any of that amount is held by the government.

Mr. POULIOT: I mean what amount of the bonds of the Canadian National system is held by the Dominion Government and by other persons using "person" in the legal sense?

Mr. COOPER: I doubt whether any bonds of the Canadian National system are held by the government of Canada.

Mr. POULIOT: They are held by private individuals, by persons?

Mr. COOPER: By the public.

Mr. POULIOT: Yes, by the public.

Mr. HAZEN: How do those bonds come to be in your possession? They have been issued to somebody else; how do you come to sell them?

Mr. COOPER: These are not bonds, sir; these are deposits.

Mr. POULIOT: Mr. Hazen is speaking of deposits and I am speaking of bonds.

Mr. COOPER: The question arose on this particular item, deposits in lieu of mortgage property sold. Now, as I explained, if you sell property subject to mortgage the proceeds of the sale are deposited with the trustee and they may be invested by the trustees in securities, and they are so invested.

Mr. POULIOT: Now, Mr. Cooper, I would like to come to the crucial point of the financial problem of the Canadian National Railways: it is the accumulation of deficits for which the railway is paying some interest or is charged some interest by the government, and of course this year we have \$16,000,000 deficit for which there is an item in the estimates.

Mr. COOPER: Yes.

Mr. POULIOT: And there was a deficit each year.

Mr. COOPER: Yes.

Mr. POULIOT: The railway is supposed to meet the interest on that to the government is it not?

Mr. COOPER: No, sir. In 1932 the Minister of Finance, Mr. Rhodes, changed government policy with respect to payment of deficits of the Canadian National Railways. Previously the government had advanced as loans to the railway whatever sums were needed by the railway to meet operating deficits. From



1932, however, sums have been voted by parliament without any strings attached or without any interest charged against the railway, and under the Capital Revision Act of 1936 any loans made prior to 1932 which were for deficit purposes were removed from the railway company's balance sheet through the medium of the Securities Trust. So that in the liabilities of the railway today there are no obligations representing the funding of deficits, and I do not think we should say that in our interest charges are any amounts representing sums borrowed for deficit; the interest in the railway accounts today is interest on the moneys invested in railway property—

Mr. POULIOT: Invested by the public.

Mr. COOPER: Invested in railway property.

Mr. POULIOT: Yes.

Mr. MAYBANK: Not the Canadian National, but stuff you took over—investment by the public in railway property before they were ever Canadian National at all.

Mr. JACKMAN: Privately owned lines.

Mr. POULIOT: Now, the amount that is in the estimates this year is like a subsidy to help the Canadian National make both ends meet.

Mr. COOPER: Yes, if subsidy is the right word. It is the contribution by the Dominion to pay the deficit of the Canadian National Railways.

Mr. POULIOT: It is just a help, call it a subsidy or a contribution, it is the same thing, and it is not charged to you.

Mr. COOPER: No, it is given to us.

Mr. POULIOT: That is why we have to be careful to scrutinize these things carefully.

Mr. COOPER: Certainly. We hope next year there will not be any such figure.

Mr. ROSS: On page 11 under "Liabilities" and going over to page 22 I see there a schedule of companies composing 102 in the 1939 report and comprising \$282 million, and in the 1940 report the companies have been reduced by 6 to 96 but still it shows \$283 million. Could that be explained? There are six less companies and a million more dollars?

Mr. COOPER: The amount in 1940 is less than in 1939. The total of capital stock issues in 1939 was \$214 million; at the end of 1940 the sum is \$204 million. There has been a reduction of six companies and about \$10 million in the total stocks.

Mr. ROSS: Yes, that is correct.

Mr. JACKMAN: There is this item, accrued depreciation \$18 million. That is the item you set up since last year on rolling stocks?

Mr. COOPER: No, as we said in the report we had been accruing depreciation on United States lines with respect to rolling stock for a number of years, and at the end of 1939 we had a reserve of \$16,353,000.

Mr. JACKMAN: That you carried forward.

Mr. COOPER: Sixteen million dollars.

Mr. JACKMAN: You only increased it by two million of dollars last year.

Mr. COOPER: Yes, but the increase represents in the first place a credit of some \$11,600,000, less charges against the reserve of about \$9,000,000. Within the year we credited to reserve by charges to expense \$11,600,000 and we charged to reserve with respect to property retired the sum of \$9,000,000, so the reserve increased some \$2,600,000, and the \$16 million which we had at the beginning of the year plus the increase during the year brings out the figure of \$18 million at the end of the year.



Mr. JACKMAN: I understood last year we were following the same principle in regard to depreciation on rolling stock as the I.C.C. formulated by the American railroads, but we are only now adopting American practice in regard to rolling stock in Canada?

Mr. COOPER: That is so.

Mr. POULIOT: Do you know what puzzles me most in this balance sheet? It is not the \$2 billion \$800 million, it is the 46 cents on each side of the sheet.

The CHAIRMAN: Page 12.

Mr. JACKMAN: In regard to the sinking fund on this rolling stock, some of the money that you asked parliament to appropriate this year is for rolling stock, is it not?

Mr. COOPER: Yes.

Mr. JACKMAN: In previous years that was part of the parliamentary appropriation, but under the regular sinking fund plan. Have you paid the money back to the government each year, the percentage which is proper under the agreement, or what happened to that exactly?

Mr. COOPER: In respect to—?

Mr. JACKMAN: Rolling stock that you purchased under the amortization plan.

Mr. COOPER: Are you speaking of the particular issues which were financed in the first place by the government?

Mr. JACKMAN: Yes.

Mr. COOPER: We did in 1941 repay to the government the annual instalment due in that year. All our equipment issues are on a serial basis, not a sinking fund basis; we repay, generally over a period of 15 years, 1/15th per annum of the total issue.

Mr. JACKMAN: And the experience has been with the money under all these issues which bore the government endorsement when the money was raised that the proper percentage each year was paid directly to the government and you have maintained those payments under the sinking fund plan in connection with the rolling stocks and equipment?

Mr. COOPER: There were only two cases where the equipment was financed by the government, one was in 1936, I think, and one was last year. Generally our equipment issues are issues to the public and we repay each year the annual instalment due.

Mr. JACKMAN: But the two times that the government has financed the money directly you have made the payments directly to the government?

Mr. COOPER: On the issue made in 1936 we have met all instalments as they fell due; on the issue made in 1940 I do not think an instalment was called for in that year. The first instalment will appear in 1941.

The CHAIRMAN: Page 12.



Mr. ARMSTRONG:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31st DECEMBER, 1940

Debits:	
Debit Balance transferred from Income.....	\$ 15,384,569 66
Debits from Retired Road and Equipment.....	1,682,855 06
Miscellaneous Debits.....	126,418 23
	<u>\$ 17,193,842 95</u>
Credits:	
Credits from Retired Road and Equipment.....	\$ 14,138 20
Miscellaneous Credits.....	214,660 57
	<u>\$ 228,798 77</u>
Cash Deficit, Contributed by Government.....	\$ 16,965,044 18
Capital gain on redemption of G.T.R.	
4% Perpetual Debenture Stock.....	\$5,503,500 00
Line abandonments and other capital losses (Details on page 18).....	3,809,320 80
Net Gain credited to Proprietor's Equity.....	<u>1,694,179 20</u>
	<u>\$ 15,270,864 98</u>

Mr. POULIOT: Before you go farther, there is something about the Grand Trunk debenture stock, and I have seen something somewhere about the repatriation of the Grand Trunk Railway stock; on what page is that?

Mr. COOPER: On page 6.

Mr. POULIOT: Yes, I see it now. Well, now, on the sixth line there is mentioned that the vesting price was £103 17s. 4d. per 100 pound stock surrendered payable November 26, 1940, plus a certain amount for accrued interest. Was that stock at par when it was redeemed?

Mr. COOPER: No. The vesting price of £103 7s. 4d. was the market price on October 26, which was the date the vesting order was made.

Mr. POULIOT: Therefore the stocks have a plus value on account of the fact that it was to be redeemed.

Mr. COOPER: No; the stock at the time it was vested was not subject to call; it was a perpetual stock. But the British government under their War Measures Act—

Mr. POULIOT: It is said here there was an order made by His Majesty's treasury of the United Kingdom dated October 26, 1940, stating that such portion of the said debenture stock as was held by residents of the United Kingdom was transferred to the treasury, which means that the United Kingdom treasury took hold of that stock that was held by people living in Great Britain.

Mr. COOPER: Yes.

Mr. POULIOT: And the vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the treasury under the vesting price. Well, then, did the order apply to the Canadian National Railway or was it done willingly?

Mr. COOPER: It was an arrangement between the finance department here and the British treasury in London.

Mr. POULIOT: Over your heads. Speak frankly, as you have done since the beginning, Mr. Cooper.

Mr. COOPER: Well, of course the repatriation of securities is not a matter which any corporation to-day has anything to do with or say about; it is a matter entirely in the hands of the government concerned.



Mr. POULIOT: In fact, you were not consulted?

Mr. COOPER: Well, I could not say that.

Mr. POULIOT: You were consulted after it was done?

Mr. COOPER: I was not consulted, but I could not say that other officers of the railway were not consulted.

Mr. POULIOT: Mr. Cooper, you are acquainted with the railway problem. You know these accounts as well as, if not better, than anyone else, and therefore this was your field of action.

Mr. COOPER: Yes.

Mr. POULIOT: In fact, you are the financial expert of the Canadian National Railways.

Mr. COOPER: No, I am only the accountant of the National Railways.

Mr. POULIOT: You say that in your very modest way.

Mr. ROSS: A distinction without a difference, that is all.

Mr. POULIOT: Mr. Cooper, I am greatly interested in this because I want to know how it works and whether or not it was done outside of the management. I cannot get any information naturally from outside, but this is an important thing. It was a very big piece of business and I should like to know how it was done. Is that not true, Mr. Cooper?

Mr. COOPER: I think it is as it is set out here. From the railway point of view it was a very good piece of business.

Mr. POULIOT: Yes, because you got rid of that obligation.

Mr. COOPER: Yes, we gained \$5,500,000 on the purchase price.

Mr. POULIOT: Oh, yes.

Mr. COOPER: And we saved in interest charges \$740,000 a year.

Mr. POULIOT: I am not questioning that. It is just the same as if I owed \$500 to a man and a friend of mine paid it and I got rid of the obligation.

Mr. COOPER: Can we express it this way? The British government have from time to time named the United States and Canadian securities which became subject to their vesting order. These companies were not consulted.

Mr. POULIOT: No, it was done between government.

Mr. COOPER: Yes.

Mr. POULIOT: And as I said, over the heads of the company.

Mr. COOPER: The British government, I think, does not even need to consult the Canadian government. They were taking away from their own citizens the property of those citizens.

Mr. POULIOT: Yes, exactly. Now, Mr. Cooper, there is one question that I want to ask you and it is very simple. Did you or did the management to your knowledge have the opportunity to say it is a good piece of business before it was done?

Mr. COOPER: It is not within my knowledge whether they did or not.

Mr. HUNGERFORD: I think it was; I think we agreed.

Mr. GRAY: What difference does it make?

Mr. POULIOT: Did we have the opportunity to say to the government it is good before it was done?

Mr. GRAY: I do not see what difference it makes.

Mr. POULIOT: It makes a great difference.

Mr. HUNGERFORD: I am speaking from memory now, but I think the deal was approved by the directors of the Canadian National Railways.

Mr. POULIOT: Before or after?



Mr. HUNGERFORD: Before.

Mr. JACKMAN: May I ask exactly what has happened to these perpetual debenture stocks? Have they actually been retired now?

Mr. COOPER: No; the government is holding them as security for their advances to the railway.

Mr. JACKMAN: The railway really did the purchasing, then.

Mr. COOPER: Yes.

Mr. JACKMAN: With money advanced by the government?

Mr. COOPER: Yes.

Mr. JACKMAN: And put the bonds or notes in collateral to the government.

Mr. COOPER: That is correct.

Mr. JACKMAN: So that the debentures are either off the statement now or will come off when you get them completed.

Mr. COOPER: Yes; at the end of the year £10,000,000 had been taken up. Since that date an additional £11,150,000 have been taken up. Actually £21,150,000 have been taken up so far, and the government holds the securities.

The CHAIRMAN: This is the great batch of bonds that has been causing trouble all along for years, and the bonds which the committee has been discussing for years.

Mr. GRAY: Part of it.

The CHAIRMAN: I know, part of it.

Mr. JACKMAN: They will stand then as a collateral liability of the company, will they, inasmuch as they have been—

Mr. COOPER: Yes, but as far as our balance sheet is concerned the liability will now be represented by a loan from the government.

The CHAIRMAN: What proportion of those bonds is the amount that has been mentioned?

Mr. COOPER: On which bonds?

The CHAIRMAN: Of the perpetual 6 per cent bonds.

Mr. ARMSTRONG: There are only \$70,000 worth of 6 per cent bonds.

Mr. McCULLOCH: Are these 6 per cent bonds?

The CHAIRMAN: No, 4 per cent bonds. There are \$70,000 of 6 per cent bonds left.

Mr. ARMSTRONG: There are other 5 per cent perpetual bonds.

Mr. COOPER: About one-half of the perpetuals.

Mr. POULIOT: What about the valuation of the pound at that time? When was it considered? Was the value of the pound considered at the time of the purchase or at the time of the payment?

Mr. COOPER: The value of the pound has not changed since the Foreign Exchange Board fixed the exchange value of the pound in relation to the Canadian dollar.

Mr. POULIOT: It was not the current value of the pound; it was the value established by the Foreign Exchange Control Board.

Mr. COOPER: Yes.

Mr. POULIOT: It was not the value that appeared in the paper on the date the payment was made?

Mr. COOPER: There are no values to-day other than the one fixed by the Foreign Exchange Control Board. There is no market quotation as between Canadian dollars and sterling.

Mr. POULIOT: I know.



Mr. COOPER: This exchange was made at the official rate of exchange.

Mr. POULIOT: At the time of the deal?

Mr. COOPER: The rate has not changed since October when this deal commenced. There has been no change in the official rate of exchange so you can say it was on the date of October 26 or any date you like. It is always the same rate.

Mr. POULIOT: Did they take some time to pay the deal?

Mr. COOPER: We are still buying in these bonds; they have not yet all been turned in to the U.K. treasury; but as they are turned in we take them up.

Mr. POULIOT: What I mean is it did not vary from the time it was agreed to until the moment payment was made?

Mr. COOPER: No, it did not.

Mr. POULIOT: That is all right. What was the length of time between both dates, approximately?

Mr. COOPER: The vesting order was made on October 26, 1940. The order called for surrender on November 26, and there are no exchanges up to that date. There have been exchanges right along from that date to to-day and we are still taking them up, and in all that period of time the exchange rate is as fixed by the Foreign Exchange Control Board and it has not varied.

Mr. POULIOT: Were the bonds redeemed on maturity date? Were they all matured?

Mr. COOPER: No; these were perpetual bonds.

Mr. POULIOT: Perpetual?

Mr. COOPER: Perpetual.

Mr. McCULLOCH: Let us carry on.

The CHAIRMAN: The next order.

Mr. GRAY: Are we going to have to sit to-morrow?

The CHAIRMAN: 10.30.

Mr. GRAY: Some of us have been sitting since 10 o'clock this morning.

The CHAIRMAN: I know, but we have to get the work done.

Mr. GRAY: We will finish up to-morrow anyway.

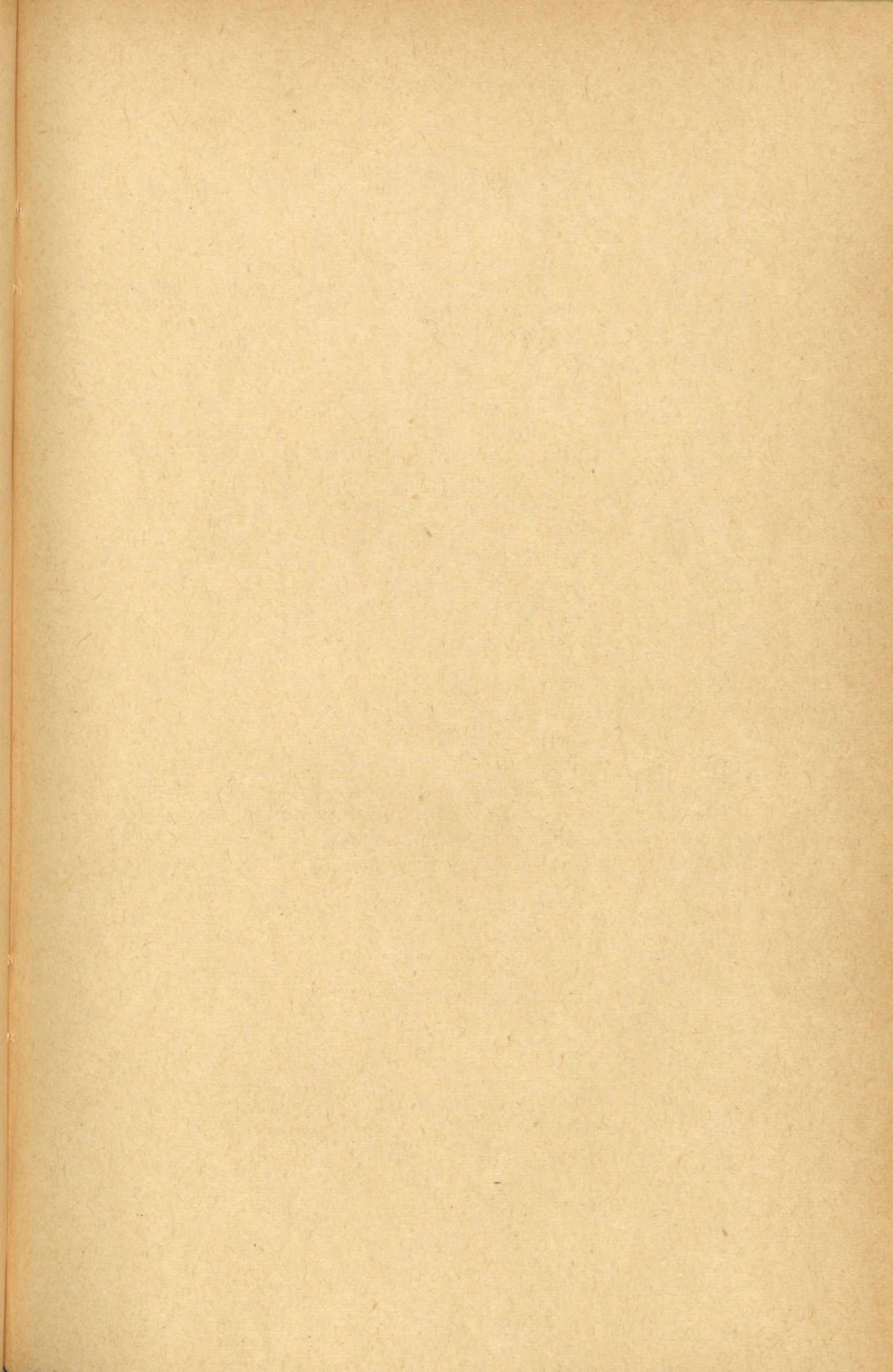
The CHAIRMAN: We can stop any time you like. Shall we carry on for fifteen minutes?

Mr. JACKMAN: I move we adjourn, Mr. Chairman.

The CHAIRMAN: We shall adjourn now to meet at 10.30 to-morrow morning.

The committee adjourned at 10.20 p.m. to meet to-morrow morning at 10.30 a.m.

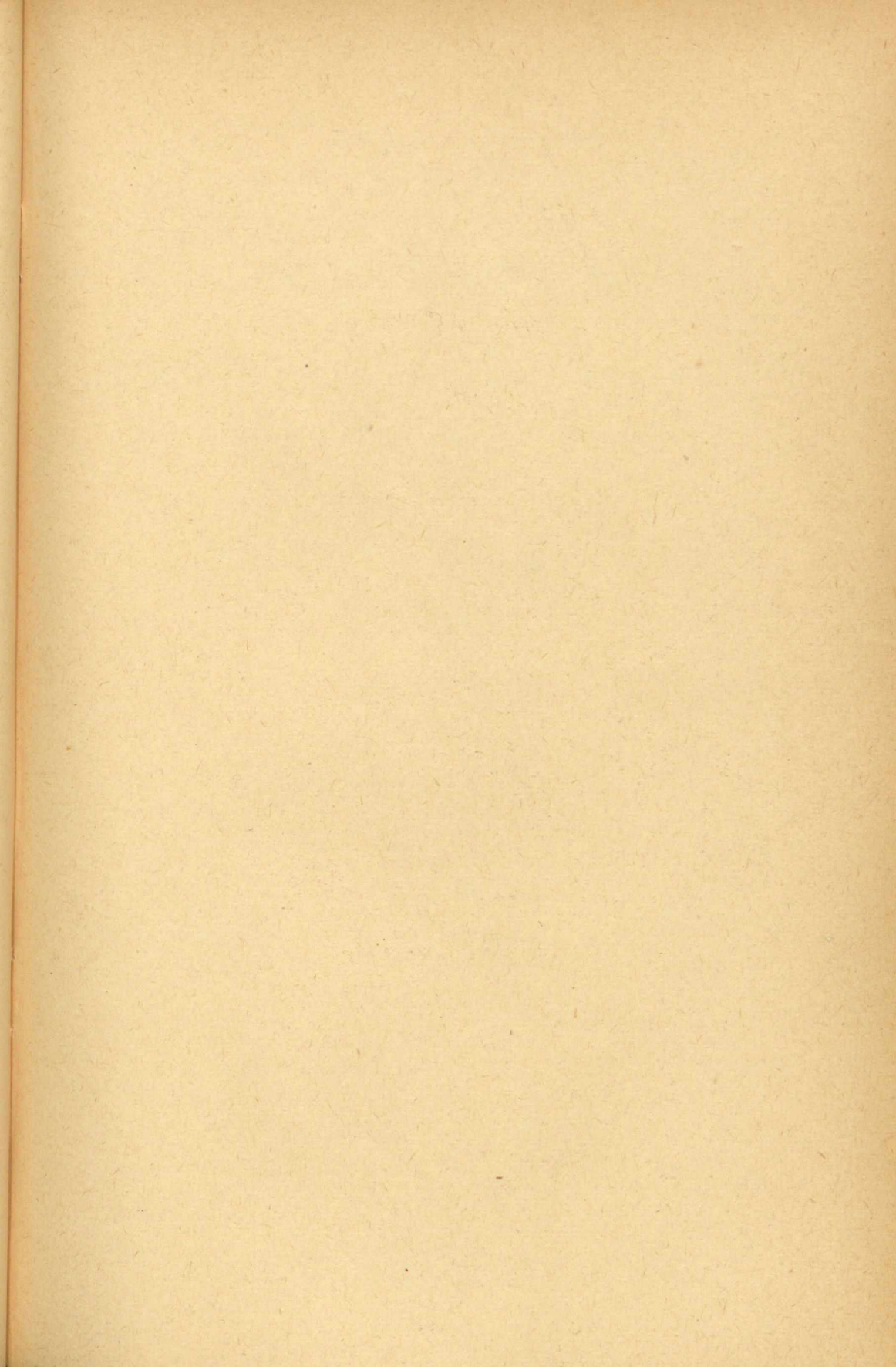








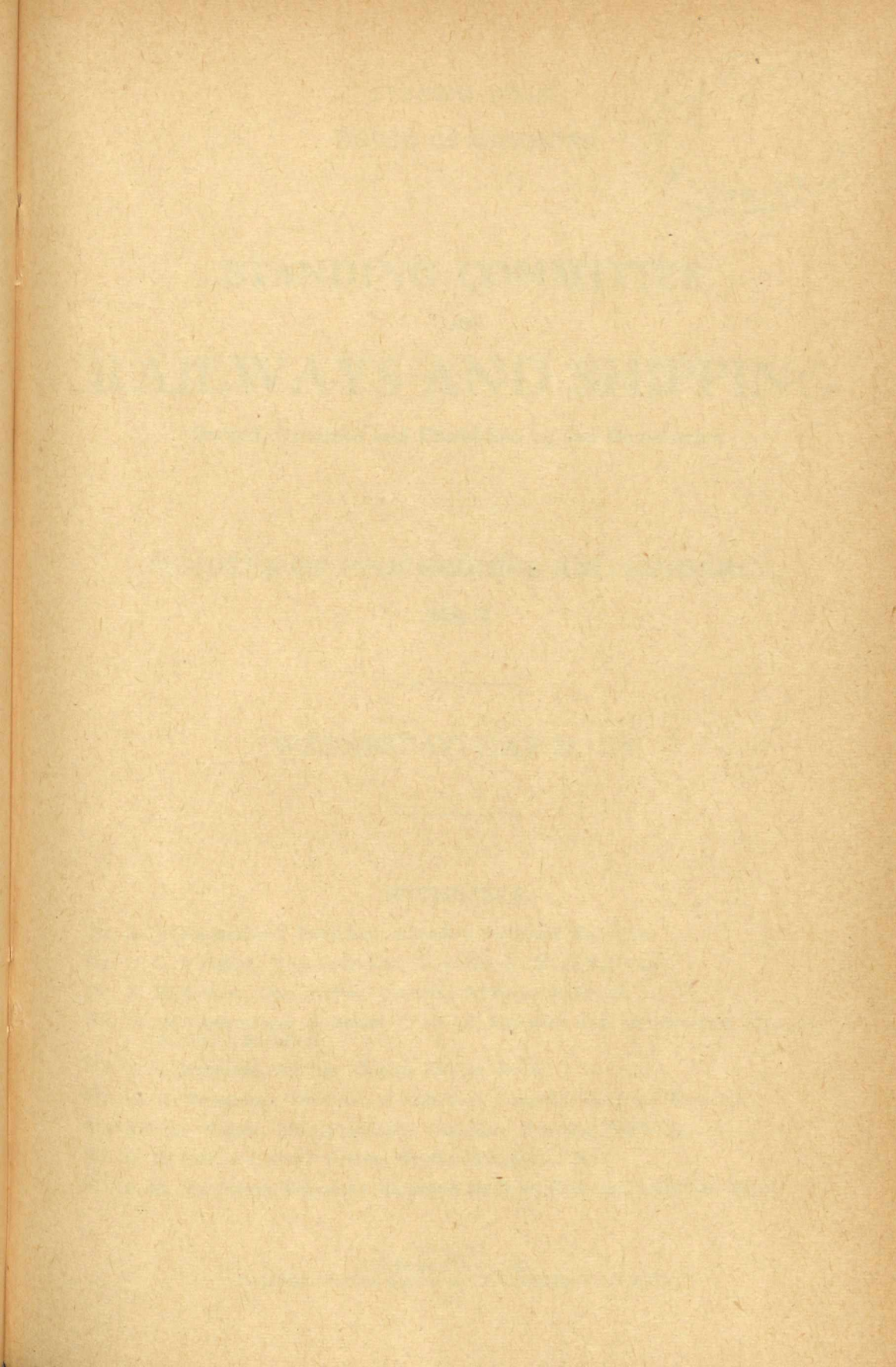


















SESSION 1940-41  
HOUSE OF COMMONS



STANDING COMMITTEE  
ON  
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

---

WEDNESDAY, MAY 21, 1941

---

WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. R. C. Vaughan, Vice-President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development, Canadian National Railways.
- Mr. O. A. Matthews, Auditor, George Touche & Co.
- Mr. W. S. Thompson, Director of Publicity, Canadian National Railways.
- Mr. Alistair Fraser, Vice-President, Canadian National Railways.
- Mr. G. R. Fairhead, Gen'l Freight Traffic Manager, C.N.R.
- Mr. F. M. MacLennan, Secretary, Canadian National Railways Securities Trust.







## MINUTES OF PROCEEDINGS

WEDNESDAY, May 21, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 a.m. Mr. J. P. Howden, the Chairman, presided.

*Members present:* Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, Lockhart, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

*In attendance:* Hon. P. J. A. Cardin, the Minister, and the following officials, of the Department of Transport: Mr. C. P. Edwards, Deputy Minister; Mr. F. M. MacLennan, Chief Treasury Officer. Mr. S. J. Hungerford, the President, and the following General Officers, of the Canadian National Railways System: Mr. R. C. Vaughan, Vice-President; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Ass't.-Chief, Bureau of Research and Development; Mr. Alistair Fraser, Vice-President in charge of Traffic; Mr. G. R. Fairhead, General Freight Traffic Manager; Mr. W. S. Thompson, Director of Publicity. Mr. O. H. Matthews, representing Geo. A. Touche & Co., Auditors.

The Committee resumed the study of the Annual Report of The Canadian National Railways System for the year ended 31st December, 1940.

Mr. W. M. Armstrong was recalled. During his examination he was assisted by Messrs. Hungerford, R. C. Vaughan, T. H. Cooper and W. S. Thompson.

Mr. O. H. Matthews, representing A. Touche & Co., Auditors, was called for a short examination in connection with the Auditor's Report.

At 1 o'clock p.m., on motion of Mr. Ross (*Middlesex East*), the Committee adjourned, to meet again at 3.30 o'clock p.m. this day.

---

The Committee met again at 3.30 o'clock p.m., Mr. J. P. Howden, the Chairman, presiding.

*Members present:* Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Hazen, Howden, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

*In attendance:* Those named as attending the proceedings of the morning session.

The Committee continued the study of the Annual Report of The Canadian National Railways System for the year ended 31st December, 1940.

Mr. W. M. Armstrong was recalled and during his examination was assisted by Messrs. Hungerford, R. C. Vaughan, Alistair Fraser, T. H. Cooper, and G. R. Fairhead.



On motion of Mr. McCulloch the Committee agreed to adopt the Annual Report of the Canadian National Railways System for the year ended 31st December, 1940.

The Committee then proceeded to the consideration of the Annual Report of The Canadian National Railways Securities Trust for the year ended 31st December, 1940.

Mr. F. M. Maclellan, the Secretary, read the report and Mr. T. H. Cooper, the Comptroller, was questioned thereon.

On motion of Mr. Hanson (*Skeena*) the Committee agreed to adopt the Annual Report of the Canadian National Railways Securities Trust for the year ended 31st December, 1940.

At 5.35 o'clock p.m., on motion of Mr. Hazen, the Committee adjourned to meet again on Thursday, May 22, at 3.30 o'clock p.m.

ANTOINE CHASSÉ,  
*Clerk of the Committee.*



## MINUTES OF EVIDENCE

HOUSE OF COMMONS, Room 227,

May 21, 1941.

The Standing Committee on Railways and Shipping met at 10.30 o'clock a.m. The chairman, J. P. Howden, presided.

The CHAIRMAN: I think last night we had just reached page 12—Dominion-Government Proprietor's Equity.

Mr. ARMSTRONG:

### DOMINION GOVERNMENT—PROPRIETOR'S EQUITY

	Balance at 31st Dec., 1939	Change during year		Balance at 31st Dec., 1940
Canadian National Railway Company, Capital Stock.....	\$ 18,000,000 00	.....		\$ 18,000,000 00
The Canadian National Railways Securities Trust, Capital Stock.....	264,012,426 42	\$ 1,694,179 20		265,706,605 62
Dominion Government Capital Expendi- tures for Canadian Government Railways.....	388,075,722 18	2,323,138 49		385,752,583 69
	\$670,088,148 60	\$ 628,959 29		\$669,459,189 31

The CHAIRMAN: Is there any discussion?

Mr. HANSON: Carried.

Mr. ARMSTRONG: Page 13—Consolidated Income Account.

The CHAIRMAN: What does the committee think about that? Do we need to go over this page item by item?

Mr. McCULOCK: If they are put in the minutes I think it would be sufficient; it means a lot of reading.

Mr. ROSS: I do not think it requires reading, Mr. Chairman.

The CHAIRMAN: Do you want to take a moment or two to consider it, or are we going to let it pass?

Mr. JACKMAN: I notice that the taxes amount to \$7,039,000, which is approximately the same as in 1939. Those go to all the various taxing powers throughout the dominion, do they?

Mr. COOPER: Yes.

Mr. JACKMAN: And they consist chiefly of payments to what type of political bodies?

Mr. COOPER: The provinces and municipalities.

Mr. JACKMAN: We do not pay any taxes to the dominion for anything at all?

Mr. COOPER: For income tax? No.

Mr. JACKMAN: There is no income tax, but there are no taxes paid to them apart from sales tax and general taxes like that?

Mr. COOPER: Sales tax is not included in that figure. There are some small dominion taxes, but they do not amount to very much.

Mr. JACKMAN: What type of taxes do you pay to the provinces?

Mr. COOPER: It is on the mileage of the railway within the province, an arbitrary amount, say, \$1,000 a mile. I do not know what the figure is, but it is on that basis.



Mr. JACKMAN: For every mile of track you have in a province you have to pay that particular province \$1,000?

Mr. COOPER: It varies with the different provinces, and I only used \$1,000 by way of illustration. The provincial tax is a tax based on the mileage of the railway within the province, and we pay this tax year by year to the province.

Mr. JACKMAN: Does the province provide any service for the railway in return for that tax, or is it simply the collector of revenue for giving a quid pro quo.

Mr. COOPER: I suppose the province provides services to all the citizens of that province in some form or another.

Mr. JACKMAN: They do not give you fire protection. I suppose they might give you some police protection, to some extent, but is there any particular reason why they should tax a railway line?

Mr. COOPER: They think so. All corporations are subject to provincial taxes of one form or another. Railway taxes are not included in the ordinary form of corporation tax, but it is covered by the taxing statutes of the provinces.

Mr. JACKMAN: Of course, there are not very many railways and they have more or less to make a special bracket for you. I suppose they can tax you as a corporation in regard to the property within the borders of the province?

Mr. COOPER: No doubt about that.

Mr. NICHOLSON: Do you pay taxes on all the hotels?

Mr. COOPER: Yes; we pay taxes on all the hotels.

Mr. NICHOLSON: No inducement was offered to the railways when these hotels were being built in the different cities in the way of exemption from taxes?

Mr. COOPER: No. There may have been some concessions made, but there was no general exemption.



## CONSOLIDATED INCOME ACCOUNT

	Year 1940	Year 1939
Railway Operating Revenues.....	\$247,527,224 81	\$203,820,186 62
Railway Operating Expenses.....	202,519,812 88	182,965,768 18
Net Revenue from Railway Operations.....	<u>\$ 45,007,411 93</u>	<u>\$ 20,854,418 44</u>
Railway Tax Accruals.....	6,245,955 70	6,246,460 72
Railway Operating Income.....	<u>\$ 38,761,456 23</u>	<u>\$ 14,607,957 72</u>
Rent from Locomotives.....	99,470 71	103,236 23
Rent from Passenger-Train Cars.....	241,229 85	286,343 14
Rent from Floating Equipment.....	1,235 99	29 00
Rent from Work Equipment.....	152,469 06	146,344 00
Joint Facility Rent Income.....	1,634,640 82	1,646,613 65
Hire of Freight Cars—Debit Balance.....	2,210,844 87	1,651,107 92
Rent for Locomotives.....	32,819 76	43,404 24
Rent for Passenger-Train Cars.....	355,611 58	308,672 60
Rent for Floating Equipment.....	68,189 53	67,865 61
Rent for Work Equipment.....	26,864 86	7,856 93
Joint Facility Rents—Debit.....	2,231,764 12	2,273,227 76
Net Railway Operating Income.....	<u>\$ 35,964,407 94</u>	<u>\$ 12,438,388 68</u>
Revenues from Hotel Operations.....	3,936,313 26	3,331,303 03
Expenses of Hotel Operations.....	3,304,806 91	2,901,439 17
Taxes on Hotel Property.....	129,320 28	127,500 27
Net Hotel Operating Income.....	<u>\$ 502,186 07</u>	<u>\$ 302,363 59</u>
Income from Lease of Road and Equipment.....	74,144 94	74,319 47
Miscellaneous Rent Income.....	905,144 90	929,270 03
Miscellaneous Non-Transportation Property—Credit.....	108,837 91	49,228 23
Dividend Income.....	549,037 65	420,288 50
Income from Funded Securities.....	1,858,535 52	1,783,507 80
Income from Unfunded Securities and Accounts.....	429,756 89	365,115 38
Income from Sinking and Other Reserve Funds.....	155,753 63	169,020 47
Miscellaneous Income.....	1,588,663 71	1,634,409 95
Miscellaneous Rents—Debit.....	552,935 01	616,582 11
Miscellaneous Tax Accruals.....	86,299 16	130,159 75
Separately Operated Properties—Loss.....	1,529,406 12	1,284,803 42
Miscellaneous Income Charges.....	2,047,110 98	885,466 35
Income Available for Fixed Charges.....	<u>\$ 37,920,717 89</u>	<u>\$ 15,248,900 47</u>
Rent for Leased Roads and Equipment.....	1,467,326 76	1,459,907 66
Interest on Funded Debt—Public.....	48,701,523 73	49,814,377 90
Interest on Government Loans.....	1,737,963 50	916,165 01
Interest on Unfunded Debt.....	297,390 31	183,335 56
Amortization of Discount on Funded Debt.....	1,101,083 25	1,114,378 48
Total Fixed Charges.....	<u>\$ 53,305,287 55</u>	<u>\$ 53,488,164 61</u>
Income <i>Deficit</i> transferred to Profit and Loss.....	<u>\$ 15,384,569 66</u>	<u>\$ 38,239,264 14</u>

Mr. ROSS: I see there is an increase in the loss of over \$200,000 on the separately operated properties in 1940 as compared with 1939. Is that confined to a small number of items or is it spread over?

Mr. COOPER: There is the Rail and River Coal Company. The mines were closed down for a period during 1940, and that accounts for an increase in the deficit of \$140,000.

Mr. ROSS: That takes care of \$140,000?

Mr. COOPER: Yes. There are quite a number of companies involved. I would be glad to let you see the statement, if you wish.

Mr. ROSS: Later.

Mr. JACKMAN: I notice the net cost of acquiring United States and sterling exchange increased \$1,151,000. What was the total, if the \$1,151,000 was the increase?



Mr. COOPER: In 1939 the average cost of United States funds was \$1.028. In 1940 the rate was fixed at \$1.11 per dollar.

Mr. JACKMAN: How much was the C.N.R. out of pocket in purchasing foreign exchange, net, that is, United States cost less sterling profit?

Mr. COOPER: In 1940 the net loss on exchange, sterling and United States funds, was \$565,000. In 1939 there was a profit on exchange transactions of \$585,000. That is a profit of \$585,000 in 1939 which was turned into a loss of \$565,000 in 1940 and which brings the change up to \$1,151,000.

Mr. JACKMAN: On page 5 under the account heading "Other income on profit and loss requirements," there is a statement which I read at the beginning showing the net cost of acquiring United States and sterling exchange increased \$1,151,000. How does that jibe with that loss of \$565,000?

Mr. COOPER: It says that the cost increased—

Mr. JACKMAN: That is the net cost.

Mr. COOPER: The net cost?

Mr. JACKMAN: You just state the net loss which I presume is the same as the net cost on exchange in 1940, \$565,000, and yet on page 5 you have got the net increase in the cost, \$1,151,000?

Mr. COOPER: In 1939 we had a profit of \$585,000.

Mr. JACKMAN: You add the loss and the profit?

Mr. COOPER: To get the increased cost.

Mr. JACKMAN: I notice that the rent for foreign cars increased. I presume that is because we borrowed more American cars?

Mr. COOPER: Traffic was increasing much faster than was the rail traffic in the United States. Our per diem payments in 1940 amounted to \$2,210,000 as compared with \$1,651,000 in 1939.

Mr. JACKMAN: What is the ordinary experience in prior years in regard to paying for rental cars, that is, the net? What do the United States lines pay us or the C.P.R. as against what we pay for borrowed cars? Ordinarily, do we make money or lose money in this sense: do we pay more for the cars we rent or do we get more for the cars we lease?

Mr. HUNGERFORD: The rental payments are on exactly the same basis as between companies. It is \$1 a day for nearly all cars. The process is more or less automatic, and, as the traffic increases, you get more foreign cars delivered to you under load, and all the time a foreign car is on your rails you have to pay \$1 a day.

Mr. JACKMAN: I appreciate that, but are we in ordinary years the debtor or creditor on that account?

Mr. HUNGERFORD: I think we are a debtor, generally.

Mr. ARMSTRONG: On railway owned cars, that is, freight cars, we are usually a creditor road. But there are what are called "private line cars" which are refrigerator cars, tank cars, etc.

Mr. JACKMAN: Do you use the cars of the Pullman company?

Mr. ARMSTRONG: Those would not come into this particular item, as they are passenger cars. But as I say, with regard to the ordinary run of box cars, flat cars, coal cars, we are usually a creditor road to a small amount. But because of these private line cars (which are owned by private companies) running over our rails and on which we pay from one and a half to two cents a mile, we are usually a debit road when the whole account is taken together.

Mr. JACKMAN: Then on account of these special purpose cars owned by private companies the typical railroad on the American continent is a debtor railroad in regard to rentals?



Mr. ARMSTRONG: That depends upon what proportion of their traffic is of this particular type. The Canadian National, for instance, is a large participant in the movement of perishables, and that puts us in a position where we are usually a debit road. It is not true of all railways.

Mr. ROSS: Where is the Rail and River Coal Company situated?

Mr. VAUGHAN: It is situated in Ohio.

Mr. ROSS: Have you any history of our contact with that company? The loss is \$140,000.

Mr. VAUGHAN: The mines were not operating from the first of January to October, because we could purchase coal cheaper than we could mine it.

Mr. ROSS: We have holdings in that company?

Mr. VAUGHAN: We own the entire capital stock of the company which has a production capacity of 2,000,000 tons a year. In the early part of last year, until the minimum code prices were made effective at Washington, we could purchase coal cheaper than we could mine it. From the first of October when the minimum code prices came into effect we found we could mine coal cheaper than we could purchase it for, so we began to operate the mine again.

Mr. ROSS: But during the interval we lost \$140,000?

Mr. VAUGHAN: That \$140,000 represents various things, including the cost of keeping the mine in shape and the interest on moneys of the Canadian National that were advanced in previous years, as well as taxes, depreciation, etc.

Mr. McCULLOCH: When this mine is closed down it keeps the mine in Nova Scotia busy.

Mr. VAUGHAN: No. I think I might take exception to that now because we could use 1,000,000 tons more of Nova Scotia coal this year.

Mr. McCULLOCH: In the past that has been so?

Mr. VAUGHAN: No; it has never affected the Nova Scotia mines.

Mr. POULIOT: Regarding rents, and to use untechnical terminology and give a clear illustration, the Union station at Ottawa belongs to the C.N.R. and the Paris station in Quebec city belongs to the C.P.R. Both railways use both stations, and I should like to know what the arrangement is in both cases in a broad way?

Mr. ARMSTRONG: In a broad way it is on what we term a user basis; that is, the maintenance and operation of the station is on the basis of the use that is made of the station; that is, the number of cars and locomotives.

Mr. POULIOT: And it is paid fifty-fifty? The maintenance and so on is paid fifty-fifty?

Mr. ARMSTRONG: No, sir; in relationship between the number of cars and locomotives using the terminal. That may not be fifty-fifty.

Mr. POULIOT: Therefore each C.N.R. car when it is coming in, is checked?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: And that is so for pool trains?

Mr. ARMSTRONG: There is a special adjustment in connection with pool trains, particularly at Quebec.

Mr. POULIOT: Do you not think it would be much more simple to pair two stations like that and make an arrangement with the C.P.R. and say to them, "We will use your pool station and you will use our Union station"? That would save a lot of accounting.

Mr. ARMSTRONG: It might be what someone referred to the other day as one horse and one rabbit. The total costs are not the same in both cases. Interest charges and maintenance and other costs are greater in the one case than they are in the other.



Mr. NICHOLSON: I should like to refer to a statement made yesterday with regard to profits and losses on hotel operations. I notice there was a profit in connection with the Bessborough in Saskatoon. Did that take into account interest on the capital invested in the hotel?

Mr. ARMSTRONG: No.

Mr. NICHOLSON: No account was taken of that?

Mr. COOPER: No, we did not.

Mr. MAYBANK: You do not give any statement to show that, do you? You always simply show operating profit or loss?

Mr. COOPER: Yes.

Mr. MAYBANK: No account is ever taken of the investment. I mean, in the statement you make?

Mr. COOPER: That is right.

Mr. MAYBANK: I have here a statement, taxes on hotel properties, \$129,000 I think it is. That is all municipal taxes?

Mr. COOPER: Yes.

Mr. MAYBANK: Wherever you have an hotel, you pay the ordinary taxes that any other similar business pays. Is that right?

Mr. COOPER: I could not say. That is a matter for our tax commissioner. I think in every case it is a matter of negotiation. But generally the railway is taxed by the municipalities just like any other corporation.

Mr. MAYBANK: Sometimes you do not, but generally speaking you pay the usual taxes?

Mr. COOPER: Yes.

The CHAIRMAN: Page 14. Are you ready to go ahead?

Mr. POULIOT: Just a word, please, Mr. Chairman. I understand there is one item that has been carried now—Dominion government, proprietor's equity. I have a suggestion to make. Here we have the estimates and there are many items for the C.N.R. at page 47 and page 48. I wonder if it would not be possible for us to prepare the report just the same as this, and have the estimates in the report in order that we may see what is coming to the House at the same time—the estimate under each item concerned. I do not mean to have it this year; it could be for next year. Every one would be more familiar with the whole situation and the whole picture.

Hon. Mr. CARDIN: This is the report of last year. The point you mention is covered by the budget which we consider later on.

Mr. POULIOT: Yes.

Hon. Mr. CARDIN: The budget includes all the items you find in the estimates.

Mr. POULIOT: Yes.

Mr. JACKMAN: On page 5, Mr. Chairman—

The CHAIRMAN: Just a minute, Mr. Jackman, till we get this matter straightened out. Mr. Hungerford says they have this statement here, Mr. Pouliot, of the estimated cost. You want the estimated cost shown opposite the items; is that the idea?

Mr. POULIOT: Yes, or beneath.

The CHAIRMAN: The secretary has copies of this for each member.

Mr. POULIOT: Yes. But we have a lot of papers and when it is all together on the same sheet it is easier to follow it.

The CHAIRMAN: It is a matter for Mr. Cooper.

Mr. POULIOT: That is just a matter of making things easier for us, because we cannot carry a whole library with us all the time.



Mr. MAYBANK: What is this funded debt on which there is \$297,000 of interest? I hope I am not breaking in on a question. I do not know whether I am or not. I could not follow proceedings very well from back here.

Mr. JACKMAN: That is the second item from the last on page 13.

The CHAIRMAN: Order, gentlemen. One at a time, please.

Mr. COOPER: What was the question?

Mr. MAYBANK: I wanted an explanation of that unfunded debt item in a general way.

Mr. COOPER: In a general way it is interest on bank overdrafts or anything of that sort.

Mr. MAYBANK: Bank overdrafts?

Mr. COOPER: Interest on funded debt is interest on debts which are represented by securities. Interest on unfunded debt is interest on debt which is not represented by securities.

Mr. MAYBANK: Yes, I realize that; and that, I suppose, would be divided into various classifications. I want to know the general nature of those. You say it is chiefly interest on bank balances from time to time?

Mr. COOPER: Yes.

Mr. JACKMAN: Bank debits?

Mr. COOPER: Yes. Also interest on unpaid taxes when due.

Mr. MAYBANK: It might be that too?

Mr. COOPER: Yes. Interest on unpaid accounts when due, if they carried interest, would come into this account.

Mr. MAYBANK: That is all I want.

Mr. JACKMAN: What is the average rate of interest you have to pay to the bank on overdrafts, approximately?

Mr. COOPER: I could not answer that. I doubt, as a matter of fact, whether in 1940 we had any overdrafts.

Mr. JACKMAN: You would have no overdrafts?

Mr. COOPER: I doubt whether we had one. I do not think we had.

Mr. JACKMAN: What does your unfunded debt consist of as well as arrears of taxes?

Mr. MAYBANK: You would have overdrafts, according to what you just said.

Mr. COOPER: You asked me in a general way what the account was.

Mr. MAYBANK: Yes, yes. You ordinarily create bank balances, but this time you did not have an overdraft, so it would be some of these other classifications you mentioned?

Mr. COOPER: Yes. In the case of workmen's compensation—the largest item in 1940 has reference to workmen's compensation payments. We capitalize the cost to us of a workman's compensation award which is payable on an instalment basis. That is, we charge our operating account with the capital sum itself and accrue annually the interest which would be earned on the amount if it were taken out of the general account and placed in a special fund. The interest is taken up in our accounts as interest on unfunded debt.

Mr. MAYBANK: Your arrangements with the various compensation boards is that you will supply them with the money if, as, and when needed in respect of any accident?

Mr. COOPER: Yes.

Mr. MAYBANK: You do not pay any money in there in the way of premiums?



Mr. COOPER: No.

Mr. MAYBANK: To the boards?

Mr. COOPER: No.

Mr. MAYBANK: Do you?

Mr. COOPER: There are a lot of different arrangements regarding workmen's compensation in the provinces.

Mr. GRAY: Does it differ from province to province?

Mr. COOPER: My recollection of the prairie provinces is that we pay a percentage of our pay roll into the Workmen's Compensation Board and we are acquitted with that payment of further liability.

Mr. GRAY: Then it does vary?

Mr. COOPER: Yes.

Mr. GRAY: According to the various provincial Acts?

Mr. COOPER: Yes. In Ontario we pay the actual cost.

Mr. MAYBANK: That is quite sufficient for my purpose.

Mr. JACKMAN: What have these workmen's compensation board awards or premiums got to do with interest?

Mr. COOPER: Let us say there is an accident, and we estimate that we will have to pay over a period of years the sum of \$10,000. We charge our accounts with a sum which, accumulating at interest over that period of time, would amount to \$10,000. The difference between the principal sum and the accumulated total on a sinking fund basis is interest, and that interest charge is in this account.

Mr. JACKMAN: You do not just charge the premium from year to year against the current operations?

Mr. COOPER: Oh, no. That would not be right. If we had a bad accident in 1940 we would charge 1940 operations with the cost of such accident. We should estimate what the total future workmen's compensation payments will be and we charge to our accounts a sum, which accumulating at interest over the estimated period of disability, will meet all the monthly payments due to that employee. The interest portion of such items is in this account.

Mr. JACKMAN: I presume that is rather unique with the railway systems, is it? I am speaking of the method.

Mr. COOPER: Let us put it the reverse way. Instead of doing it that way, if we set aside in a sinking fund, say \$8,000, the total payments being estimated to amount to \$10,000, we would figure that perhaps the sum of \$8,000 with interest over the period of the disability will provide sufficient to pay monthly compensation payments amounting in all to \$10,000.

Mr. JACKMAN: Yes.

Mr. COOPER: If that sum were in the sinking fund, there would be an interest earning, would there not?

Mr. JACKMAN: Yes.

Mr. COOPER: We do not set the sum aside. We keep it in our general account, but the effect is the same. There is the interest factor on a delayed payment.

Mr. JACKMAN: Yes.

Mr. COOPER: That interest factor is accounted for by us through this account.

Mr. JACKMAN: Yes. What rate of interest do you have to pay the government for temporary loans?

Mr. COOPER: Three and a half per cent generally. You will find that set out, Mr. Jackman, on page 20.



Mr. JACKMAN: On page 5 again you mention, three lines from the bottom, taxes, interest on funded debt, interest paid to the government, etc., totalled \$61,972,000. Yet taking the figures above on that page, we have taxes of \$7,039,000, interest to the public, \$48,701,000; interest to the government, \$1,737,000, giving a total of \$57,477,000, which leaves a discrepancy of about four and a half millions between the total of those three items and the amount I mentioned first, namely \$61,972,000. I presume those four and a half millions are included in the "etc.". But what is the general nature of the items constituting that?

Mr. COOPER: Would you mind turning to page 13? If you turn to the item under tax accruals and then continue with rents of locomotives, and go on down that page including everything except interest on funded debt and interest on government loan, together with the item shown on page 12, the net of these different accounts amounts to some \$4,000,000; which is I think the answer to your question. This paragraph on the bottom of page 5 is a very brief statement. We set out the operating revenue which is an item of primary interest; we set out the interest and taxes and that sort of thing; but we do not go into detail of all the accounts which are a part of our income account, they are all detailed on page 13, and it is an aggregate of these items which are not specifically set out which are grouped together in the word "etcetera" on page 5.

Mr. POULIOT: You probably agree that the consolidated income account on page 13 is hard to understand for a layman. According to this there are rents from locomotives etcetera and rents for locomotives—will you please tell me what is the difference between a rent from a locomotive there and a rent for a locomotive, with examples?

Mr. COOPER: Rent from locomotives is the rent we receive when another railway company makes use of one of our locomotives.

Mr. POULIOT: Yes, rent from is when you rent it to another company.

Mr. COOPER: That is right and when it is for locomotives it is the reverse, when we rent it from another company.

Mr. POULIOT: Therefore the charge is made to you?

Mr. COOPER: Yes.

Mr. POULIOT: How is it that all that is together here? Don't you think it would be better to put rent for locomotives under rent from locomotives and so on in order to check it?

Mr. COOPER: There have been a number of opinions as to the best way in which to show these income accounts. Which ever way you do it it is going to be a little bit confusing for the man in the street. But there is a more or less uniform recognized way of stating railway accounts in use by all railway companies. This report is not prepared primarily for the use of this committee. It is the report to be circulated across this continent and goes out to all the other railway companies.

Mr. POULIOT: Yes, but in this committee it is difficult to make an efficient comparison between credits and debits.

Mr. COOPER: Yes, it is, Mr. Pouliot; I quite admit that, however, the difficulty is in adding it, and I suggest that you don't worry yourself about that. The item of rent from locomotives is set out very clearly with the corresponding figure for the previous year and with the explanations as to what the item means; and I do not see how you could show it any more clearly, unless we were to show "our company locomotives rented to other railway companies"—and I do not see that we need to make the description as elaborate as that.

Mr. POULIOT: What do you do in the case of those trains that run down through the eastern states?



Mr. ARMSTRONG: We do not pay rental for a locomotive in that particular case. The railways make an arrangement whereby the locomotive of the road over which the train is running is paid for by that company. That is for instance, the New Haven handle that train between Springfield and New York, and that company does that with their own locomotive which hauls the train. There is no settlement made between the companies for that work.

Mr. POULIOT: Thank you.

The CHAIRMAN: Page 14.

Mr. JACKMAN: At the bottom of page 13 we see that the income deficit transferred to profit and loss amounts to \$15,384,000 odd; then I must refer to the report of George A. Touche and Company at page 2 where they say: "We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the dominion." Would someone amplify just what George A. Touche and Company are referring to there?

The CHAIRMAN: Could we not make a note of that just now and take it up when we come to it?

Mr. JACKMAN: It has such a bearing on income accounts, because if the public auditors are qualifying their certificate it obviously must refer to items which should go into the current operating account for the year, and we are dealing with the consolidated income account which includes these matters.

Mr. COOPER: There is a lack of uniformity I think in the accounts as kept between ourselves and those of the Canadian Pacific Railway. The differences are getting smaller as time goes on, but generally the Canadian National System of accounts is based upon a structure set out in the accounting regulations of the Interstate Commerce Commission, which is mandatory with respect to all United States railways; and one of the problems in our case is that a large part of our system is within the United States and it is subject to the orders of the Interstate Commerce Commission, and we must by law keep our accounts in accordance with their requirements. It is very convenient to have uniformity when we come to stating our Canadian accounts so that we can make system accounting on a uniform basis. The Canadian Pacific do not have to meet that particular difficulty to the extent that we do. On the other hand, I think the Canadian Pacific point of view has been that their shareholders are very largely residents of the United Kingdom and they rather lean toward the United Kingdom system of keeping railway accounts. There has never been a regulation issued by the Canadian authorities describing and making mandatory a uniform system of accounting, and that is what the government auditors have reference to; in their opinion they think that something of that sort should be brought about and enforced.

Mr. JACKMAN: It is desirable in order that comparisons may be made with the other line in Canada.

Mr. COOPER: We have always urged uniformity of accounting.

Mr. JACKMAN: Yes. May I ask if the implications of that paragraph in the Touche report simply refer to the method of stating the accounts, or do they go forth deeply into matters such as depreciation and other charges and operations; is it simply the method of stating accounts as you have been?

Mr. COOPER: That is a question I think you would have to address to Mr. Matthews who is a member of George A. Touche and Company.

Mr. JACKMAN: Is he here?

The CHAIRMAN: Yes. Do you want the question answered now?

Mr. JACKMAN: It all has to do with this question. I do not want to inconvenience the committee but I would suggest that it has such a direct bearing on income that I think we should have it.



The CHAIRMAN: Is it the wish of the committee that Mr. Matthews be asked to reply to this interrogation?

Some hon. MEMBERS: Yes.

The CHAIRMAN: Mr. Matthews, will you please come forward.

O. A. MATTHEWS, of George A Touche and Company, called:

Mr. MATTHEWS: Would you like me to answer this question alone or to deal with the whole matter in which we are interested?

The CHAIRMAN: Well Mr. Matthews, we seem to be held up with the pursuance of this report on these things. I think we just want this question cleared up for the time being.

Mr. MATTHEWS: Well, Mr. Chairman, and Mr. Jackman: This matter of uniform accounting between the Canadian National and the Canadian Pacific Railways has been the subject matter of our reports on a number of occasions for five or six years and I may say that its importance from the point of view of the Canadian National lies in the fact that for years the performance of the Canadian National Railways has been made a subject of comparison with the Canadian Pacific on the basis of published accounts. The Canadian National Railways has chosen since amalgamation in 1923—with the principal exception of depreciation—to adopt uniform accounting methods as prescribed for class 1 railroads in the United States; and in view of the fact that so much publicity has been given, and oftentimes adversely to the Canadian National Railways, it has been the firm conviction in our mind that the accounts of all railroads in Canada should be presented to the public on the one basis so that when comparing performances in references in the public press they at least will be considering computations made on the same basis. Our thought was that the railways of Canada are sufficiently important to ask the consideration of parliament to the establishment of a basis of preparation of information to the people of Canada about these railroads that would be read not only in Canada but in the United States and Great Britain, on a basis that would at least be accurate in comparison. That is the underlying reason for our suggestion on this matter. For several years past, as a matter of fact in our reports of 1934, 1933 and 1935, we went into considerable detail on this matter, but in recent years we have been content to make a short reference to the matter. If the committee were interested we would be very glad to get our report on that in 1934 and read the detailed analysis in that of this situation which we made at that time.

Mr. JACKMAN: So that I take it, Mr. Chairman, that this paragraph simply refers to a different method or more uniform method at least of stating what has actually taken place in regard to charges to operations during the year rather than what is more substantial; namely, the inclusion of items in the operating expenses which are not presently there.

Mr. MATTHEWS: Well, we have no knowledge of the Canadian Pacific accounts. We have some knowledge of the Canadian National accounts. We do know that for years there has been a great deal of misrepresentation, or misunderstanding, and it has some of its root in the fact that the Canadian National have chosen to adopt a standardized method of presenting its accounts. That method is one that has been adopted, as I say, by the United States Class 1 roads. It is not perfect but it is the result of the study of railroad executives in the country over a good number of years, and as such we think it has merit; but the principal difficulty is that the Canadian National has not tied itself down to a recognized and standardized method of accounting, but in Canada there is need for a common interpretation of what constitutes operating performance.



Mr. JACKMAN: I notice this year that for the first time the Canadian National have been setting up an item of depreciation on rolling stock—not only because of the increased traffic and the fact that requirements of rolling stock are not advisable on account of the immediate need for cars—that mention is made that it is now in conformity with the I.C.C. practice; is everything else with regard to accounting in the Canadian National system in conformity with the I.C.C. regulations?

Mr. MATTHEWS: Depreciation was the one exception, sir. There are no other differences of importance. The I.C.C. in setting out their security set out the securities held and against that the company securities indented—they do not indicate the amount of depreciation under each.

Mr. JACKMAN: As far as arriving at the net income or losses for the year all the charges made under the I.C.C. regulations are made in our system?

Mr. MATTHEWS: Yes, and as such, Mr. Jackman, each year we have made clear that depreciation was the principal matter of difference between the two.

Mr. JACKMAN: I notice you say in the following paragraph: "In respect of current maintenance policy we have received certificates from the president to the effect that the properties and equipment of the National system have been maintained in a proper state of repair and in an efficient operating condition during the year 1940." Would you say that the maintenance of the property was quite adequate to maintain the original capital cost of the equipment on the books which you have not depreciated?

Mr. MATTHEWS: Yes; as far as the bad order equipment is concerned, at the end of 1940 the relative position of the Canadian National to class 1 roads of the United States is very satisfactory. In fact the bad order equipment in the main of the Canadian National Railways shows a better ratio than class 1 roads of the United States on the same date.

The CHAIRMAN: I do not believe we ought to pursue this too far at the present time, because we will have the opportunity when Mr. Matthews is before the committee with his full report.

Mr. JACKMAN: We can leave it now.

The CHAIRMAN: If we can get this report off our hands now we will proceed with the auditors' report.

Mr. JACKMAN: All right.

The CHAIRMAN: I should like to ask Mr. Matthews one question myself before we leave the subject. Did I understand you are recommending a uniform system of accounting for the two Canadian railroads as specified by the government? Is that the idea?

Mr. MATTHEWS: Yes, Mr. Chairman, having in mind the general position of the roads in the United States to the Interstate Commerce Commission which in effect is a branch of government, and as such the railway operating statistics in the United States are uniform between roads. So that in Canada it has always appeared to be very necessary in view of the great publicity that is given in this country between these two properties, at least they should be on a basis that represents a standard comparison.

Mr. POULIOT: Here is the C.P.R. report of last year. Can you point out—

The CHAIRMAN: We will come to this report a little later on.

Mr. POULIOT: I should like to ask Mr. Matthews to specify the difference in the accounting of the C.N.R. and the C.P.R. reports.

Mr. MATTHEWS: Take a look at the balance sheet. I do not need to say anything about that. You can look at the balance sheet yourself. They have their own method of accounting and we have nothing to say about that. We are simply looking at this thing from the point of view of the Canadian



National Railways in its relationship to public information. The investment of moneys in this property is held in the United States and in Great Britain. This is of minor importance to the capital revision, but the capital revision has a fundamental purpose, because of the very fact of a billion and a half dollars debt added to the net debt of this country and published in the investment circles of the United States and London. In a sense when comparisons are being made we have the same general thought in mind, that they should be made on a proper basis.

Mr. POULIOT: Are you making that suggestion only from the point of view of the impression that is being made on the public or are you making it also from the point of view of embarrassment which the railways may face when they have adjustments to make in certain transactions between themselves?

Mr. MATTHEWS: Oh, I do not think so. No, I am only thinking of—

Mr. POULIOT: Of the general impression on the public?

Mr. MATTHEWS: Of the general impression on the public, the desirability in our opinion of the government considering the putting of the railways in Canada on the same basis as the railways of the United States are with regard to the Interstate Commerce Commission.

Mr. POULIOT: To make the people better understand the position of the railways?

Mr. MATTHEWS: Yes, that is right.

Mr. JACKMAN: May I address another question to Mr. Matthews?

The CHAIRMAN: Yes.

Mr. JACKMAN: You feel then the I.C.C. system of railway accounting is superior for our conditions anyway to that which obtains in the Old Country, because you said the C.P.R. tends to follow the British practice rather than the American?

Mr. MATTHEWS: Well, Mr. Jackman, I would not be one to offer any opinion on the superiority of the British as against the American or vice versa. I am simply stating to you the fact that we live on this side of the ocean. The Canadian National adopted the practice of the United States railways; and it must be borne in mind that the railroads are not in Great Britain. The railroads belonging to this property are in the United States; and that was the beginning of the need of uniform accounting in the Canadian National Railways. It was done on account of the Grand Trunk Western lines.

Mr. JACKMAN: In other words there is more sense in adjusting our accounting system—

Mr. MATTHEWS: More practical.

Mr. JACKMAN: —to the American than to the British.

Mr. MATTHEWS: Yes.

Mr. ROSS: More intimate connections.

Mr. MATTHEWS: There is no connection between our operations in this country and operations in Great Britain. They are all on a different basis, and I would not wish to make any comparison because their system must be good. They have been in the railroad business a long time.

Mr. POULIOT: To satisfy me, Mr. Jackman, will you please tell me what you mean by I.C.C. Commission?

Mr. JACKMAN: Interstate Commerce Commission.

The CHAIRMAN: I think we will proceed, gentlemen, because we have to get through with this some time this spring.

Mr. JACKMAN: Before you pass from the consolidated income account may I refer to the following paragraph on page 6 under the heading of finance, "No security issues fell due for retirement during the year other than the



normal annual payments of principal under equipment trust, sinking fund and serial issues, which totalled \$8,548,182. This amount was financed through temporary loans from the government." Is there any item in this consolidated income account which shows the charge for that particular equipment during the year 1940? In other words this is a serial plan, I take it, or a sinking fund plan of some sort. Where, if you have any at all, is the charge for that equipment which was retired by advances from the government in the expenses attributable to the year 1940?

Mr. COOPER: This, of course, is purely a financial transaction. We are paying off funded debt and repayment of funded debt has no effect on the income statement as such. It is simply a reduction of the funded debt liability account. If it is in your mind, for instance, that these annual instalments represent an annual charge to the operations for the wearing out of the equipment against which they were issued then I think your idea is wrong. The charge to operations with respect to the wearing out of the equipment itself is taken care of by the charge for depreciation.

Mr. JACKMAN: So that I can be clear in my mind that you did not get the use of these cars that were paid for by the dominion government. You did not get the use of them for nothing without charging the current operations in 1940 for the prorated amount of use you made of them?

Mr. COOPER: You can be quite sure in your mind on that, Mr. Jackman.

The CHAIRMAN: Let us continue with page 14.

## OPERATING REVENUES

	Year 1940	Year 1939
Freight .....	\$191,433,308 13	\$158,309,025 45
Maritime rates reduction .....	3,128,900 71	1,946,064 65
Passenger .....	21,702,046 30	17,817,119 48
Excess baggage .....	71,067 56	72,419 23
Sleeping car .....	1,315,664 53	1,118,662 63
Parlour and chair car .....	148,618 43	139,184 04
Mail .....	3,584,159 20	3,559,419 65
Railway express agency .....	504,320 48	342,041 93
Express .....	13,602,893 29	9,616,999 16
Other passenger train .....	40,574 61	44,908 71
Milk .....	283,245 17	300,846 45
Switching .....	2,468,369 60	2,220,643 57
Water transfers—freight .....	126,683 27	75,187 60
Water transfers—passenger .....	23,887 41	22,674 07
Water transfers—vehicles and live stock .....	42,580 50	39,737 50
Water transfers—other .....	2 85	2 90
Dining and buffet .....	1,141,737 39	798,034 69
Restaurants .....	16,102 30	13,722 80
Station, train, and boat privileges .....	110,281 66	92,788 20
Parcel room .....	38,232 49	32,897 55
Storage—freight .....	139,220 48	141,231 90
Storage—baggage .....	16,762 43	14,244 74
Demurrage .....	427,462 85	244,597 91
Telegraph and telephone .....	10,345 23	10,135 37
Telegraph—commercial .....	4,427,843 91	4,302,997 74
Grain elevator .....	286,611 44	93,432 46
Rents of buildings and other property .....	449,968 29	441,537 00
Miscellaneous .....	1,660,500 72	1,654,070 75
Joint facility—credit .....	409,006 51	415,014 19
Joint facility—debit .....	83,172 93	59,455 70
	<u>\$247,527,224 81</u>	<u>\$203,820,186 62</u>

## SUMMARY OF OPERATING EXPENSES

	Year 1940	Year 1939
Maintenance of way and structures .....	\$ 40,002,420 65	\$ 36,530,434 24
Maintenance of equipment .....	48,126,387 67	42,662,023 70
Traffic .....	5,148,990 90	5,175,594 62
Transportation .....	98,660,172 14	88,840,663 85
Miscellaneous operations .....	1,646,918 99	1,298,214 56
General .....	9,317,273 07	8,971,891 88
Transportation for investment—credit .....	382,350 54	513,054 67
	<u>\$202,519,812 88</u>	<u>\$182,965,768 18</u>



Mr. NICHOLSON: Mr. Chairman, in connection with page 14 I notice under operating revenue an amount shown of the revenue derived from freight, passenger, sleeping cars, parlour chair cars, dining cars, etc. There is no breakdown showing the operating expenses with regard thereto. I wondered if we could have a corresponding item showing the expenses in these different departments. Could we have a statement showing the operating expenses in connection with freight?

Mr. COOPER: No, we could not give you that. The operating expenses of the railway are broken down under the headings you see immediately underneath the operating revenue detail. The total operating expenses are broken down into maintenance of way and structures, maintenance of equipment, traffic, etc. That represents the cost of maintaining the road, etc. In connection with sleeping car operation—

Mr. NICHOLSON: Have you any idea what it costs to operate your sleeping cars?

Mr. COOPER: Yes. The cost of the service you will find on page 16.

Mr. NICHOLSON: You have no statement showing the cost of freight service?

Mr. COOPER: No.

Mr. NICHOLSON: Or passenger.

Mr. COOPER: Take the renewal of the track itself. Can you suggest any way in which the cost of repairing the rails, ties, etc., would be broken down as to freight and passenger service?

Mr. ROSS: How do you arrive at your general freight structure, the cost of moving a ton of freight a mile?

Mr. COOPER: It is quite impossible. The Interstate Commerce Commission did prescribe a formula for the separation of expenses between freight and passenger service. It is a conglomeration of per cents of this and that; it does not mean a thing when you have done it. For a number of years we spent a lot of money working out the cost of our freight and passenger service according to the formula and when we had done it we had nothing except an addition to the red ink figure in income statement.

The CHAIRMAN: If you will let us get on with the items you will find them all particularized a little further on.

Mr. JACKMAN: I think we might refer the honourable member to a library of books on freight rates and costs. You cannot have a costing system that would tell you that, if I understand it at all.

Mr. HAZEN: Do your figures show how many pounds of mail you haul?

Mr. COOPER: No. I believe the payment for mail, as Mr. Coolican said yesterday, is on the basis of space.

The CHAIRMAN: Are you through with operating revenue?

Mr. NICHOLSON: I cannot find the item on sleeping cars, mentioned on page 17.

The CHAIRMAN: Dining and buffet service.

Mr. NICHOLSON: Have you any way of knowing whether your sleeping car service operates at a loss or a profit?

Mr. ARMSTRONG: You can get at certain direct expenses for the operation of sleeping cars. They are shown on page 16, about two-thirds of the way down, transportation expenses—operating sleeping cars. Those are certain expense directly attributable to the operation of the cars,—the porters, supplies, laundry, and all other such items; in the same manner the dining-buffet service is shown at the top of page 17. That is the cost of food, waiters, linen, cutlery, etc., directly attributable expenses. It does not include the cost of hauling the cars or car repairs, interest on the investment, depreciation, or anything like that.



Mr. POULIOT: Who prints this report? Is it printed by the King's Printer or some printing firm in Montreal?

Mr. COOPER: Mr. Thompson can answer that question. I do not know who printed the report.

Mr. THOMPSON: It was printed commercially on tender through our stationery department.

Mr. POULIOT: That is all right.

The CHAIRMAN: Summary of operating expenses. Do you want to consider anything there? It is on page 14.

Mr. NICHOLSON: With regard to that item on superintendents, have you any idea of the monthly cost of providing private cars?

Mr. COOPER: I am afraid I could not give you that.

Mr. NICHOLSON: Have you no estimate on that?

Mr. ARMSTRONG: I do not think there are any figures kept. You are speaking of the cost of the superintendents' cars?

Mr. NICHOLSON: Yes.

Mr. ARMSTRONG: We could find the cost of supplies and linen and various other supplies in the cars; the cost of hauling and repairing them would not be kept separate.

Mr. NICHOLSON: It is not included in this item?

Mr. ARMSTRONG: It is included in "superintendence."

Mr. POULIOT: Has each superintendent and each general superintendent a car?

Mr. ARMSTRONG: That is practically correct. There are a few exceptions where superintendents have not got cars.

Mr. NICHOLSON: How many private cars are operated?

Mr. ARMSTRONG: There are 64 business cars shown under work equipment on page 26.

Mr. NICHOLSON: Have you an estimate as to what savings might be effected by reducing the number of these cars?

Mr. ARMSTRONG: It might not be a saving, it might be an increase in expense. As a matter of fact, the cars are operated for good and sufficient reasons.

Mr. NICHOLSON: How do you estimate that there might be an additional expense?

Mr. ARMSTRONG: The railway must be supervised. In the judgment of the management this is the best way to do it—that is to supply the general superintendents and the superintendent with business cars. After all, these are the superintendents' and general superintendents' offices when they are on the road.

Mr. POULIOT: How many general superintendents are there?

Mr. ARMSTRONG: There are eight general superintendents, four on the western region and four on the central region.

Mr. POULIOT: Do you think it is indispensable to have them? Is it not a kind of senate for the old employees?

Mr. ARMSTRONG: Railroads generally find that this is the best method for carrying on operations.

Mr. POULIOT: Is it because superintendents cannot be relied on by the management? Are there general superintendents there to cover certain deficiencies or something like that?



Mr. ARMSTRONG: I doubt that; it is similar to an army organization where they have a major looking after several captains and the captain looking after several lieutenants.

Mr. POULIOT: And it might be the same as in that case, just red tape.

Mr. MAYBANK: Of course, it is useful to have as many superintendents as possible in order to give the men somebody to swear at.

Mr. POULIOT: What is the purpose of the superintendents? I can conceive that it is the same thing as the superintendents of engineers that are disappearing gradually here in Ottawa. That was established a few years ago, and the people are there and they are very difficult of access and they are very important and very haughty. That is my experience with them. There was one in Quebec who was declared sick and he stayed three or four years before being superannuated. He was a perfect nonentity, and there is another one there who is impossible to deal with to settle some problems. I hear they are the fifth wheel of the car. That is my opinion of them after careful consideration, and if this useless expenditure were cut it would be a great saving for the railway.

The CHAIRMAN: It would be quite a saving if we did not have to pay any salaries at all.

Mr. POULIOT: What is the cost of these eight general superintendents and their staff?

Mr. HUNGERFORD: May I say a word in regard to this question: our organization of officers and our practice in regard to business cars is almost identical with that of the Canadian Pacific Railway and all other railways that operate under similar conditions. It is a practice that has been developed through experience over a long period of time.

Mr. POULIOT: I do not want the C.N.R. to follow the practice of any other railway, I want the C.N.R. to be a better system than any other railway.

Mr. HUNGERFORD: We think we have as fine an organization now and as good a system as can be produced.

Mr. POULIOT: I do not deny that, but I suggest something to improve it. There is another matter also which I cannot understand and it has regard to the Quebec division or region. The Quebec general superintendent is under Toronto and part of our division is in the Atlantic region and therefore we have to deal both ways; in fact, I prefer to be under Toronto and have nothing to do with Moncton.

Mr. McCULLOCH: I might say that our superintendent down in the Atlantic division is one of the busiest men in the maritime provinces; I refer to Mr. Appleton.

Mr. POULIOT: I agree with you, but he is the only one.

Mr. McCULLOCH: He is a man who is working 15 to 18 hours a day.

Mr. POULIOT: You may say the best for Mr. Appleton that you can think of and I will agree with you, but unfortunately he is the only one.

Mr. HUNGERFORD: I disagree with you, and I know something of this matter.

Mr. HAZEN: Mr. Pouliot asked a question as to what were the salaries of these gentlemen.

Mr. POULIOT: I would like to know their salaries if possible.

Mr. ARMSTRONG: We have not got them here; they are not available here.

Mr. POULIOT: Are they better paid than the superintendents?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: Just to recognize the importance of the position.



Mr. ARMSTRONG: After all, a general superintendent has a territory which usually includes about three or four divisions. He centralizes the authority of the three or four divisions in a district, similarly to an army corps organization.

Mr. POULIOT: Yes, I know.

Mr. EMMERSON: You say there are four general superintendents in the western division?

Mr. ARMSTRONG: Four in the western region and four in the central region.

Mr. EMMERSON: That is eight in all.

Mr. ARMSTRONG: The Atlantic region has no general superintendent; there is a general manager.

Mr. POULIOT: And the division carries on just the same.

Mr. ARMSTRONG: Yes, very well.

Mr. POULIOT: Where are these men located?

Mr. ARMSTRONG: General superintendents are at Vancouver, Edmonton, Saskatoon, Winnipeg; then coming down into Ontario and Quebec; North Bay, Toronto, Montreal and Quebec. There is one at each of those places.

Mr. POULIOT: Now, Mr. Armstrong, is there not a lot of duplication of files on account of the fact that there is a general superintendent in each of these places?

Mr. HUNGERFORD: No, there is not.

Mr. POULIOT: How can he look after the business of the division if there is no duplication of files?

Mr. ARMSTRONG: I do not quite get the question.

Mr. POULIOT: According to what was said, the general superintendent has jurisdiction over two or three divisions; and then in order to be useful he must know what is going on.

Mr. ARMSTRONG: That is true.

Mr. POULIOT: And if there is no duplication of files as Mr. President has stated how can he know what is going on?

Mr. ARMSTRONG: It depends what you mean by duplication of files. If the superintendent writes a letter to the general superintendent naturally each one will have a file on that subject.

Mr. POULIOT: He submits the whole file to the general superintendent?

Mr. ARMSTRONG: He may send his whole file, yes. If the general superintendent rules upon that particular subject, naturally there is a letter sent back to the superintendent. On the other hand it may go further up and it may be a subject which necessarily must be taken up with the general manager. There is, in that sense, a duplication of files.

Mr. POULIOT: And is it not to your knowledge that most of the time people pass over the general superintendent and get into touch direct with the management?

Mr. ARMSTRONG: I am not aware of it.

Mr. POULIOT: Therefore, the road must be followed and there should be a stop at the general superintendent before reaching the management?

Mr. ARMSTRONG: Naturally, that is correct.

Mr. POULIOT: It is a necessary stop, is it?

Mr. ARMSTRONG: Yes.

Mr. POULIOT: And the general superintendent is like Mr. Foran of the Civil Service Commission—when he says no it does not go any further?

Mr. ARMSTRONG: No, it is similar again to the army organization; the private does not talk to the general, on official business anyway.



Mr. POULIOT: Well, yes, but have you got corporals and sergeants and lieutenants and captains?

Mr. ARMSTRONG: I would say we have parallels to those in the railway.

Mr. POULIOT: And have you got lieutenant colonels and colonels? What is the comparison between the army and railway anyway?

Mr. ARMSTRONG: There is a great similarity between the organization of the army and of the railroad.

Mr. POULIOT: It is not exactly similar.

Mr. MAYBANK: Oh, no.

Mr. ARMSTRONG: Naturally, no.

Mr. POULIOT: Now, how many erecting shops are there in the system?

Mr. ARMSTRONG: Are you speaking particularly of the locomotive erecting shop?

Mr. POULIOT: Yes.

Mr. ARMSTRONG: Moncton would be the one farthest east; Riviere du Loup has a small shop; there is Point St. Charles in Montreal; Stratford; London is a car shop; Winnipeg (Transcona) and Fort Rouge.

Mr. POULIOT: There is Edmonton, and Port Mann in British Columbia.

Mr. ARMSTRONG: Port Mann is a small shop.

Mr. POULIOT: And there is one at Edmonton.

Mr. ARMSTRONG: It is a small shop also.

Mr. POULIOT: Which is the oldest?

Mr. ARMSTRONG: The oldest shop?

Mr. POULIOT: Yes.

Mr. HUNGERFORD: I suppose Point St. Charles would be the oldest.

Mr. POULIOT: And then Riviere du Loup would be next because it was the terminal of the Grand Trunk Railway.

Mr. ARMSTRONG: Stratford would be fairly old. I am not certain whether it would be older than Riviere du Loup or not.

Mr. POULIOT: But they are the three oldest?

Mr. ARMSTRONG: Yes, they are the three oldest.

Mr. POULIOT: And Riviere du Loup does more business than Edmonton or Port Mann, does it not?

Mr. HUNGERFORD: No, I would not say that.

Mr. ARMSTRONG: Do you mean more business in a traffic sense or in the handling of locomotives?

Mr. POULIOT: I have a letter here to that effect; I can give you figures.

Mr. ARMSTRONG: Would you like the number of locomotives handled or the traffic from the points you are speaking of?

Mr. POULIOT: I am speaking of the business handled by the shops.

Mr. ARMSTRONG: By the shops? In other words, the number of locomotives which actually go through the shops?

Mr. POULIOT: Yes.

Mr. ARMSTRONG: We can supply those figures.

Mr. POULIOT: Now, there is another point which I would like to have answered. Does the element of distance enter into the calculation of repair costs?

Mr. ARMSTRONG: I am sorry, I do not quite get your question—the element of distance?



Mr. POULIOT: Yes, suppose it is found in one case that a locomotive needs some repairs, would it be repaired at the nearest shop or would it be sent somewhere else for repairs?

Mr. ARMSTRONG: It will depend entirely upon the type of repair required. It might be a repair which could be made in the engine house or it might be a repair which would have to go to a main shop.

Mr. POULIOT: And who decides upon that?

Mr. ARMSTRONG: The motive power department.

Mr. POULIOT: Is it not true, Mr. Armstrong, to your knowledge, that when some one makes a complaint against an employee or an official of the railway the complaint is always found unfounded?

Mr. ARMSTRONG: Not always but generally so.

Mr. MAYBANK: As indeed the truth is.

Mr. ARMSTRONG: Depending on what the truth is.

Mr. POULIOT: That is a correction which comes quite late, Mr. Armstrong.

The CHAIRMAN: Are you through with Maintenance of Way and Structures Expenses? If so, we will proceed to Maintenance of Equipment Expenses.

Mr. MAYBANK: There is just this general question relative to equipment which I should like to ask. Is it a fact that you have your equipment now pretty well in operation all the time; that you have not a great deal of spare equipment any more?

Mr. HUNGERFORD: That is quite true, Mr. Maybank.

Mr. MAYBANK: You are using 100 per cent, of nearly so?

Mr. HUNGERFORD: It is fairly difficult to put it on a percentage basis, but we could handle a little more business with the equipment we now have.

Mr. JACKMAN: Do capital improvements come under "Maintenance of Way and Structures Expenses" or is that item all maintenance?

Mr. COOPER: All maintenance with the exception of betterments which are less than \$500.

Mr. MAYBANK: If it is so that you could handle, as you say, just a little more business, Mr. Hungerford, would it not appear that the railroad is due to get a great deal more business in the coming year? Would not that be your forecast of the coming year?

Mr. HUNGERFORD: I am sorry I did not follow you, Mr. Maybank?

Mr. MAYBANK: Would you not suppose, endeavouring to forecast the business of the railway for the coming year, that you will receive not merely a little more business but that there will probably be a great increase?

Mr. HUNGERFORD: I am speaking of the capacity of the present equipment and the present spread of traffic. That has a great deal to do with the ultimate result. We anticipate more business this year.

Mr. MAYBANK: You do anticipate more?

Mr. HUNGERFORD: Yes, and we have more equipment on order at the present time.

Mr. MAYBANK: That is what I was getting at. You were indicating that with the present equipment you could handle a little more business but that you have most of it in use?

Mr. HUNGERFORD: We have additional equipment on order now.

Mr. MAYBANK: You are taking steps to increase your equipment?

Mr. HUNGERFORD: With our increased capacity at the present time and the new equipment that will be delivered we expect to be able to handle the business available.

Mr. McCULLOCH: What new equipment will you acquire this year?



Mr. HUNGERFORD: Cars and locomotives.

Mr. ARMSTRONG: I will read them off to you:

125 ore cars,  
100 refrigerator cars,  
250 hopper cars,  
200 flat cars,  
150 hart cars,  
25 coaches,  
7 steel mail and baggage cars,  
28 second-hand coaches.

Those are for Canada.

Mr. CHAIRMAN: The minister says we will get this with the budget.

Mr. HUNGERFORD: It will all appear in the budget.

Mr. ROSS: Under "Depreciation—U.S. Lines only" I see, Mr. Chairman, there is an item of one million and a half. It is not shown in the 1940 report. The one million and a half is shown under "Depreciation—United States Lines only" in the 1939 report. There is an item here of over eleven million dollars. Would that cover the whole?

Mr. COOPER: Yes. In 1939 there was only accrued depreciation on the equipment owned by the United States Lines, but in 1940 we adopted depreciation accounting for the entire system.

Mr. ROSS: And you have that spread across?

Mr. COOPER: Yes.

Mr. ROSS: It was shown in 1939.

Mr. COOPER: Yes, because in 1939 depreciation applied only to the United States; therefore we specified it so that it would not be mistaken.

Mr. NICHOLSON: What information can we get regarding the difference in the operating expenses that result from the small amount of grain likely to be moved from the three prairie provinces this fall?

Mr. ARMSTRONG: We have the budget which is to come up, on what the results of operations will be for the next year. The revenues and expenses are stated in that budget for 1941.

Mr. JACKMAN: What would be an estimate of the amount of rolling stock retirements that would have taken place had the traffic demand not necessitated keeping them in operation during 1940?

Mr. ARMSTRONG: That would depend entirely on whether the cars should or should not be retired.

Mr. JACKMAN: But we have so many passing out of useful service each year. What I am getting at is whether or not the eleven million odd which you set up for depreciation of rolling stock would more than offset the capital retirement on rolling stock had the traffic demand not necessitated keeping them in operation.

Mr. COOPER: Yes. In 1941 it would exceed the physical retirement by something like six million dollars.

Mr. JACKMAN: Almost double the reserve?

Mr. COOPER: Yes.

Mr. POULIOT: Mr. Chairman, is it permissible for a railway employee, either under his name or under the name of his wife, to carry on some business as manager of an oil company and keep his position just the same in the railway?

Mr. ARMSTRONG: Could you give a specific case of what you mean?

Mr. POULIOT: There is a man who is working as a crane man.



Mr. ARMSTRONG: Train man?

Mr. POULIOT: Crane man, and he is carrying on business as manager for one of the big oil companies under the name of his wife. It is known that he is doing it himself and he is making lots of money. On the other hand, another man could not be employed on the railway because he was working part time in a little barber shop which he had. The one who had the little barber shop and who was working part time had his name cancelled, while the other one who carries on a big, profitable business is at the same time working as a crane man.

Mr. HUNGERFORD: We will be glad to look into the situation if you will give us the particulars, Mr. Pouliot.

Mr. POULIOT: Thank you. There is another case also which I should like to bring to your attention. This is the case of a man who suffers from neurasthenia after having received a piece of steel in his head. The men are afraid to work with him and while there have been representations made by the union he has not been awarded his pension. On the other hand, there is a man who is well. His doctor certifies that he is well, but he cannot be employed because the railway doctors say that he is sick. It is just the reverse of the former case. I should like to bring these two cases to the attention of the management in due course. One is sick but is receiving no pension. The other is well but he cannot be employed.

Mr. HUNGERFORD: Again, I say, Mr. Pouliot, that if you will be good enough to give us the particulars we will look into those cases.

Mr. EMMERSON: The item of "Protective Services" under Maintenance of Way and Structures Expenses represents expenditures incurred for guarding railway property?

Mr. COOPER: Yes, sir.

Mr. EMMERSON: There has been quite an increase over 1939. Does that mean that the railway has had to take over the protection of bridges or certain properties formerly protected by national defence?

Mr. COOPER: The main reason for the increase would be that in 1940 we had a full year of war, while in 1939 we were only in the war from September.

The CHAIRMAN: We are supposed to be on page 17—General Expenses. Is there any discussion?

Mr. POULIOT: Who are the general officers mentioned there? Are they the Montreal officers?

The CHAIRMAN: This includes general office supplies.

Mr. POULIOT: That is all right, thank you.

The CHAIRMAN: Page 18?

Mr. JACKMAN: The amount you had to put into pensions was \$4,468,736.66 in one year. That is a lot of money.

Mr. MAYBANK: Just before leaving that part, what is the general position with reference to the request for wage improvements that are going on? What is the general position at the moment with regard to that?

Mr. ARMSTRONG: It is now before boards of conciliation. You refer to the cost of living bonus?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: Boards of conciliation are now sitting on that matter.

Mr. MAYBANK: How much of a personnel does that involve? I do not mean in numbers, but does it involve all of the trade unions of the railway, or are some of them not represented?

Mr. HUNGERFORD: I think it includes all of them, Mr. Maybank. Of course, they are in two groups. There is the so-called A.F. of L. group, which is much the larger of the two.



Mr. MAYBANK: But they are all in there together?

Mr. ARMSTRONG: They are not together, sir.

Mr. HUNGERFORD: The running trades, shop men, and all of those groups come under a conciliation board that also applies to the Canadian Pacific and, I think, some other Canadian railways as well. The C.B. of R.E. group is limited to the Canadian National and there is another board for that.

Mr. MAYBANK: That would leave out, then, most of what are called the white-collar office men. They are not in that.

Mr. HUNGERFORD: All of the organized employees are, yes.

Mr. MAYBANK: But a comparative number of them; in fact, most of them are not organized, are they?

Mr. HUNGERFORD: I would say a large portion of them are organized?

Mr. NICHOLSON: Including station agents?

Mr. ARMSTRONG: Yes; station agents.

The CHAIRMAN: Is there any discussion on Property Investment account?

Mr. EMMERSON: Where was that double-tracking done?

Mr. ARMSTRONG: That was a section of track out of Truro and another section of track west of Moncton. The double track was extended west of Moncton a few miles and east of Truro.

Mr. EMMERSON: It is all on the Atlantic region?

Mr. ARMSTRONG: It is all on the Atlantic region, yes.

Mr. POULIOT: What is the average cost per mile of double-tracking approximately?

Mr. ARMSTRONG: It would depend a great deal upon the physical characteristics of the line. We can give you the mileage here that was double-tracked and perhaps that would give you the average cost, if that would be satisfactory?

Mr. POULIOT: What was the distance of the double track?

Mr. ARMSTRONG: It was a short distance, Mr. Pouliot. I think it was two miles west of Moncton and about another two miles east of Truro.

Mr. HUNGERFORD: It was more than that, I imagine. It was about three or four miles.

Mr. NICHOLSON: How much more is going to be required in this Montreal Terminal Development Project?

Mr. ARMSTRONG: We will come to that in the budget for 1941.

Mr. NICHOLSON: I was wondering whether this work might be discontinued or whether it is necessary.

The CHAIRMAN: We ought to take it up in its proper place.

Mr. POULIOT: There is an item for that in the budget.

Mr. JACKMAN: Yes. But the budget has to do with the future. Some members might be interested in what has gone on in the past and just where this money has been used and just what the usefulness of the particular item is. The first question I should like to ask is with regard to the amount spent. Last year you spent \$3,599,076 on the Montreal Terminal. Was the proposal or the authorization of that by the Board of Directors unanimous?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: I take it the answer is "yes"?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: How much has been spent to date including the \$3,599,076 during 1940?

Mr. ARMSTRONG: I will give you 1939, 1940 and 1941 if you would like those figures.



Mr. JACKMAN: That starts at the beginning?

Mr. ARMSTRONG: Beginning with the reopening on the basis of the modified plan. In the first year, 1939, the figure was \$2,950,130; in 1940 it was \$4,321,863.

Mr. JACKMAN: That differs from the report.

Mr. ARMSTRONG: In the report I think you will find it is a lesser amount, the capital sum only, the amount chargeable to capital. The figures I am giving you represent the total expenses in connection with the work.

Mr. JACKMAN: Will you give me that again, please?

Mr. ARMSTRONG: \$4,321,863. The other figure you have is \$3,599,076. Is that correct?

Mr. JACKMAN: Yes.

Mr. ARMSTRONG: In 1941, to the end of April, \$911,411.

Mr. ROSS: To the end of April?

Mr. ARMSTRONG: The end of April, 1941.

Mr. NICHOLSON: In connection with the 1939 figure, you mentioned it was from the commencement of the modified plan?

Mr. ARMSTRONG: Yes.

Mr. NICHOLSON: What was the expenditure before that date?

Mr. ARMSTRONG: The expenditure before that date was \$16,651,346.

Mr. NICHOLSON: That brings the total to the end of April of this year at what? Have you the total there?

Mr. ARMSTRONG: We have a total there of \$24,834,750.

Mr. NICHOLSON: And it is estimated it will require how much to complete the project?

Mr. ARMSTRONG: At the present time we have commitments, that is contracts, etc., which are to be completed, which total \$2,461,500.

Mr. NICHOLSON: Will that complete it?

Mr. ARMSTRONG: No. Completion of the plan will cost \$2,005,096; that is, the estimated cost of completion of the plan.

Mr. HAZEN: That is in addition to the \$2,461,000?

Mr. ARMSTRONG: Correct.

Mr. SANDERSON: You estimated the total cost. What is the total cost?

Mr. ARMSTRONG: When the terminal is completed?

Mr. SANDERSON: Yes.

Mr. ARMSTRONG: The total for all those figures together is \$29,301,000, which includes all of the expenditures since 1929.

Mr. MAYBANK: That is being pressed forward, is it? There is no slackening?

Mr. ARMSTRONG: There has been none.

Mr. MAYBANK: I beg your pardon?

Mr. ARMSTRONG: There has been none. The work is proceeding.

Mr. MAYBANK: Is any slackening contemplated?

Mr. ARMSTRONG: Not that I am aware of.

Mr. NICHOLSON: How many men would be engaged on the construction at the present time?

Mr. HUNGERFORD: It is impossible to state that.

Mr. NICHOLSON: Roughly?

Mr. HUNGERFORD: Because nearly all of the work is being done by contract and there is a fluctuating number of employees.

Mr. NICHOLSON: I mean just roughly. Give some rough estimate?



Mr. HUNGERFORD: I could not even give that, because practically all the work is under contract.

Mr. NICHOLSON: What amount of steel will be used in connection with the present work that is going on? Will there be much steel?

Mr. HUNGERFORD: Practically all the steel has been supplied. In order to give you that figure, it would require considerable calculation.

Mr. NICHOLSON: Could we have that information, I wonder? Could we have it placed on the record?

Mr. ARMSTRONG: The amount of steel that has been used?

Mr. NICHOLSON: That is being used in the present year, for example?

Mr. ARMSTRONG: Yes. The amount of steel to be erected this year?

Mr. NICHOLSON: Yes.

Mr. ARMSTRONG: It is practically all purchased, and nearly all erected.

Mr. JACKMAN: Is that contract for the building let to a general contractor or are you building it yourselves?

Mr. ARMSTRONG: The contract for the building—that is, including the station building, so called—has been let to a contractor.

Mr. HUNGERFORD: Provision of the steel work and its erection was let to one contractor; the completion of the building has been let to another contractor.

Mr. JACKMAN: You might not have the figures indicating the amount of United States exchange which was used to purchase the steel requirements in the United States.

Mr. HUNGERFORD: That is difficult to get, because the contractors were required to supply the steel and of course we have not very much information about that, though we could give you something.

Mr. ARMSTRONG: We made a rough shot at this. As Mr. Hungerford says, most of the steel was supplied by the contractors. About 25 per cent was American and about 75 per cent Canadian steel. The total expenditures were about \$1,200,000; and about \$250,000 of that was for American steel. Those are very rough figures because the work was under contract.

Mr. JACKMAN: You mean all the big I-beams and things you had to get from the United States only cost about \$250,000 for the whole project or is that during some particular year?

Mr. ARMSTRONG: No. That is since the reopening of the work.

The CHAIRMAN: When you are talking about Canadian steel, Mr. Armstrong, is that from Canadian ore or is it American ore that has been processed in Canada largely?

Mr. HUNGERFORD: It is largely American ore.

Mr. NICHOLSON: Suppose the work was stopped for the duration of the war. Would there be any serious difficulty in handling traffic in and out of Montreal during the war period and how much of this four and a half millions might be saved for the duration of the war?

Mr. HUNGERFORD: The completion of the terminal would assist materially in handling freight traffic—war freight traffic—through Montreal.

Mr. NICHOLSON: I did not hear that.

Mr. HUNGERFORD: I say the completion of the terminal will help materially in handling freight traffic through the city of Montreal.

Mr. NICHOLSON: My question was how serious a problem will there be if the terminal is not completed?

Mr. HUNGERFORD: Very serious, I would say.

Mr. MAYBANK: What is your estimate now as to the completion date?

Mr. HUNGERFORD: The completion date, did you say?



Mr. MAYBANK: Yes.

Mr. HUNGERFORD: One year from now.

Mr. MAYBANK: One year from now. You will be using the new set-up in a little more than a year from now?

Mr. HUNGERFORD: It will be completed entirely in just about one year from the present time. Some of the facilities will be available for use before that.

Mr. NICHOLSON: You estimate it will take nearly four and a half millions to complete that work. I asked what saving would there be if this work was not to proceed, or would there be any saving? Because of those commitments which have been undertaken would this four and a half millions have to be spent even though work were to stop at present?

Mr. ARMSTRONG: It is difficult to say what we would have to pay on those commitments. The \$2,000,000 to complete has not been contracted for; but with regard to the \$2,461,000, there are contracts outstanding and materials purchased and on the ground which have not been erected. Those materials are included in the commitments.

Mr. NICHOLSON: When were those commitments undertaken with regard to this \$2,400,000?

Mr. ARMSTRONG: Most of them in 1940; some of them in 1941.

The CHAIRMAN: You would have \$26,000,000 tied up in a useless enterprise if it were not completed now?

Mr. ARMSTRONG: That is right.

Mr. HANSON: All the contracts are let with the exception of approximately \$2,000,000?

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: If the capital expenditure account for 1940 shows \$3,599,000 and you have actually spent \$4,321,863, did you charge \$721,000 off to current operations?

Mr. ARMSTRONG: No, sir. The difference between those two figures is made up of these amounts: there is a contribution under unemployment relief of \$711,092.

Mr. HAZEN: A contribution under unemployment relief, did you say?

Mr. ARMSTRONG: Yes.

Mr. JACKMAN: That is during 1940?

Mr. ARMSTRONG: 1940. There was a grant of approximately one and a half million in 1939 and 1940, and that was the portion which applied to 1940. There was also an amount chargeable to operating expenses.

Mr. JACKMAN: What justification was there for that?

Mr. ARMSTRONG: That is replacement of trackage, which by correct book-keeping should not be capitalized. It is replacement of a track in kind—

Mr. JACKMAN: All right.

Mr. ARMSTRONG: —and in the opinion of the accounting department it should be charged to maintenance.

Mr. HUNGERFORD: That was a shifting or replacement of facilities that already existed before; and in doing that it would be properly chargeable to maintenance because you are not creating something new.

Mr. ARMSTRONG: You are merely moving something which already exists.

Mr. JACKMAN: But the change is necessitated by the new terminal. It is perhaps debatable. However, it is not very much. Did this unemployment relief contribution continue after the dominion had cut off unemployment relief contribution to the municipalities throughout Canada?



Mr. HUNGERFORD: No.

The CHAIRMAN: Is there anything further?

Mr. NICHOLSON: Mr. Chairman, in connection with this Montreal terminal again, may I ask if this terminal will be used by the Canadian Pacific?

Hon. Mr. CARDIN: No.

Mr. NICHOLSON: Not at all?

Hon. Mr. CARDIN: No.

Mr. HUNGERFORD: No.

Mr. NICHOLSON: Were any negotiations carried on with the C.P.R. about it?

The CHAIRMAN: Yes, there were.

Mr. NICHOLSON: With respect to using this? It seems to me a very large financial undertaking for our own railway.

Mr. HUNGERFORD: That subject was discussed off and on for a number of years.

Mr. HANSON: And discussed in this committee for a number of years too.

The CHAIRMAN: Every year.

Mr. HUNGERFORD: Every year.

Mr. JACKMAN: I guess the war, however, has become more serious since the last meeting of the committee. Is there a general plan of this terminal available showing exactly what facilities it will provide?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: We had a plan here before us before it was decided on a few years ago.

Mr. NICHOLSON: This is a new committee.

Mr. JACKMAN: Is that the same as the modified plan?

Mr. HUNGERFORD: This is the modified plan.

Mr. ARMSTRONG: It was modified and work commenced early in 1939.

Mr. HUNGERFORD: May I say this for the information of the committee: this whole question was gone into in great detail by the committee two years ago and the proceedings will show all the statements that were made at the time. I am just throwing that out by way of information for those of you who may not have been on the committee that year. You would get a great deal of information from that source.

Mr. ROSS: As I recall it, most of the statements were favourable as far as the committee were concerned.

Mr. HUNGERFORD: The general use of that station in Montreal is a very conflicting question. It cannot be answered in a few words.

Mr. ROSS: No.

Mr. HUNGERFORD: It is an impractical thing from my point of view; that is, there was a proposal to go in to Windsor street. That from our point of view is impracticable for physical reasons. And the Canadian Pacific has not shown any disposition to join with us. I do not criticize them for that.

Mr. JACKMAN: How much of the station facilities are intended to be electrified?

Mr. HUNGERFORD: As to electrification, the line is already electrified from a point north of the mountain through the tunnel to the site of the station. That was done by Mackenzie and Mann years ago when they constructed the tunnel. We propose to electrify from there to the east end of Victoria Bridge, and also on the other line to Turcot; new electrification would amount possibly to four or four and one-half miles.

Mr. JACKMAN: Then I understand that this plan of the multiplied Montreal terminal was presented and is available?



Mr. ARMSTRONG: There are many plans. There was at the committee meeting a few years ago a very large plan—it was probably 20 feet by 10 feet—exhibited in the committee room, and that is available in Montreal to be seen by anybody who cares to look at it, as well as other detailed plans of various parts of the terminal.

Mr. JACKMAN: And that plan indicates all the trackage both into the station and out, and all the details of that description, showing how traffic is going to be handled?

Mr. ARMSTRONG: This large plan shows the various routes into the terminal, where the various lines now come in and where they would come in when the terminal is opened. There are other details of the lay-out of the station and other facilities. We could furnish you with a small scale map.

Mr. JACKMAN: It is in the head office at Montreal?

Mr. ARMSTRONG: The large one is, yes.

Mr. JACKMAN: There must be a small one.

Mr. HUNGERFORD: I think we can get you something on that.

Mr. JACKMAN: I can imagine that some smaller maps could be made up from it. You would be able to get me a small picture of that map, if you will?

Mr. ARMSTRONG: We could give you one—I do not know whether we have it here, but we could get you a copy which will show the various lines coming into the new terminal, if that is what you desire.

Mr. JACKMAN: Yes. I understand the terminal is not going to be as high a building as was originally contemplated.

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: I suppose the sub-structures, however, are sufficient to erect more super-structures if the need eventuates?

Mr. ARMSTRONG: Reasonably so, yes.

Mr. NICHOLSON: Mr. Chairman, \$4,500,000 would seem to me to be a lot of money to represent labour and material which to my mind might be used to better purpose in our war effort. Mr. Hungerford has stated that they are having difficulty in Montreal in handling the traffic. I think that traffic has been handled there for quite a long period of years, and for the duration of the war it might not cripple the railway very seriously.

Mr. HUNGERFORD: Oh yes, the volume of traffic going through Montreal at the present time—freight traffic—is very much greater than it has been for a long time.

Mr. NICHOLSON: What would be the amount of the wastage through lack of track facilities there at the present time?

Mr. HUNGERFORD: It can't be expressed in terms of loss, it has to be considered rather from the standpoint of the difficulty in handling traffic and in the facilities that are required for the additional traffic which is clearly inevitable.

Mr. MAYBANK: It would cost you more money the way it is now than it would cost when you have these facilities established?

Mr. HUNGERFORD: That is correct.

Mr. NICHOLSON: What I am trying to get at is this, have you any idea what the loss would be?

Mr. HUNGERFORD: It could not be put down in just that way. We have a memorandum here in regard to some of the advantages that will result from the early completion of the terminal, and perhaps if Mr. Armstrong read it, it would be helpful.

Mr. ARMSTRONG: It is relatively short. These are the reasons for the early completion of the terminal:—



*Reasons for Early Completion*

Necessity of removing passenger train service from Bonaventure Station to the new station at Dorchester Street, present facilities at Bonaventure being inadequate. The new terminal will give increased passenger station trackage and facilities; passenger traffic has been greatly increased by industrial and war activity.

Necessity of providing increased express and mail facilities to take care of traffic. The present facilities at Bonaventure are not adequate for efficient handling of express and mail. The facilities provided at the new terminal are adequate.

Necessity of enlarging the freight handling facilities, urgent for war traffic and to take care of the normal growth of business. The re-arrangement of facilities resulting from the opening of the new terminal will provide much needed additional trackage and other facilities for freight in the Bonaventure-Turcot area.

Necessity of placing in operation the new coach yard at Pointe St. Charles, (constructed as part of the terminal improvement). The present coach yard at St. Henry is too small to meet traffic requirements, necessitating the storage of a considerable number of the coaches elsewhere. Important improvements in freight and passenger switching will also result.

Necessity of further ameliorating the grade crossing situation between Bonaventure and Turcot, with respect to which there have been serious complaints for years. Eleven grade crossings have already been eliminated under the terminal plan and when passenger traffic is diverted to the new station nine other thoroughfares between Bonaventure and Turcot will cease to be affected by passenger train operation, thereby greatly relieving industrial and general street traffic.

Mr. NICHOLSON: I think those are reasons which are all perfectly valid in peace time, an expenditure of \$25,000,000 would naturally have to have arguments of that kind to back it up; but I have been into Montreal quite a few times and while the station facilities are not very attractive I do not think there is any serious difficulty when the war situation is as critical as it is.

Mr. HUNGERFORD: Speaking as a railway man, I can assure you there are many advantages.

Mr. ROSS: The time saving factor alone is the great factor in our war effort, because rolling stock will be made available far more rapidly than under the old plan.

Mr. NICHOLSON: I asked for an estimate of wastage owing to lack of trackage facilities, if there is serious wastage on account of congested traffic.

Mr. ARMSTRONG: These are very general reasons, it is quite true, but there are more specific ones; one, for instance, is regarding St. Henry, where at the present time all coaches using Bonaventure station must be turned, with the result that there is a great deal of congestion at that particular point. The new terminal would immediately remove that particular difficulty because the coaches will not need to be turned at that point. That is merely mentioned as one of the other reasons. They are covered generally in the memorandum. Now, I do not know how you would put an amount of money on that, it is rather a question of getting traffic to our ports—how much value is there in getting a carload of explosives to Halifax, or guns or something else of that kind. We do not know what the cost will be—in relation to our war effort.

Mr. NICHOLSON: Have you any idea of the amount of time wasted at this Y?

Mr. ROSS: We are more interested in the amount of time saved than the amount of time wasted.



Mr. ARMSTRONG: It costs the Canadian National a certain amount of additional money, but that is not the principle reason for it; it is a question of the war effort and relieving that particular bottleneck, so to speak.

Mr. HANSON: We have to spend \$2,000,000 more to get the facilities they have been trying to get for the last four years.

Mr. POULIOT: You understand it is a dead asset until you can use it, and the sooner it is completed the sooner it will be available for war purposes.

The CHAIRMAN: Hear, hear.

Mr. JACKMAN: There seems to be great urgency about this thing. In answer to Mr. Maybank's question that the station would lower expenses, that is quite so. In regard to operating expenses, obviously if you spent \$29,000,000 it should have some useful effect on lowering your costs. I merely wished to point out that the saving which you mentioned, Mr. Armstrong, in your reply, refers to a saving from operations, and that does not necessarily bear any particular relationship to the capital cost of \$29,301,000 odd.

Mr. ARMSTRONG: I do not follow your argument there.

Mr. JACKMAN: The question by Mr. Maybank was, does this expense result in any saving; and the answer is, yes.

Mr. ARMSTRONG: Yes.

Mr. JACKMAN: My contention is that the result in saving in current operating expenses, which is the only way you can estimate your savings; have we found out anything as to whether or not that saving justifies the expenditure of \$29,301,000; particularly inasmuch as part of it is spent through a war policy.

Mr. MAYBANK: May I add to that that the problem of the moment is not whether you can make a saving bearing some relation to the \$27,000,000, but rather a question of using that \$27,000,000; that you should relate it to somewhere in the neighbourhood of \$4,000,000.

Mr. ARMSTRONG: That is the point.

Mr. MAYBANK: You are in the position of a man putting up an awful lot of money in a poker game and he needs only to put in another ten cents to get complete satisfaction.

Mr. CHAIRMAN: Any other questions? I think we have had about enough of this Montreal terminal, I have been hearing it for over ten or fifteen years now.

Mr. JACKMAN: Unfortunately, Mr. Chairman, I have been hearing of it more often than you do.

Mr. POULIOT: If we have heard enough why not pass the estimate right away?

The CHAIRMAN: I am very willing that we should pass that estimate right away.

Mr. JACKMAN: I think we should proceed in the usual manner, Mr. Chairman.

The CHAIRMAN: Let us go on with some other matter now.

Mr. HUNGERFORD: It might be well if we could finish this report.

The CHAIRMAN: Before we go any further I would like to bring to the attention of the committee the fact that we will have to sit this afternoon. Let us decide on the hour. Someone tells me that to-morrow is caucus day and we will not have the use of this room, and that ought to have some bearing on when we will sit this afternoon.

Mr. HANSON: Why not sit at 3:30?

Mr. NICHOLSON: Oh, make it 4:00 o'clock; we have been sitting at 4:00 o'clock.



The CHAIRMAN: We might as well get in the extra half hour if we can.

Mr. JACKMAN: We are not sitting this evening?

The CHAIRMAN: No.

Mr. JACKMAN: That is unanimous, I hope.

The CHAIRMAN: Let us get as much time in this afternoon as we can.

Mr. JACKMAN: Do you think we are going to get through to-day?

The CHAIRMAN: No, I am afraid not; but we should get through tomorrow if we get on well enough to-day.

Hon. Mr. CARDIN: We could sit in the afternoon to-morrow.

Mr. POULIOT: I understand the minister is going to make a statement on amalgamation in the house this afternoon.

Hon. Mr. CARDIN: Oh, well, you will be able to get that in the press or in some other way.

The CHAIRMAN: Is it agreed that we meet this afternoon at 3.30?

Agreed.

Then, we will decide about to-morrow this evening.

Mr. JACKMAN: Just one small matter, what attitude does the railway take in regard to enlisted men from the service; do you pay them the difference between army pay and their ordinary railway pay?

Mr. HUNGERFORD: No.

Mr. JACKMAN: You just give them leave of absence?

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: Do you do anything for them?

Mr. HUNGERFORD: We have a special pension provision for them which does not cost them anything.

Mr. ROSS: Is seniority taken into account too?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: Do they keep their places?

Mr. HUNGERFORD: Their seniority is maintained and in addition to that we undertake to pay a special war pension while they are away, but we do not contribute the difference in pay.

Mr. POULIOT: Are they allowed to keep their passes when they enlist?

Mr. ARMSTRONG: They are. They keep their free transportation.

Mr. JACKMAN: Hear, hear.

Mr. MAYBANK: Any time the question comes up about free passes on the railroads for soldiers we know there are a certain number of men enlisted and they already have free passes.

Mr. ARMSTRONG: That is correct.

Mr. MAYBANK: The fellow with the free pass carries it away with him.

Mr. POULIOT: Is it the same as before, a pass for themselves and their families?

Mr. ARMSTRONG: I am speaking of examples in our particular department of men who have enlisted.

Mr. ROSS: They cannot use them on military duty.

Mr. ARMSTRONG: No, sir. They have the same privilege as if they were working on the railroad. They are on leave of absence with full pass privileges, which means their dependants would qualify also.

Mr. EMMERSON: Would you enlarge a little more, Mr. Hungerford, on the special pension for men on the railways now in the service?



Mr. ARMSTRONG: The idea is that the pension rights are maintained and they qualify for pension when they return.

Mr. EMMERSON: Their time counts?

Mr. ARMSTRONG: Yes.

Mr. HUNGERFORD: Their time counts, and in addition to that we undertake to pay a special pension for them covering the time they are on military service. It is not the regular pension at all, it is something quite separate from the regular pension contribution.

Mr. EMMERSON: If an employee comes back suffering a disability which prevents him from resuming his regular employment in the railway is there any special provision for him taking his regular railway pension whether he has completed his time or not?

Mr. HUNGERFORD: That would apply only if he was of the age to qualify him for a pension. In most cases the men returning from the war would not be old enough to qualify for pension.

Mr. EMMERSON: But if he came back and suffered a disability due to his war service and such disability would prevent him from resuming employment on the railway—

Mr. HUNGERFORD: He would not receive a pension. Then what we would do would be to try to find a job for him.

Mr. MAYBANK: I suppose the plan of the railway with reference to those pension privileges was all announced by way of bulletins or something like that to the employees?

Mr. ARMSTRONG: Yes, Mr. Maybank.

Mr. MAYBANK: I wonder if it would not be useful if these bulletins were filed here and made a part of the record.

Mr. ARMSTRONG: We can file the regulations.

Mr. MAYBANK: I do not want to ask any more questions at the moment, but I do think it would be useful to have these bulletins in the parliamentary record.

Mr. ARMSTRONG: We can put the information on the record.

Mr. JACKMAN: Is the pension plan of the railway a contributory one or is the railway bearing the whole burden?

Mr. HUNGERFORD: It is now on a contributory basis.

Mr. JACKMAN: How does the enlisted employee pay into the plan? Is he allowed to do that or is this special war plan you have making up for his contributions to the pension plan?

Mr. COOPER: It is in substitution of his right to contribute. It is an alternative. If he were working he would contribute to build his pension up that way. If he is in active service he gets a special allowance which is an alternative to the contribution to his pension. His pension is kept up in full while he is away.

Mr. HUNGERFORD: We will file the bulletin and I am sure it will give you the information.

The CHAIRMAN: On page 18 appears, "transfers during year 1940 affecting proprietor's equity."

Mr. MAYBANK: I wonder if I could ask another question with relation to the enlisted men arising out of the remarks that have been made. It was said, and I think everybody understood that seniority is retained. In sections where the seniority principle does not obtain the job is held open for the man. Everybody will remember that after the last war there was a great deal of trouble about certain people having got in the service and taking jobs during



the war period and when the men came back they of course ranked as juniors. Seniority was maintained for any man who was already employed on the railroad and enlisted. But the trouble was that the returned men who came back were employed probably because a preference was given to them, but they found that whenever there was a lay-off they were the first fellows to go. You will remember that a great deal of trouble took place at times about that. Have you given any consideration to the working out of a scheme with the trade whereby the seniority of people being employed now would not interfere with seniority that may be obtained by men coming back from the war and being hired then. It would be a sort of two kinds of seniority in operation at the same time. I suggest you might bar a great deal of trouble later on if you could work out something like that.

Mr. HUNGERFORD: Well, I can say this, being familiar with some of the trouble that resulted from the former war. We have tried to plan very definitely to avoid those troubles in this instance. I am not able to give you all the details offhand at the moment, but I can give you assurance that so far as it is possible to do so we have endeavoured to protect against those very difficulties that you speak of.

Mr. MAYBANK: Are the trade unions fitting into the planning idea? Are they working in with you and your planning in that respect?

Mr. HUNGERFORD: Yes, they have been consulted in regard to it.

Mr. MAYBANK: Would it be going too far to say that the railroad or the railroads together with the unions are trying to take steps now to prevent similar dissatisfaction?

Mr. HUNGERFORD: Yes, I think it is fair to say that.

Mr. MAYBANK: It is a joint effort?

Mr. HUNGERFORD: Yes, it is a joint effort. You see, in order to preserve the seniority of these employees who are away on military duty beyond one year it was necessary to consult and arrange with the union in turn, and the whole thing has been given consideration jointly.

Mr. MAYBANK: Of course, the problem is not quite so acute now because you say the man will hold his seniority. In the last war if he had been away five years and came back and fitted into the same job he had before it was all right but where it was bad was a large number of people were employed during the war and then when the returned soldiers came back and were employed they fell under the other two seniority lists I have mentioned.

Mr. HUNGERFORD: I think we have reasonably protected against that contingency.

Mr. MAYBANK: It is not far enough advanced yet to indicate the way in which you are protecting against it?

Mr. HUNGERFORD: I think we can get you a statement on it. We had better do that and have it in a more accurate form.

Mr. MAYBANK: I do not want to press it at the moment. If you can give a statement that can be made part of the record by filing it or as an appendix or something like that it would be quite satisfactory.

Mr. HUNGERFORD: We will get you something.

Mr. MAYBANK: Something like that?

Mr. HUNGERFORD: Yes.

The CHAIRMAN: Have you any questions to ask with regard to transfers during the year 1940 affecting proprietor's equity?

Mr. HAZEN: How are these values arrived at?

Mr. COOPER: In respect of the line abandonment? It represents the estimated original cost less the value of the salvage.



Mr. HAZEN: Not the cost that the C.N.R. paid for those railways when they took them over?

Mr. COOPER: No, it is generally an estimate made by the engineer of what it would cost to build that railroad.

Mr. JACKMAN: I should like to refer to the item "capital (exclusive of loss applicable to expired service life) on sale of *S.S. Prince David* and *S.S. Prince Robert*." What happened to these boats, were they commandeered?

Mr. COOPER: Yes.

Mr. HUNGERFORD: Taken over by the navy.

Mr. JACKMAN: They bought them from you?

Mr. COOPER: Yes.

Mr. JACKMAN: And the price you received was such that after allowing for the depreciation if any that had been set up you showed a loss of \$1,474,971.24.

Mr. COOPER: That is correct.

Mr. JACKMAN: It seems rather extraordinary with the price of bottoms as high as it is that you should have such a whacking loss.

Mr. COOPER: Then the government got the advantage.

Mr. JACKMAN: There must be something rather odd about the bookkeeping—not the accuracy of it; but the principle behind it when you have a couple of steamships that you presumably have been writing enough off for depreciation as you used them and then when you sell them in what is probably the most favourable steamship market in many many years you take a tremendous loss even after depreciation.

Mr. VAUGHAN: These boats were fast high-class passenger boats. The passenger accommodation was of little or no use to the navy and the vessels were taken in the early stages of the war before the price of bottoms advanced. It was considered at that time that that was perhaps a fair valuation for the boats, as much as probably could be got elsewhere for the boats. They had to spend \$700,000 or \$800,000 on each of those boats to make them satisfactory for their service.

Mr. JACKMAN: They are in the ocean service some place?

Mr. VAUGHAN: Yes, they are doing, I understand, good service for the navy.

Mr. JACKMAN: You had no option about whether you would keep the boats or not?

Mr. VAUGHAN: No, they were requisitioned by the admiralty.

Mr. JACKMAN: By the British admiralty?

Mr. VAUGHAN: No, by the Canadian admiralty.

The CHAIRMAN: Did you receive any payment for the boats? I think there must be a little misunderstanding about that.

Mr. VAUGHAN: Yes, we got paid for the boats. We did not perhaps negotiate as hard a bargain with the navy as we might have done. We felt it was just from one pocket to the other anyhow. It was not something that it was worth while arguing about very much.

Mr. JACKMAN: I think the officers of the navy are pretty jealous of their company's statement. If you received a fair price for these boats, even if you did not get the war price for them, it must indicate, when you have a loss like this, that you have not depreciated your boats nearly as quickly as you ought to have done.

Mr. COOPER: We have depreciated them at the rate of three per cent, Mr. Jackman. They had only been in service nine years.



Mr. ROSS: What was the original cost of the boats?

Mr. COOPER: The two boats together cost \$4,329,000.

Mr. HANSON: The David and the—

Mr. COOPER: The David and the Robert.

Mr. JACKMAN: You had one of two alternatives to take. The first one is you did not depreciate the boats enough; the other is the government stole the boats from you.

Mr. HANSON: The Robert stole a German boat on its first trip out.

Mr. HAZEN: What did the government pay for them?

Mr. COOPER: The government paid \$1,400,000 for the two.

Mr. JACKMAN: How did they arrive at that price? Did the government just tell you that they were going to pay that price?

Mr. VAUGHAN: We carried on lengthy negotiations and we got a higher price than the government felt they were worth to them. I think they offered \$500,000 for them each and we got \$700,000 or a little more.

Mr. JACKMAN: You should have told the government you wanted a better price.

Mr. VAUGHAN: In war times the government can do anything they want to do.

Mr. HUNGERFORD: They required the ships and they were going to take them and talk about the price afterwards.

The CHAIRMAN: Page 19, funded debt.

Mr. JACKMAN: Have you got any funded debt problems in 1941? Do you want the money for redemption?

Mr. COOPER: Yes, there will be about the same amount in 1941 as there was in 1940. The figure in 1941 will be \$9,378,000 for serial equipment issues.

Mr. McCULLOCH: Is there any way of paying off this 6½ per cent due in 1946—\$23,897,000?

Mr. COOPER: No, I do not think so. They are not callable; unless we repudiate them.

Mr. McCULLOCH: They will not be paid until 1946.

Mr. JACKMAN: Which rolling equipment certificates are you going to retire? Where are they set out on page 19?

Mr. COOPER: You will get the details of that when we come to the budget.

Mr. JACKMAN: Is that particular issue set out on page 19 in part?

Mr. COOPER: Yes, it can be identified. There is quite a number of them—I should say there are twelve or fifteen items.

Mr. JACKMAN: On page 19?

Mr. COOPER: In the budget for 1941 there are about 15 items of debt to be paid off, and they can be identified under the issues shown on pages 19 and 20. I suggest we wait until we get to the budget.

Mr. JACKMAN: The same applies to the \$344,000 for acquisition of securities.

The CHAIRMAN: We have finally found the means of getting around the perpetual debenture stock to some extent.

Mr. COOPER: The British government stepped in there.

The CHAIRMAN: Is there any further discussion. If not, we will adjourn. We will start from page 20 when we meet at 3.30.

The committee adjourned to meet at 3.30 p.m.



## AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Order, gentlemen. Mr. Armstrong has an answer for you, Mr. Jackman.

Mr. ARMSTRONG: A question was asked on the hotel operating result and capital expended in the year 1940. I have here an answer giving the revenue, expenses, taxes, net hotel operating income, expenditure on capital account, and the net hotel operating income for all the hotels we operate, and I shall have this answer placed in the record.

## CANADIAN NATIONAL RAILWAYS

## HOTEL OPERATING RESULT AND CAPITAL EXPENDED—YEAR 1940

	Revenue	Expenses	Taxes	Net Hotel Operating Income	Expenditure on Capital Account
Charlottetown .....	\$ 87,629	\$ 88,627	\$ 3,638	\$ 4,636	\$ 779
Pictou Lodge.....	17,538	23,827	219	6,508	7,472
Nova Scotian.....	454,811	358,480	11,472	84,859	8,906
Chateau Laurier.....	1,601,758	1,145,844	60,794	395,120	14,914
Prince Arthur.....	169,672	161,347	5,882	2,443	804
Minaki Lodge.....	61,782	56,198	.....	5,584	3,467
Fort Garry.....	370,478	375,357	26,216	31,105	15,024
Prince Edward.....	119,568	113,960	3,268	2,240	8,033
Macdonald .....	339,119	375,501	13,965	347	2,273
Jasper Park Lodge.....	380,465	336,282	3,060	41,123	56,706
Bessborough .....	283,493	269,374	806	13,313	137
	<u>\$3,936,313</u>	<u>\$3,304,807</u>	<u>\$129,320</u>	<u>\$502,186</u>	<u>\$118,241</u>

## NET HOTEL OPERATING INCOME

1936-1939 Inclusive

Year 1936.....	\$160,017
Year 1937.....	200,087
Year 1938.....	226,014
Year 1939.....	302,364

Mr. JACKMAN: Thank you very much. I have another question along the same lines. I understand the Nova Scotian hotel in Halifax has had some redecorating done of a rather extensive nature. I wonder if we could have the cost of that. The decorating was done to the main dining room, the large entrance hall of the Nova Scotian hotel in Halifax, and an expensive carpet placed in the dining room, etc.

Mr. COOPER: I think that work is still in progress. I do not think it is finished.

Mr. JACKMAN: I hardly need to ask here if there is any necessity for it. I am informed some people do not think there was any necessity for it and I should like to get the cost of it if we could have it. You say you have not got the final figure.

Mr. COOPER: I happened to be in that hotel last week and I was talking to the manager. He said it was not decorated since it was built and he thought it was high time it was decorated.

Mr. JACKMAN: Is that ten years ago or so?

Mr. COOPER: Around that.

Mr. JACKMAN: It had not been redecorated at all?

Mr. COOPER: Not these particular rooms, that is the entrance to the main dining room and the public rooms.



Mr. JACKMAN: Not redecorated?

Mr. COOPER: It was opened in 1930.

Mr. JACKMAN: I am rather surprised you did not do that by tender. Were any tenders called in that connection?

Mr. COOPER: I really do not know.

Mr. VAUGHAN: We have some maintenance men around the hotel and they are doing that work from day to day, almost constantly. I know so far as the hotel goes we have had a great many complaints about the dirty condition of it and I think it was as a result of these complaints that this touching up of the hotel piece by piece has been done by our own men.

The CHAIRMAN: I might say to the committee that Mr. Fraser, the vice-president in charge of traffic is here. There were a number of questions asked yesterday in regard to scrap iron and division of business. I see the members who asked these questions are not here. These questions were asked by Mr. Nicholson and Mr. Pouliot and Mr. Maybank. Mr. Maybank is here. I think he has something to say about it. Were you not asking questions with regard to the division of business, Mr. Maybank?

Mr. MAYBANK: Yes, I brought that up you remember yesterday and we touched on the passenger situation. I think Mr. Hungerford said Mr. Fraser would be here to-day. He suggested to me this morning not to mention it then but to leave it until this afternoon. What I wanted to do was to follow up with respect to freight and some other matters, the same sort of investigation that we had yesterday with relation to the movement of the armed forces. I am interested in knowing what the split is in government-controlled business related to the war, what division is made between the two railroads.

Mr. FRASER: I could not give it to you in accurate figures, Mr. Maybank, for reasons which you will at once understand. It would be quite a job to go through the number of way bills, thousands of them, to get the figures, so that we are pretty much in the realm of judgment. In addition to that we have no knowledge of our own as to what is given to the Canadian Pacific Railway. I would think that probably it could only be ascertained in accurate form by a return similar to the one on passenger business. But our best judgment is that the government-controlled business is given in the ratio of 45 to 55. The Canadian National participates at a maximum of 55 per cent.

Mr. MAYBANK: Who gets that 55 per cent?

Mr. FRASER: The Canadian National.

Mr. MAYBANK: Well, —

Mr. FRASER: I would think myself that year in and year out probably 50 per cent would be a very good estimate.

Mr. MAYBANK: Mr. Fraser, just as a matter of record, what is the difference in the capitalization of the two? We have to earn on what—

Mr. FRASER: Perhaps Mr. Cooper has it there under his hand.

Mr. MAYBANK: Two billion?

Mr. COOPER: The fixed charges of the Canadian National in 1940 were \$53,305,000.

Mr. MAYBANK: And the C.P.R.?

Mr. COOPER: The fixed charges of the Canadian Pacific, including some provision for interest on Sault line bonds is given in their annual report for the year 1940 as \$26,186,000.

Mr. MAYBANK: What is the ratio there?

Mr. COOPER: Just about one-half.

Mr. MAYBANK: The ratio of 53 to 26?



Mr. COOPER: Twenty-six to fifty-three, yes.

Mr. MAYBANK: What is the ratio of employees?

Mr. FRASER: Again I think you will get information from Mr. Cooper.

Mr. MAYBANK: I should put two words in there, Mr. Cooper. I am, of course, referring to Canada since all of these questions connote Canadian government controlled business. In the second place I am referring only to railways proper, not steamship services. All that sort of thing is ruled out. Can you give the ratio there?

Mr. COOPER: I would say the fixed charges of the Canadian Pacific included their steamships and ours would include the fixed charges on our properties in the United States. I think you will have to take these two figures in a sort of broad way but when you come to the number of employees, the employees in Canada of the Canadian National Railways in 1940 were 75,000, and of the Canadian Pacific 53,000.

Mr. MAYBANK: Seventy-five and?

Mr. COOPER: Seventy-five and fifty-three.

Mr. MAYBANK: About two to three. Then, in order to get the figures complete what is the mileage ratio in Canada.

Mr. COOPER: The Canadian National mileage in Canada, that is the first named track, 21,798, and the Canadian Pacific 16,829.

Mr. MAYBANK: I know we had this before, but I want to get it in its place at this time.

Mr. JACKMAN: Are all collateral services fairly comparable such as hotels? Does the C.P.R. operate a larger system of hotels than the Canadian National in Canada?

Mr. COOPER: Their investment is very much higher than the Canadian National.

Mr. JACKMAN: The Canadian Pacific is higher?

Mr. COOPER: Yes, much higher.

Mr. MAYBANK: The C.P.R. gets its business then on a basis 50-50. So far as any of that east of Quebec is concerned we do not get it by direction of either the shipper or the consignee, because we would be bound to get that for the Canadian National anyway. If you were to deal only with the traffic west of Quebec it would appear that the C.N.R. is even less well off than the figures 50-50 suggest. Is not that true?

Mr. FRASER: No, I think the figure I gave you, Mr. Maybank, is the best judgment of the whole. The way you put it you are including there non-competitive business. When I mention 50-50 I am speaking about competitive business, open to competition by both railways. But speaking of the mileage, if you will permit me before you leave that, I should like to call attention to one interesting breakdown in the mileages of the two. In the prairie provinces, Manitoba, Saskatchewan and Alberta, each of the railways have about 50 per cent of the railways. In the province of British Columbia the Canadian National have 41 per cent of the mileage. But when you come to the maritime provinces the Canadian National have 74 per cent of the mileage. In Quebec and Ontario we have 64 per cent of the mileage and the total for eastern Canada is 66 per cent of the mileage.

Now, in the nature of the case that 66 per cent is in territory that is very highly competitive and very diverse and there is a much larger proportion of the government traffic purchased in that territory than there is in the west; so that if you are comparing on the basis of mileage, really when you think of where that traffic originates, or the big bulk of it, the position of the Canadian National becomes, from my point of view, rather more unfavourable.



Mr. MAYBANK: You are in this central area where you have 64 per cent of the mileage and the best you can do over all Canada is 50-50. Part of that is in a non-competitive territory almost, therefore obviously you are evidently not getting your share in central Canada. That is my statement.

Mr. FRASER: I do not care to disagree with it.

Mr. MAYBANK: You are not disagreeing?

Mr. FRASER: No, I am not, from my point of view, Mr. Maybank, leaving the government out altogether; leaving public business out in the provinces, in the eastern part of Canada, it seems to me that we must get 66 per cent of the general commercial business which is done by Mr. Jones, Mr. Brown, Mr. Smith and so on.

Mr. MAYBANK: Do you?

Mr. FRASER: Oh, yes we do. I say 66 per cent. We get a very large proportion.

Mr. MAYBANK: You mean about that?

Mr. FRASER: Yes. Now, in order to maintain our services we cannot live, and maintain services comparable with the Canadian Pacific on half of the business of the country, because we have to maintain a considerably larger proportion of service, so that I would expect to get from the commercial concerns and I will argue with them that I was entitled to 66 per cent of their business. If that be true of a commercial concern, and I am only giving you my own opinion, it seems to me that should be the minimum which the government, the owner of the property, should give to us. I hold very strong view on that.

Mr. MAYBANK: I gathered that.

Mr. HANSON: In this connection could the witness tell us how much of the Canadian Pacific stock is held in Canada or in other countries?

Mr. COOPER: That is shown on page 18 of the annual report of the Canadian Pacific Railway for the year 1940. This report shows that 18.04 per cent of their ordinary stock is held in Canada, and .94 per cent—less than 1 per cent—of the preference stock is held in Canada.

Mr. HANSON: Do they give the countries where the other shares are held?

Mr. COOPER: Yes. Canada 18.04 per cent, United Kingdom and other British countries 53.03 per cent, United States 22.63 per cent, other countries 6.3 per cent.

Mr. MAYBANK: That is only the ordinary shares of course.

Mr. COOPER: Then there are the preference shares shown here as well. In Canada .94 per cent; in the United Kingdom and other British countries 95.96 per cent; in the United States .26 per cent, other countries 2.84 per cent. Combining the two stocks the percentage held in Canada is 12.98 per cent, United Kingdom and other British countries 65.75 per cent, United States 16 per cent, other countries 5.27 per cent.

Mr. HANSON: Is it the same for the C.N.R.?

Mr. COOPER: All the stock of the C.N.R. is held by the Canadian government.

Mr. HANSON: In other words by the Canadian people.

Mr. MAYBANK: I would like to ask Mr. Fraser a question. Mr. Fraser, do you know of any steps that the Canadian Pacific Railway takes to obtain business that you do not take?

Mr. FRASER: Have you something in mind?

Mr. MAYBANK: No, I have not. I just wondered whether the one company was more aggressive than the other in trying to obtain business. I have not anything specific in my mind.



Mr. FRASER: No, we certainly hope not. We think they are not any more aggressive than we are.

Mr. MAYBANK: There was a time—I saw it in western Canada—when all the employees of the Canadian National were very aggressive in obtaining business. That is no longer the case; there is not quite the same enthusiastic search for business on the part of the employees that there used to be. I wonder whether the C.P.R. maintain any different soliciting service than you do?

Mr. FRASER: No. They are fairly comparable in the city of Ottawa. Of course, they have special representation here which we have not at all times.

Mr. MAYBANK: You mean lobbyists?

Mr. FRASER: I would not like to put it that way.

Mr. MAYBANK: Not meaning anything stigmatic at all, that is a word we have come to use.

Mr. FRASER: Yes. They have special representation here all the time for traffic purposes largely.

Mr. MAYBANK: Is it your opinion that that is efficacious?

Mr. FRASER: Well something, perhaps, is; I suppose it is a factor.

Mr. MAYBANK: I suppose they would not keep them unless they paid their way.

Mr. FRASER: They do not usually make mistakes of that kind, no. Mr. Maybank, you asked me to go in so deeply that I think I might as well go all the way.

Mr. MAYBANK: Yes, I think so, as far as possible.

Mr. FRASER: I am giving you my own view. You are speaking now of a division of the business?

Mr. MAYBANK: Yes.

Mr. FRASER: I am, as you know, the head of the department directly concerned with obtaining business, freight and passenger business, and I give a great deal of thought to that matter. To my mind there should be no division of the business at all. I cannot understand the idea of dividing the business of the people of Canada with my competitors, for this reason if for no other: you have a dollar to spend on transportation, you may spend it with the Canadian National or you may spend it with the Canadian Pacific or with a truck. Now, if you spend it with the Canadian Pacific or the truck it costs you a dollar; the Canadian National can render for you that exact service at cost. The financial men would readily tell you what that was. If you pay me a dollar for transportation it pays the same tax at least as the Canadian Pacific dollar pays, but I give you back 40 cents or 50 cents or 60 cents as the case may be, whatever the experts would say it was. To me it is incredible that the business of the owners of the property should be handed to someone else to perform at a greater cost than I can perform it. It does not make any more sense to me than it would for Eatons, if they had trucks, to hire Simpsons to do their trucking. I am giving you my frank personal opinion, but I cannot understand a division of the business, and particularly in war time. My view is that every pound of business that is paid for by the taxpayer of Canada should be moved and every passenger should be moved on your own railroad, by every test, it if can be done.

Mr. JACKMAN: I presume you would like to have things made easy for you.

Mr. FRASER: Naturally.

Mr. JACKMAN: I do not think that your viewpoint is a fair one. I do not want to express any opinion about public ownership as against private ownership. The thesis which you have put forward of a comparison of Eatons giving their delivery business to Simpsons is not a good one between the Canadian



National Railways owned by the government and the C.P.R. as a private organization; the comparison is not on all fours. You must remember that some people in this country still do not believe in socialism, and public ownership is a step towards socialism as we all know.

Mr. MAYBANK: I do not know whether the socialists would agree with you on that. If you stir this conversation into socialism where are we going to get?

Mr. JACKMAN: We will have to get the aid of the C.C.F's, perhaps.

Mr. FRASER: At an appropriate place I would be delighted to argue that with you in answer to you.

Mr. JACKMAN: You want things easy, given to you; on the other hand, a great many citizens of the Dominion of Canada share your viewpoint and do ship their business over the government line because they say that is their line and let the other line go hang. There are other people who feel that a fair division of the business should be made, particularly where there is a great deal of business—that both should get their portion of it; and the whole basis of the competitive system which many of us support is that the people shall fight for business on the basis of service rates, and not because the shipper happens to be also the owner of the enterprise such as you suggested there. I think it is very wise that we maintain a healthy competition between these two companies and that the business be given on the basis of rates which, I presume, are equal under the commission, the consideration then being service; and that should be the basis on which you fight for your rights.

Mr. FRASER: I fight more successfully outside of the government business on that competitive basis.

Mr. MAYBANK: It is rather apparent that we could get into a very very deep chasm of disagreement on that, but as Mr. Jackman points out we are all apparently agreed that there ought to be something pretty fair in the way of division. At an appropriate time I should like to offer a resolution which would find its way into the report with relation to this. I might say this, that there is one point, I think, that is overlooked by Mr. Fraser there, and that is that on the other road there are a considerable number of employees and they are all citizens of Canada, and that any very quick change so as to completely use our own service would, of course, affect all of them adversely, and we have to look at that aspect of the factor too. However, it is not my purpose to go into an expatiation on that.

Mr. FRASER: I have no quarrel with anybody on his viewpoint. There may be many public considerations justifying it. I am giving the reasons for my own view.

Mr. MAYBANK: Let us look at another aspect of this. I have a memorandum in front of me dealing with certain government sites. I do not know who made up the memorandum and I do not know that it matters who made it up; but I wanted to use it for the purpose of discussion here. We have had established in Canada a very considerable number of industries which are substantially government industries. Some of them are wholly so. One is at Calgary, another is at Winnipeg and some others are down this way. What size of business would it appear that we are going to get or are getting at the Calgary Chemical Plant? What can you tell me about that?

Mr. FRASER: The Alberta Nitrogen Company?

Mr. MAYBANK: Yes, the Alberta Nitrogen Company. Is that a company comparable with the Nobel plant over here and the Carbide plant near Winnipeg?

Mr. FRASER: Yes.

Mr. MAYBANK: The set-up is the same, is it not?



Mr. FRASER: Yes.

Mr. MAYBANK: It is a D.I.L. company, is it not?

Mr. FRASER: Yes, I think it is D.I.L.

Mr. MAYBANK: D.I.L. and C.I.L. are the same; they just organized themselves into D.I.L. for the convenience of meeting their war contracts?

Mr. FRASER: I think the D.I.L. is an operating company for the C.I.L. In this particular case I think Consolidated Smelters are operating the nitrogen plant.

Mr. MAYBANK: That is the C.P.R. that is operating that plant?

Mr. FRASER: Yes.

Mr. MAYBANK: And what is the story with reference to this location; who chose the location?

Mr. ARMSTRONG: The Alberta nitrogen plant is located near Calgary—I think the Consolidated Smelters had the final decision on the site. The Canadian National line—at least the right of way of an old line—was located practically through the property which was acquired for the plant, and the history of the sidings serving this plant is briefly this: the Canadian National had a track laid within a half mile of this particular plant; when the property was chosen—I should say when the site was chosen—the Canadian National extended its track along its own right of way to where the plant would be located, half a mile away. The plant being a Consolidated Smelters' plant and having a close affiliation with the Canadian Pacific Railway, they desired to serve the plant also. The Canadian National offered to give them running rights or to perform service for the Canadian Pacific. Unfortunately, nothing along that line could be arranged and the result was that the Canadian Pacific built its own line into the plant. I think their line would probably be about three miles away; and they built an independent line into the plant; so that both companies now serve the plant. There was also itself some mix-up regarding the entrance of the tracks to the plant which, however, was solved to the satisfaction of all concerned. That is briefly the history of that industry.

Mr. MAYBANK: Supposing you had worked it the way you desired with the C.P.R., and had given them running rights, perhaps, or given them a service, what haulage would you have got that you now won't get?

Mr. ARMSTRONG: I doubt that we would have got any because the plant being in the hands of the Consolidated Smelters, and closely affiliated with the Canadian Pacific Railway, we might not expect to get much more than we will get now. Actually, from the point of view of the country—and I will say from our point of view—the three mile line was not necessary, was not essential.

Mr. MAYBANK: Supposing you had not had the three mile line but you had been serving the plant, how far would you have to haul anything from it before meeting up with the C.P.R.?

Mr. ARMSTRONG: Probably two and a half to three miles. Whether we would have had to make an inter-change point there I am not sure. There is one, Mr. Hungerford reminds me. We offered them a switching rate over the two and one-half miles of line; they could have switched themselves from their own line over our line.

Mr. MAYBANK: How do they benefit themselves by this three-mile extension? There does not seem to be very much benefit to them.

Mr. ARMSTRONG: That is something I cannot answer; I do not know.

Mr. MAYBANK: Did it benefit them?

Mr. ARMSTRONG: It may come out in the future division of the traffic; I do not know.



Mr. MAYBANK: They had complete control of the traffic anyway even though it was first placed on the two and one-half mile line.

Mr. ARMSTRONG: Possibly for road haul, yes.

Mr. MAYBANK: Well, now, who was building that plant because it is at the present time in the process of building?

Mr. ARMSTRONG: I do not think it is completed yet.

Mr. MAYBANK: Do you know who are building it?

Mr. ARMSTRONG: The contractor?

Mr. MAYBANK: Yes.

Mr. ARMSTRONG: No, I do not.

Mr. MAYBANK: Is it not the Fraser Brace people who are building the cordite plant at Winnipeg?

Mr. ARMSTRONG: I do not know.

Mr. MAYBANK: Do you know what percentage of the contractors' business you got?

Mr. ARMSTRONG: No; I think perhaps our traffic people would know.

Mr. FRASER: The situation there was this: Instructions were given—

Mr. MAYBANK: By?

Mr. FRASER: By, I think, the Allied War Supplies Corporation in Montreal which has to do with the location of these plants that the business was to be divided as nearly as possible equally between the two railways.

Mr. MAYBANK: That would be in letting their contract to whomever it is that is doing it.

Mr. FRASER: Yes, that he should divide his business in, and when the plant was completed outbound business, equally if possible between the two railways. Those instructions were disregarded and we found that most of the material for the construction of the plants was moving by our competitor. Very strong representations were made by myself personally with a minimum of success; but eventually—I think there are perhaps some heartburnings in connection with it—the instructions became more definite and better understood and I have been assured by the corporation that from now on the business will be divided equally between us. It took a good deal of doing, I may say.

Mr. MAYBANK: Up to the point that you are now I suppose there has been a great deal of traffic go in there?

Mr. FRASER: Yes, and the amount we moved was negligible. What proportion I do not know because I do not know how many carloads the competitor moved.

Mr. MAYBANK: You had a good deal of difficulty getting the promise which you now have?

Mr. FRASER: I had the promise, but I had a good deal of difficulty getting fulfilment.

Mr. MAYBANK: You now have another promise.

Mr. FRASER: Yes.

Mr. ROSS: The project is well on the way to completion?

Mr. FRASER: Yes, it is, how far I do not know. I think it is owned by the government but as I understand it constructed by and operated by the Consolidated Smelters.

Mr. VAUGHAN: Under the supervision of the Allied War Supplies Corporation.

Mr. FRASER: Allied War Supplies, yes.



Mr. MAYBANK: I believe Allied War Supplies do not actually operate anything. They just get the thing ready for operation by somebody else.

Mr. VAUGHAN: They supervise the operation.

Mr. MAYBANK: Even afterwards?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: You say you personally made strong representations. You mean that these representations were made to Allied War Supplies?

Mr. FRASER: Correct, and I know that the Allied War Supplies acted on them but they had their own troubles, too.

Mr. MAYBANK: You are satisfied they did act upon your representations?

Mr. FRASER: Yes.

Mr. MAYBANK: Well, then, what about the cordite plant at Winnipeg, what is the story there? I put that question to you, Mr. Armstrong.

Mr. ARMSTRONG: The cordite plant at Winnipeg was originally decided upon to be served by the Canadian National Railways.

Mr. MAYBANK: May I interrupt you there? It was originally decided upon to be served by the Canadian National Railways. What is the position now?

Mr. ARMSTRONG: I will put it this way: that the area selected for the plant, which met all the requirements of defence industry and Allied War Supplies Corporation, was close to the Canadian National; that, as I understand it, representations were made by the Canadian Pacific who felt they should have a share in the business and the site was changed to a section of territory which was served by both railways; that is between the two railways. In order to do so it was necessary to pipe a water supply some considerable distance at an expense which we understand was \$50,000 or \$60,000.

The CHAIRMAN: So it is still much nearer to your plant?

Mr. ARMSTRONG: You might call it now a jointly served plant between the two railways.

The CHAIRMAN: Yes; I live there, and it is much closer to the C.N.R. than it is to the C.P.R.

Mr. MAYBANK: Yes, it is closer to the C.N.R. now, Mr. Chairman. Even now it is closer to the C.N.R., is it not?

Mr. ARMSTRONG: Yes, it is.

Mr. MAYBANK: You say the cost of the pipe line to bring the water amounts to \$50,000 or \$60,000?

Mr. ARMSTRONG: That is the cost as reported to us.

Mr. MAYBANK: That was paid by the Canadian Pacific Railway Company in order to get the site changed a little bit.

Mr. ARMSTRONG: That would be a fair statement, I would say.

Mr. MAYBANK: At any rate, it was paid by them and the site was changed to that extent.

Mr. ARMSTRONG: It is understood to be paid by the Canadian Pacific in the first instance. Who will eventually pay it I do not know.

Mr. MAYBANK: What do you mean by that?

Mr. ARMSTRONG: It is a matter of—

Mr. MAYBANK: Is there any suggestion that the government will pay them back? Is that what you mean?

Mr. ARMSTRONG: Whether or not it will be included in the cost of the plant and paid back by the government I do not know.

Mr. JACKMAN: There is no evidence that the Canadian Pacific will not bear the cost eventually.



Mr. ARMSTRONG: There is no evidence either one way or the other.

Mr. JACKMAN: The Minister of Munitions and Supply in answering some questions in regard to this location some time ago, if I recall correctly, from memory, said that it was entirely at the expense of the railway company.

Mr. MAYBANK: Yes, that statement was undoubtedly made. The statement was made that the other railway company was going to pay, and the inference I would draw from that would be that it would be paid not merely in the first instance but finally the amount of \$50,000 or \$60,000 would rest upon the Canadian Pacific Railway.

Mr. ARMSTRONG: As I have said, we have no information either one way or the other.

Mr. MAYBANK: In that case I know who the contractors are. The contractors are Fraser Brace. How are you doing? How have you been doing in regard to the traffic connected with the building of that plant?

Mr. FRASER: We have been handling most of the traffic into that plant.

Mr. MAYBANK: Is it something like 60 per cent or 70 per cent? Can you give an idea of that percentage?

Mr. FAIRHEAD: I would say about 65 per cent.

Mr. MAYBANK: The next plant I wanted to ask about or the next place I wanted to ask about was Cherrier. Where is that?

Mr. ARMSTRONG: Cherrier is east of Montreal; it is just off the Island of Montreal. Charlemagne is the nearest station to it. Bout de L'Isle is the end of the island and Charlemagne is the next station off the island. Cherrier is a new station for the new shell-filling plant. That is a case where the plant was located immediately adjacent to the Canadian National Railways. We serve that particular plant exclusively.

Mr. MAYBANK: You do serve it?

Mr. ARMSTRONG: We serve it exclusively. The only connection the Canadian Pacific might have had with that was that there was some question of their building a line in there. Fortunately—I say fortunately for us—although they made surveys of the line—and it would be, I think, four to five miles long—although they went so far as to make surveys they did not build the line. They did try to obtain permission to build in to the plant. Neither the Allied War Supplies Corporation nor the Minister of Munitions and Supply would grant them permission. That is briefly the history of that.

Mr. MAYBANK: Now, there is a large number of plants under the Department of National Defence, a large number of establishments started throughout the country, and they all make traffic. What is the situation in regard to them?

Mr. ARMSTRONG: Well, with regard to the Royal Canadian Air Force there are various flying, bombing and air navigation schools—I presume there is no harm in giving figures—

Mr. MAYBANK: You mean no harm in mentioning where they all are?

Mr. ARMSTRONG: No, I am just mentioning numbers.

Mr. MAYBANK: It is all public property by now anyway.

Mr. ARMSTRONG: There are twenty-six sidings for these air force schools. Of these the Canadian National has installed ten and may install five additional; the Canadian Pacific have installed eleven. In addition—there are Royal Canadian Air Force equipment and repair depots—there are ten. The Canadian National Railways serve three, the Canadian Pacific two, and the Canadian Pacific and Canadian National serve jointly four. There is one not served at all, but it is located in Calgary and in all probability will be served by the Canadian Pacific. We are getting, I would say roughly, 50 per cent or slightly better.



Mr. ROSS: What are the names of the four jointly served?

Mr. ARMSTRONG: I have not a list of the names although one of them I think is at—

Mr. MAYBANK: One is at Macdonald.

Mr. VAUGHAN: One right at the airport in Winnipeg.

Mr. ARMSTRONG: One is at Macdonald.

Mr. VAUGHAN: The one in Winnipeg is jointly served.

Mr. MAYBANK: It is right at the airport and the two roads are quite close.

Mr. VAUGHAN: The Canadian National have a siding and the Canadian Pacific also built one.

Mr. MAYBANK: You were probably referring a moment ago to the one at Macdonald. I think that is C.P.R., up the road to Neepawa; it is near Portage la Prairie.

Mr. ROSS: Have you the situation in London?

Mr. ARMSTRONG: The situation at London?

Mr. ROSS: They have an airport there now near a shell factory going up.

Mr. ARMSTRONG: I do not know whether I have information on that or not.

Mr. VAUGHAN: That plant is being put up by the Fleet Aircraft Company with Government money.

Mr. ROSS: You are going to operate it?

Mr. VAUGHAN: They are going to operate it; it is located on the Canadian Pacific.

Mr. MAYBANK: Again speaking of these places that both railroads are serving, such establishments as we have been speaking about, how have we been doing both in respect to traffic leading to the building of those places and how have we been doing with respect to the traffic out of them afterwards?

Mr. FRASER: Well, as to the plants being constructed by the Munitions and Supply Department our feeling is that we are doing pretty well. So far as the other plants are concerned, those under National Defence, we are not quite so happy about them.

Mr. McCULLOCH: They should get the lion's share of the traffic anyway. They should get more than they are getting now. The Canadian National has 21,000 miles of track and the Canadian Pacific has 16,000. They should get a proportion of freight in relation to the difference in mileage. I can see that the Canadian Pacific are getting more than their share, and I can well understand it when departments here in Ottawa, government departments, will send out telegrams to members of parliament over Canadian Pacific telegraph lines. I suppose there is a great percentage of the members of parliament who travel Canadian Pacific when they could travel Canadian National just as well.

Mr. MAYBANK: I do not think you are right with regard to the west.

Mr. McCULLOCH: If you are going from here to Toronto you will see most of them go by way of Canadian Pacific.

The CHAIRMAN: They are pool trains.

Mr. McCULLOCH: The idea of getting a telegram over Canadian Pacific telegraph lines from a department in Ottawa is not right.

Mr. MAYBANK: That seems to suggest that some of these services maintained here that we were speaking about may indeed be efficacious. That is a sort of answer to the question asked a while ago.

Mr. FRASER: Yes. To be perfectly fair about it there are a great many people, employees in all of these departments who have to do with the routing of traffic here and the sending of messages. What is done by any particular



department does not necessarily reflect instructions within that department. It may mean a number of things. I would not want you to think that I was criticizing existing instructions if any. I am merely giving you the facts and my own view from them. You might have a great deal of traffic routed that the deputy minister and the minister would know nothing whatever about. In fact the head of the department might know nothing about it. It finally all totals up. You see, the two railways to-day solicit for government business just as they would for any other business. The government is a highly competitive organization from the railways' point of view just the same as anybody else. They are just another customer to the two railways, unless you find here and there the view which does prevail in some departments that the business of the department should as a matter of policy be equally divided by percentage between the railways. You find that in some departments.

Mr. MAYBANK: I do not suppose Mr. Thompson has very much entertainment money, has he?

Mr. FRASER: No, we have had to cut him down.

Mr. MAYBANK: Mr. Chairman, you made a remark earlier to-day that we would probably be sitting to-morrow. Is that your view now?

The CHAIRMAN: We cannot possibly complete this business to-day.

Mr. MAYBANK: Well, so far as any questions that suggest themselves to me along this line are concerned I have about finished all that I wanted to ask. If we were going to rise at once I would desire to offer a resolution. But in view of the fact that we will be sitting again I think I shall defer doing so. I have in mind something in the way of a recommendation that the business be divided 65 and 35 or something like that. I should like to have a look at the report of the proceedings of this committee before doing that. But so far as this branch of the case is concerned I am finished for the time being. The idea I had in mind was that I want to see something of that sort get into our report to the house.

Mr. JACKMAN: Mr. Chairman, may I make one or two observations following along the general line of Mr. Maybank? It is quite obvious that both old line parties in this dominion have gone on record in fairly recent years against railway amalgamation or unification of management. Apparently it is the will of the people, as reflected in these two parties, that competition shall obtain in the dominion. We must bear in mind that if we have public ownership of one competitor and private ownership of another competitor we will have a very different situation from that which we would have in the case of a public utility like the electric light or a telephone system. That is a monopoly in that service and is a different situation from that of the railways. Perhaps it lends itself to public ownership in a much greater degree at any rate than does a situation where there are competing services. If the government enters into business there is no question but that it can drive out private business. We have an example here. If Mr. Maybank's—I won't say suggestion—if the tenor of his resolution is carried to its logical conclusion it is quite obvious that there is perhaps no stopping point in the matter of the business of the government. I might say today the government is creating over half the national income. Half the business of all of Canada would perforce go to the government-owned line. That is the logic of the situation if we admit certain premises. On the other hand, as I say, competition has been decreed by the people of Canada and it does seem to me that there should be a fair division of the governmental business rather than the weighting of it merely because the government line is owned by the government itself. There is a vast difference between government ownership and private ownership. I was just a little surprised, although I can understand the reason for it, when Mr. Hungerford said that there were no plans



for the solution of this great problem of the railways after the war. We cannot expect the same tempo of business as we are enjoying at the present time. The only solution that he offered was we have the plant here; give us the traffic and we will break even and show you some return on the money. The way the private business tackles that problem is to say, well we have too great a plant; we have to cut down our overhead; we have to cut down our services. We either have to go out of business or we have to at least break even so far as operating is concerned even though we did not show any profit. But it is a different situation with the railway. It is not essential, apparently, that they make a profit. The people want the service and competition and the government is willing to face the deficit from year to year. I presume that the directors' hands and the president's hands are to some extent tied. Certainly they must abide by the dictates of the government which owns the railway and which puts up the money to pay for the deficit of the railway. Therefore I merely wish to point out some of the underlying reasons, if you like, why the two competing systems should be maintained in a healthy condition or else they should be under one management and unified or amalgamated. But apparently that is not desirable from the standpoint of the Dominion of Canada.

Mr. MAYBANK: Since my words have served as a springboard from which Mr. Jackman has jumped, I might just make these two or three remarks. All of the remarks he has made which relate to the railways after the war on the general subject of competition, amalgamation, unification and that sort of thing are not I think germane to the inquiry at the moment.

He did say that if my proposals were carried out to their logical conclusion it would mean excluding one railroad from any governmental business at all and probably it would drive them out of business. With all respect I think that is quite wrong. What I would desire would be to make a division of business which the basic facts of the life of the two railroads would seem to suggest. We have more employees on the one to be served; we have a larger capitalization on which to pay interest and we have many more miles of track. I should like to see a division taking these facts into consideration. Not at all would I suggest that there should be a division so that one would get nothing.

I think Mr. Jackman and I are in complete agreement as to why there should be a fair division of business and that is what I want to aim at. I just do not think a 50-50 division is a fair division. So it all comes down to an arithmetical difference of opinion between us, and even if there be that and I doubt very much that there is—

The CHAIRMAN: I rather think the place for this debate is in the House of Commons. We are here for a matter of inquiry.

Mr. GRAY: I have one question to put to Mr. Fraser arising not particularly out of the traffic situation which was just discussed. I think most of the members have been circularized—certainly I have been to-day—with a special delivery letter sent by someone by the name of Bridges. I have no idea who he is at all. This letter is urging upon the government an amendment of the Customs Act to allow bonded freight to be shipped by direct route through from the United States ports to other United States ports, Detroit, Port Huron and Windsor. This circular to-day points out it will not in any way affect railway traffic for the reason that the traffic that they speak of is now utilizing trucks around the other side of the lake. I should like to have your opinion on that, Mr. Fraser, because I think it has importance particularly at this moment when all members are being circularized with this particular letter.

Mr. FRASER: I of course would not know, Mr. Gray, whether the statement that this traffic would not move by rail is a correct one or not. I certainly would not accept that without a good deal of proof because almost every ton of freight that could move by rail or by truck is very competitive traffic and the trucks would not concede it to the railways or the railways to the trucks.



Mr. GRAY: Then many of the statements could not possibly be accepted.

Mr. FRASER: As a matter of fact tremendous quantities of American traffic as you well know are moving between Windsor and the Niagara frontier, Buffalo, over these very lines, right through that territory. They are very well patronized lines and I doubt if there is any traffic that you could say would not move by rail if this thing is allowed.

Mr. GRAY: I presume that you are alive to the situation that these people are making a very determined effort to put this through.

Mr. FRASER: We are, as a matter of fact, yes, and we are making representations to the government in connection with it.

Mr. NICHOLSON: Yesterday I raised the question on the movement of scrap metal. The Department of National War Services have carried on a very active advertising program. In western Canada there is a great deal of scrap, particularly on the farms, and the elevator companies have offered to act as collecting agencies. People have been very generous in contributing the scrap. It seems to me there is some hold up on account of the high freight rates. I realize the difficulty there. Has any statement been made as to the possibility of this scrap being moved some place where it can be of some use in our war effort?

Mr. MAYBANK: May I add something to that before an answer is given? I said yesterday I thought there had been an arrangement with the railways and the scrap iron people that they would carry it on an O.C.S. basis for a period. We did get some answer to that and I wonder if it might be added to.

Mr. FRASER: That is not quite the situation. I can give you a quick answer and that is this: perhaps there has been some confusion about the rates. As you know, we have all rail rates, and we have lake and rail rates. The lake and rail rates, of course, are lower than the all rail rates. We agreed to carry scrap all through the winter and until further notice from western Canada at the lake and rail rates rather than at the all rail rates. It was a concession. For example, if it would interest you, let us take from a point like Winnipeg to Hamilton, which is a large consuming centre. The normal all rail rate would be 51 cents on 100 pounds. That is the tenth class rate. The lake and rail rate is  $44\frac{1}{2}$  cents on 100 pounds. That is  $6\frac{1}{2}$  cents less. That of course usually applies only when the overseas navigation is in effect. We agreed to continue the  $44\frac{1}{2}$ -cent rate and have continued it all through the winter and it is now in effect to all points in the east.

Mr. NICHOLSON: Have you any answer regarding the question I have raised?

Mr. FRASER: Yes, I shall be glad to answer you. Of course, we all know about the campaign to raise scrap for the national war services, and the matter was taken up with the railroad and the suggestion was that they carry the scrap from western Canada to the east at a reduced rate. We looked into that pretty carefully and it did not seem to the railway as though there was any necessity to reduce the rate for this reason: the scrap is donated; there is no original cost for it; the people are very generous about it, as I understand it, and they give their scrap and it is collected largely by voluntary effort and at very little cost. We are now moving scrap at the present rate—commercial scrap that is purchased in western Canada—without any trouble as far east as Sorel. For instance, we take scrap from Edmonton which is purchased by dealers in Edmonton for cash and sorted by them in their own time and they haven't any difficulty in shipping that scrap to Sorel at the present time and at the present rate. So it did not seem to us that the present rates were very much in the road for the movement of the scrap that was donated or collected by voluntary effort. We did not think a very good case was made out for it.



Mr. ROSS: There is a fair profit at 44½, I presume.

Mr. FRASER: Oh, well, I presume so. When you ask me just what profit there is in a specific rate I am in a different realm.

Mr. ROSS: I was thinking that you might strike a carload rate.

Mr. FRASER: That is, of course, a carload rate.

Mr. ROSS: I mean a lower rate. That is the actual weight you carry—44½ per 100 pounds.

Mr. FRASER: Yes. You could arrive at it by any way you like; it is 44½ cents and it seems to be a pretty generous concession. I do not know of any complaints about it. That applies to commercial scrap also.

Mr. ROSS: I was thinking of a story I heard about carrying fruit in the United States. It is carried at so much a box, I believe, and the fruit people made up those cases with sort of a limber side to them and in that way they put in an extra number of oranges. I did get the figures of how many millions of dollars the railroads have lost due to that little change in the orange cases so that they could put in so many more oranges.

Mr. FRASER: They paid for the case and the contents and they lightened the case and paid less.

Mr. ROSS: Yes.

Mr. MAYBANK: In regard to the scrap question, there is a very large amount of scrap iron on all the farms of western Canada. Farmers just throw the stuff into a pile on the usual principle that it is better there in a pile than to throw it away because you never know when it will be useful; but it would not be worth my while to go out and get it. It is not economically collected, but there is a lot of it. Our patriotic salvage corps in various places have stirred up the farmers to bring that scrap into the small towns but there have been difficulties from there to bring it to the centre spot, Winnipeg. I gather, by the way, that they are not particularly anxious any more to use the scrap from western Canada down in Hamilton; they do not want to get them in the habit of shipping away from that territory. I understand that is the attitude of the steel people. Mr. Scully, the steel controller was talking along that line. The desirable thing in western Canada seems to be to get that to Selkirk where the rolling mill is. When that stuff is not moved it chills the enthusiasm of the people that this patriotic corps have worked on, and we would like to see some way of getting that stuff brought in because it is worth something to the country but it is not economical to collect.

Mr. ROSS: It might prove economical in the long run.

Mr. MAYBANK: Yes. A gleaner in the fields is no longer considered economical although it might be if the gleaning were done at no labour cost whatever. This is something similar, and there is no cost whatever in the collection of this. Now, you never would get that business at ordinary rates because they cannot even now, from a lot of these points, afford to ship it in to us. Would you not be ahead of the game to carry that o.c.s. plus some percentage—I do not know how much but make it low.

Mr. ROSS: And keep it in a separate account.

Mr. FRASER: Mr. Maybank, so I will be quite clear about the problem, I might say that the Deputy Minister of National War Services has taken a very active part, and on behalf of the minister has organized the matter. They have never asked us for any concessions on rates on scrap within western Canada. They say it presents no difficulties whatever.

Mr. MAYBANK: Of course, they could easily say that to you. I have been speaking about the work of this patriotic corps in Winnipeg. They are collecting all kinds of stuff and they are doing a land office business. In other cities the condition I have described also obtains. They are expanding and they are



taking in a little more territory every day, and yet they have not got to the point, perhaps through very busyness, of making any special representations to the department, and therefore you have not got them. I may say that I know that the railways could be a very considerable help to this patriotic movement. I am suggesting to you to break a precedent and take this up on your own initiative; to offer us something in the interest of this patriotic movement.

Mr. FRASER: Well, Mr. Maybank, I think it is quite proper to say this, that there have been a great many representations made and a good many discussions held, and the file is still open with Mr. Scully whose name you have just mentioned; and after representations had been made to him I think I am correct in saying, am I not, we are waiting to hear further from him as to what, if anything more, he has to suggest. The file is not a closed file; but I do believe this, that as I say the only request that was made to us was for rates from western Canada to the east, not within the territory itself. I understand there is a very serious question as to whether or not scrap should be moved in large quantities from western Canada to eastern Canada.

Mr. MAYBANK: That was Mr. Scully's point to me, and the steel people told me the same thing.

Mr. FRASER: There may be even a greater demand for it, perhaps, on the Pacific coast. Would it be satisfactory to say that the matter is still open with Mr. Scully.

Mr. MAYBANK: I know you will endeavour to co-operate in every way that you can in every good thing. I would like to make this suggestion to you that you suggest to somebody in your stores department out in Winnipeg, somebody from the traffic end, to get in touch with that organization or those organizations and sit in with them as a member. It would be doing a great service to them, I know, and I think on consideration you will agree that you can be of great service.

Mr. NICHOLSON: Did I understand you to say that you had not received any request for reduced rates within western Canada?

Mr. FRASER: That is correct.

Mr. NICHOLSON: I have correspondence going back to December, the time that this appeal was made to patriotic organizations in my constituency, and they have been very anxious to make some contribution in this field. They feel that they can make it without any great sacrifice; but from what information I have the rates from northern Saskatchewan to Winnipeg are still so high that there is nothing for the patriotic organizations worth speaking of after they pay the freight on this scrap brought into Winnipeg.

Mr. FRASER: If this is an order, one of the things that causes us difficulty is this: scrap to-day from northern Saskatchewan, from as far west as Edmonton, is being bought and paid for at \$1 a ton or \$2 a ton—I do not know what—and collected and shipped on the existing rate and sold at a profit.

Mr. DONNELLY: That is not true in my district. We had men down there collecting scrap and sending it to Vancouver where it was being sold and shipped to Japan and when the rates went up they stopped. I am told by the department here that it cannot be shipped out and they are trying to make arrangements with the railroad to get a cheaper rate so it can be shipped. They say at the present time there is not enough in the scrap to pay for the rate. The individual shipper told me that himself.

Mr. FRASER: Doctor, that may be perfectly true in that place; but scrap is moving in large volume.

Mr. DONNELLY: Not scrap iron; perhaps certain other scrap like aluminum or brass, but not scrap iron.

Mr. FRASER: Scrap iron, yes, doctor, is moving to-day.



Mr. ROSS: The side of this question that Mr. Scully referred to does not centre in western Canada alone. He is reviewing the eastern region and the central.

Mr. FRASER: He may be. There did not seem to be the same problem in the east.

Mr. ROSS: It exists all over.

Mr. FRASER: The rate did not seem to be in the road because you see the market generally is east. Hamilton is a good case. The scrap collected at North Bay, if the rate is the problem, is nothing in itself compared to the rate from Edmonton, because it is so much larger per ton. They have to overcome that.

Mr. ROSS: We understand the war effort and the effect it has on people in general in collecting this stuff and shipping it. They are giving their time and attention in the collection of it, and I was wondering if Mr. Scully was going to fit in all the regions.

Mr. FRASER: I have no doubt he will. It was not the thought of anybody that if the price of scrap was sufficient to pay all charges the larger rate would be reduced to allow a profit for somebody. This was a voluntary effort by people who did not require or did not ask for a profit. It was approached on that basis, that if the price at destination was sufficient to provide the handling charges and out-of-pocket costs and the rate that the situation was met. Now, it was our opinion the last time we looked at it that that was the condition, and I still think that it was a striking fact that for the same price at destination scrap can be purchased at Edmonton by dealers and shipped to Sorel paying the rates. It would look as though there was a profit somewhere in it in our judgment to take care of out-of-pocket costs and reward the very fine enthusiasm of the people who are doing it. If that is not so, it does, I agree, become a different problem.

Mr. ROSS: I would not want the mills to state that they were short of scrap and to say that the reason was because of the freight rates, on any condition.

Mr. NICHOLSON: In my constituency there is only one place with a population of over 1,000. We have not got any scrap dealers or anyone with any experience in sorting or handling this stuff. The people are very generous. I have been reading instructions to the scrap dealers regarding the breaking up of the scrap and sorting it. We do not have people who know how it should be placed on the market, and it is quite an eye-sore to have this accumulation of scrap, and perhaps you will agree that it is bad for the morale of the people to have this scrap contributed by people who feel that it is a necessary and useful contribution and then to have it stay there for months without going any further.

Mr. FRASER: I suggest that it would seem arguable that if a dealer was given that scrap for nothing, if there was any quantity of it, that he would have no trouble in shipping now if he could actually buy it and pay cash for it and ship it at present rates from Edmonton.

Mr. VAUGHAN: I think the situation is entirely in the hands of the steel controller. He fixes the price that scrap is to be sold at at various places. The price is fixed at the mills and after deducting our freight rates there must be a substantial sum left for the shipper.

Mr. MAYBANK: Mr. Vaughan, I suggest to you that there may be many piles of scrap iron in places from where it would be false economy to ship. I understand it is much more complicated than persons like myself might think.

Mr. VAUGHAN: I may say that the Department of National War Services asked for the services of Mr. Keller, our general storekeeper in Winnipeg to make a complete survey, and I think he has completed that survey in the west. I believe as a result of that survey the department has got all the infor-



mation it needs. I think it lies within Mr. Scully's powers to take whatever action is necessary to rectify any inequality so far as price is concerned.

The CHAIRMAN: I think, gentlemen, that we have had a pretty fair discussion on this subject. We have not moved a single inch this afternoon.

Mr. GRAY: We have had a very constructive afternoon.

Mr. MAYBANK: We may have got a lot of new business for the Canadian National Railways whether you know it or not.

Mr. JACKMAN: I am concerned about one item we took up this morning regarding the capital loss on the sale of the steamships *Prince David* and *Prince Robert*. Since this morning I have had a chance to talk to the Minister for Naval Services about the price the government paid the railway system for those boats, and he tells me that in his opinion although there was some bargain that the government paid a fair price. So this morning I put forward two propositions, either one of which I thought must fit the case, and now I must add a third to that: it is possible that the original cost of those two ships was so high that notwithstanding what might be considered adequate depreciation at 3 per cent per year it was insufficient to bring the capital cost down to what you would receive for them, for the two ships, even in a favourable market; so I suppose that the cost of those boats was very much higher than should have been the case. They must have been bought at a time when prices were unusually high and stood on the books of the system at an exceptionally high price. Is that the case?

Mr. COOPER: The boats were completed in 1930. I gave the cost this morning at \$4,329,000. Whether that was too much or not I could not say.

Mr. JACKMAN: Did those two boats ever earn any money?

Mr. COOPER: They were not profitable to the railway.

Mr. JACKMAN: They did not earn any money as far as you know. Had you been using them in recent years?

Mr. COOPER: Oh, yes, the *Robert* was in service more or less every summer on the Pacific coast. The other had been tied up for two or three years.

Mr. JACKMAN: The *Robert* had been in service during the summer months?

Mr. COOPER: Yes, on cruising service on the Pacific coast.

Mr. JACKMAN: And the other boat had been tied up. It is rather alarming to find that we have one of the capital assets realizing so much less than it is carried on the books at depreciated cost value when a favourable time for disposition comes and a favourable market obtains for ships. It makes one wonder just how much of the assets are rather spongy that way.

Mr. COOPER: Well, as far as we are concerned, the problem is not the value of the assets, it is the amount of liability which we have to carry. That is the problem: to meet the charges on the liabilities which are attached to the railway today. What the value of the Canadian National Railways system is I do not know and no one else does; it will depend upon how you measure value, and value has a variety of definitions.

Mr. JACKMAN: It is difficult to be able to comprehend whether the operations of the road are being carried on well in relation to the capital value; whether a great many of the assets included in that capital value are in at excessively high figures as these two boats apparently were.

Mr. COOPER: I do not think you could draw that conclusion from a solitary instance of this sort.

Mr. JACKMAN: It is the only instance—

Mr. COOPER: It is a broad deduction to take.

Mr. JACKMAN: It is the only instance where a capital asset has been realized upon within the last twelve months, and with this coming to light



it is rather alarming to think that those capital assets are, perhaps, worth so much less than they are carried on the books of the company. What I should like to get is an expression of opinion from someone in the management as to whether or not the capital costs of the assets of the system are in their mind reasonable. Are they useful, earning assets such as might be expected to give a return? I realize, of course, that if you get enough traffic all problems are solved; on the other hand I think in a case like the steamships the depreciated cost was in excess of what you could ever expect from them unless you had them for years.

Mr. McCULLOCH: We are not making any progress.

The CHAIRMAN: Yes, we passed this long ago.

Mr. JACKMAN: I wanted to get a little light on these things, and as things develop we ask for light.

The CHAIRMAN: We debated that matter for half an hour this morning and finally adopted it. Now, we are at page 20, "funded debt, principal and interest".

Mr. JACKMAN: Is this the place you were going to tell me about those equipment trust certificates?—the \$9,000,000.

Mr. COOPER: No, sir. I suggest you wait until the budget comes up. Not that I am trying to postpone it, but let us get things in their proper place.

The CHAIRMAN: Shall this subject carry?

(Carried)

The CHAIRMAN: Page 21 "investments in affiliated companies".

Mr. EMMERSON: What is this Toronto Terminal Railway Company?

Mr. COOPER: The Toronto Terminal Railway Company is a company owned jointly by the Canadian National and the Canadian Pacific, and it owns the passenger station at Toronto.

Mr. EMMERSON: That is just a nominal value put on there; that does not represent anything of the value of the assets of that company, does it?

Mr. COOPER: No, this amount of stock is issued to provide the company with working capital. The investment in railway facilities was covered by an issue of Toronto Terminal Railway bonds. They financed the construction of the property by an issue of bonds. They provided themselves with working capital by an issue of capital stock. That is why the amount is relatively small.

Mr. EMMERSON: Is that the union station?

Mr. COOPER: Yes.

Mr. EMMERSON: Could you tell me the cost of that terminal?

Mr. COOPER: It was around \$26,000,000. I have not the exact figure here, but it was around that amount.

Mr. EMMERSON: That would be about \$3,000,000 less than the cost of the Montreal terminals—the estimated cost?

Mr. ARMSTRONG: That is the expenditure by the Toronto Terminal Railway Company, roughly \$26 million; that does not take into consideration the full amount spent on the Toronto viaduct which included the grade separation and the station, a total cost of \$40 million—slightly over \$40 million.

Mr. EMMERSON: Forty million dollars was expended in Toronto as against \$29 or \$30 million required to be spent in Montreal?

Mr. ARMSTRONG: Yes, that is correct; this is the expenditure on both railways; the other is an expenditure on one railway, of course.

The CHAIRMAN: Any further discussion?

Mr. HANSON: There is that item Vancouver Hotel Company Limited \$150,000 and \$75,000. Would you explain that.



Mr. COOPER: That again is the issue of capital stock by the Vancouver Hotel Company to provide itself with working capital. The Vancouver Hotel Company is a company owned jointly by the Canadian National and the Canadian Pacific; they each hold 50 per cent interest. The building itself is owned by the Canadian National Railways, and the Hotel Company is simply the operating company. The Canadian National have the lease.

The CHAIRMAN: "Major Contingent Liabilities". Do you wish to make any statement with regard to those liabilities Mr. Armstrong?

Mr. ARMSTRONG: I do not think so, sir.

Mr. HANSON: There is one thing about this contingent liability which I wish to say. This committee has had before it for the last ten years the suggestion that the railway company and the government should try to liquidate those perpetual bonds. Has anything been done on that this last year? I think we were told that they would try to do something. Has anything been done in the way of a reduction?

Mr. COOPER: The Grand Trunk 4's, \$119 million, that is the biggest. The issue was made the subject of a vesting order by the U.K. Treasury, and has been taken up with the exception of a small amount which is not held in the U.K. or is not subject to the vesting of it. So far no action has been taken with respect to the other issues.

Mr. HANSON: That one issue has been taken up this last year.

Mr. COOPER: Since October—a matter of 22½ million pounds.

The CHAIRMAN: Page 22 "schedule of companies comprising the Canadian National Railway system."

(Carried).

Page 23. That is a continuation of the same thing.

(Carried).

Page 24. "Statement of Revenue Tonnage by Commodities for Years 1940-1939".

Mr. NICHOLSON: In connection with this item on wheat, what is to be the picture for 1941?

Mr. HUNGERFORD: That is too obscure.

The CHAIRMAN: That is counting your chickens before they are hatched.

Mr. NICHOLSON: In view of the fact that there would be a traffic reduction in the amount of wheat accepted by the wheat board I thought you might have some idea of what effect that might have on your volume.

Mr. HUNGERFORD: I think it is all conjectural; there is no basis on which you can give any reasonable estimate.

(Carried).

The CHAIRMAN: Page 25 "revenue tonnage by commodities continued."

(Carried).

Page 26, "Details of railway equipment."

Mr. HANSON: Have you been handicapped since the outbreak of war by any shortage of equipment because of the war?

Mr. ARMSTRONG: There is no shortage of equipment yet.

Mr. McCULLOCH: Are there to be any other cars supplied this year in addition to the amount you gave me this morning?

Mr. ARMSTRONG: These are shown as supplied in 1940.

Mr. McCULLOCH: To be supplied in 1941?

Mr. ARMSTRONG: The budget for 1941 includes certain equipment. The Minister suggested this morning that equipment be dealt with when the 1941 budget is considered.



The CHAIRMAN: Is there any further discussion with regard to this page? Items agreed to.

The CHAIRMAN: Page 27, "Statistics of rail line operation."

Mr. JACKMAN: After all, these statistics obviously cannot mean very much to us unless we can make a check study of them. I presume they are prepared by the management for some reason. An occasional comment might be useful to us. They are not just prepared for nothing. Would someone in the management not care to draw attention to an occasional item that is of some consequence?

Mr. ARMSTRONG: Mr. Hungerford is his statement called attention to several figures which summarized particularly the freight operation. The figures that you see here are the basic figures.

Mr. JACKMAN: We find in Mr. Hungerford's statement all these things that we want high-lighted.

Mr. ARMSTRONG: I would say those would be the high-lights, for 1940.

The CHAIRMAN: Carried?

Items agreed to.

The CHAIRMAN: Page 28, "Employees and their compensation."

Mr. HANSON: I should like to ask a question with regard to the average mileage of road operated and cost of operation. How does it compare with the American roads in similar situations? How does your percentage cost compare in operating expenses with the American roads?

Mr. ARMSTRONG: Per mile, sir?

Mr. HANSON: Yes.

Mr. ARMSTRONG: It would depend entirely upon the volume of traffic. The American roads on the average have a much heavier density of traffic than we have. Therefore their operating expenses per mile of road would be substantially greater than ours.

Mr. HANSON: Greater?

Mr. HANSON: For some years we had an analysis of the tonnage and the average.

Mr. HANSON: For some years we have had an analysis of the tonnage and so forth. Have you that now?

Mr. ARMSTRONG: We have not made such an analysis for 1940, but we can very easily do so, similar to the figures which we filed a few years ago.

Mr. HANSON: I think that would be very useful information to the committee.

The CHAIRMAN: "Employees and their compensation."

Mr. NICHOLSON: Before you go on with that I should like to mention this: I inquired yesterday about the revenue losses in different operations of the system. I did not get that information. Have you any idea as to where your best paying districts are?

Mr. ARMSTRONG: Very much so.

Mr. NICHOLSON: How about this item of freight revenue? Can you give me any information as to different districts or divisions where you are making the most money?

Mr. ARMSTRONG: Well, some two or three years ago there was filed at the Senate inquiry on railways in Canada, a map which indicated where the paying lines of the Canadian National were. It was requested, I think, by the chairman of the committee. It was admittedly an arbitrary division of the revenues and an arbitrary division of the expenses, but it did bring out the lines which were paying all their charges including interest, or that



they had paid only their operating expenses, or even did not pay their operating expenses. I could give you a copy of that in a small form. The lines are shown in three different colours demonstrating the three different categories of the various lines.

Mr. NICHOLSON: That was prepared three years ago.

Mr. ARMSTRONG: That was in the year 1938.

Mr. NICHOLSON: You did not try to bring that sort of thing up to to-day?

Mr. ARMSTRONG: No. We know, for instance on which line the greatest density of traffic occurs. That is calculated every year particularly for designing our maintenance program to know what traffic there is over each subdivision. The engineers use that in arriving at what the expenses should be on the various lines on which there is varying traffic density; but we do not go into the question of allocating revenue and expenses to each individual section of the line. It must be done arbitrarily anyway.

Mr. NICHOLSON: You do not do anything like that to show where your bright spots are or where your black spots are in the system?

Mr. ARMSTRONG: Not by lines. As I said previously, we have certain figures on the actual expenses of each region, but that is not really a good test of the region, because, for example on the Atlantic region, the cars which are repaired at Moncton may move over all other parts of the system. The expenses may be in one place, at one location, and the actual use in another. So you must use an arbitrary division in getting the expenses divided geographically. It is a very difficult problem and one that can only be arbitrary.

Mr. HANSON: I think Mr. Armstrong is looking for some information.

Mr. ARMSTRONG: We had some figures taken up here, Mr. Hanson, showing a comparison of certain units and operating performance of the Canadian National with class 1 U.S. roads. These were the average of class 1 U.S. roads for the year 1940 and for one purpose we compared it with the year 1923 to see what improvement had been made by the Canadian National system as compared with what improvement had been made by the class 1 U.S. roads. The tabulation shows that in some units we have improved less than the class 1 roads; in other units we have improved more. I think the judgment you would get from reading this is that the improvement is pretty close to 50-50. They are all statistical technical averages such, for instance, as this: the gross ton miles per train hour. We show an improvement of 76 per cent; class 1 roads show 101 per cent over that particular period. There are others here: car miles per car day. We show an improvement of 50.8 per cent averaged over a 17-year period. The class 1 roads are a little less than 26 per cent. I do not know whether that answers your question or not. I have not got the C.P.R. percentages of these particular costs here. We have compared ourselves with the class 1 U.S. roads because our accounting is largely on the same basis as class 1 U.S. roads.

Mr. NICHOLSON: What information have you in connection with the revenue and expenses in connection with operating oil- gas-electric trains?

Mr. ARMSTRONG: We have the expenses worked out as to the revenue, but I do not think we have them tabulated. The only answer that we can give there is this: We know that in certain cases gasoline-electric cars can be operated much more cheaply than some other services and will fit in very well with the requirement, and that is the reason they have been put on. In some cases there is sufficient revenue to pay expenses; in other cases there is not. Some of these light traffic lines where we use these gas cars come under the category that was previously mentioned, the lines which are operated in the public interest but in which there is a loss even on operation.



Mr. NICHOLSON: You have not been purchasing many of these recently, have you?

Mr. ARMSTRONG: No, I do not think we have had any gas-electric cars for several years.

Item agreed to.

The CHAIRMAN: "Distribution of the dollar." Do you want to study that on page 28?

Mr. EMERSON: I should like to ask another question with regard to the density of traffic. Do you tabulate from year to year the changes in density of traffic in different sections? For instance, a certain section may have a maximum density as compared with other sections on the system. What section of the road had the greatest density in 1940?

Mr. ARMSTRONG: I would say the Toronto-Hamilton or the Hamilton-London would have the greatest traffic density. I am speaking of freight there, of course, and in that case passengers too.

The CHAIRMAN: "Distribution of the dollar." Do you want to study that?

Mr. NICHOLSON: I notice in connection with the first item that labour is getting a smaller percentage of the dollar in 1940 than it got in 1939. Would that be used by the unions with a view to getting an increase in pay? Would this be used as an argument for an increase in pay?

Mr. ARMSTRONG: I do not know if they would use it, but if they did use it I do not know that it would stand up very well.

Mr. NICHOLSON: What would be the reason against it?

Mr. ARMSTRONG: To a statistical average such as that, I do not know. You would probably find an answer to it.

Item agreed to.

The CHAIRMAN: Page 29, "Operated mileage, December 31, 1940." Is there any discussion on that?

Mr. HAZEN: What tracks are under lease in the Atlantic region? I notice one here 6.41 miles. Is that rented from somebody?

Mr. ARMSTRONG: It is the Acadia Coal Company.

Mr. HAZEN: Where is that?

Mr. ARMSTRONG: It is at Stellarton.

Mr. HAZEN: The Acadia Coal Company own that line?

Mr. HUNGERFORD: I think it is the so-called Vale Railway.

Mr. HAZEN: What do you call it?

Mr. HUNGERFORD: The Thorburn branch down near New Glasgow.

Mr. HAZEN: Do you rent that from somebody?

Mr. HUNGERFORD: Yes.

Mr. HAZEN: How do you fix your rent for it? How is that worked out? What rent do you pay?

Mr. HUNGERFORD: We pay a flat rate per year, \$1,200.

Mr. HAZEN: Take the Central Vermont line. What do you pay for that a year? What do you pay for that 125 miles of track?

Mr. COOPER: \$222,000.

Mr. HAZEN: A year?

Mr. COOPER: Yes.

Mr. NICHOLSON: In connection with the lines in the United States, has there been a decrease in revenue since the war?

Mr. ARMSTRONG: No, there has been an increase.



The CHAIRMAN: Is page 29 carried?

Mr. NICHOLSON: What is the picture in connection with the business on the American line?

Mr. ARMSTRONG: It is increasingly improving.

Mr. COOPER: It had an increase in traffic last year of 14.5 per cent.

Mr. HAZEN: Between what points does the Central Vermont line run?

Mr. ARMSTRONG: It runs really from Montreal, a part from Montreal to New London with a few branches. The actual line comes in at St. Johns where they meet the Canadian National and at the other end they go down as far as White River junction where they then have running rights over B. & M. again and on their own line into New London after that.

Page 29 agreed to.

Mr. McCULLOCH: I move the adoption of this report.

The CHAIRMAN: Mr. McCulloch moves that the report be adopted.

Motion agreed to.

The CHAIRMAN: Now, gentlemen, before we go any further we will have to decide on a question that comes up right here. We of the Liberal party have a caucus to-morrow morning and cannot have this room. Probably we cannot go anywhere else. We might overcome that difficulty partially by meeting to-night.

Mr. NICHOLSON: Would there be another room some place else?

The CHAIRMAN: We might find another room, but we have a caucus. We can't have both a meeting and a caucus at the same time.

Mr. JACKMAN: There is also a limit to physical endurance. Personally I am very much against meeting to-night unless there are very, very compelling reasons why we should. It is very trying to sit in this hot room all day and at night, and I am very tired now because of the humid atmosphere.

The CHAIRMAN: If the committee is not desirous of sitting to-night then we will abandon the idea.

Mr. NICHOLSON: Agreed to.

The CHAIRMAN: All right, now that is carried. The next report is that of the Canadian National Securities Trust.

Mr. HUNGERFORD: I will ask Mr. Maclellan, the chief treasury officer of the department, to read it.

Mr. MACLENNAN:

### THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, March 19th, 1941.

The Honourable P. J. A. CARDIN, M.P.,  
Minister of Transport,  
OTTAWA.

SIR,—In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of the Canadian National Railways Securities Trust for the calendar year 1940.

The initial stated value of the Capital Stock of the Securities Trust has been increased during the year by \$1,694,179.20, this being the amount by which capital gain exceeded the capital losses during the year.

The items of capital losses during 1940 in respect of which His Majesty has not made cash reimbursement to the Railway, and the item of capital gain which has been accounted for by the Railway through the Proprietor's Equity Account, are shown hereunder:



## ABANDONMENTS, DISMANTLEMENTS, ETC.

St. Martins Branch .....	28.75 Miles	\$ 355,420 90
Fortierville to St. Gregoire .....	27.25 "	584,856 30
Carbo to Cushing Jct. ....	24.60 "	825,846 87
Two Rivers-Cache Lake .....	4.12 "	160,971 05
Oshawa Electric Railway .....	3.38 "	161,016 45
Alvinston to Kingscourt .....	9.68 "	123,098 14
Sellwood Branch .....	4.50 "	123,139 85
Total abandonments, dismantlements, etc.....		\$2,334,349 56
Capital loss (exclusive of loss applicable to expired service life) on sale of S.S. <i>Prince David</i> and <i>Prince Robert</i> .....		1,474,971 24
Capital gain on redemption of £22,500,000 G.T.R. 4% Perp. Debenture Stock acquired under order of H.M. Treasury of the United Kingdom dated 26th October, 1940, and Dominion of Canada P.C. 6002 dated 25th October, 1940.....		5,503,500 00
Net capital gain .....		\$1,694,179 20

With regard to the capital gain, the outstanding funded debt of the Canadian National Railway Company has included £24,624,455 of 4% Perpetual Consolidated Debenture Stock issued by the former Grand Trunk Railway Company of Canada, payment of the interest on which was guaranteed by the Dominion pursuant to the provisions of The Grand Trunk Railway Acquisition Act, 1919. Under an Order dated 26th October, 1940, made by H.M. Treasury of the United Kingdom, such portion of the said Debenture Stock as was held by residents in the United Kingdom was transferred to the Treasury. The vesting price was £103.17.4 per £100 stock surrendered, payable 26th November, 1940, plus £0.7.1 accrued interest. The vesting order was made upon the condition that the Canadian National Railway Company would purchase the stock from the Treasury at the vesting price. By Order in Council P.C. 6002 dated 25th October, 1940, made under and by virtue of the Canadian National Railways Financing and Guarantee Act, 1940, and the War Measures Act, the Railway Company was authorized to purchase the securities and the Minister of Finance was authorized to make loans to the Company for the purpose, such loans to bear interest at the rate of 3½% per annum, to be repayable on demand, and secured by promissory notes and the said securities so purchased.

At the date of closing the 1940 accounts of the Railway Company the amount of securities held by residents of the United Kingdom had not been definitely determined, so the accounts have been closed on the basis that a total of £22,500,000 will be redeemed and any necessary adjustment will be entered in the Company's accounts for the year 1941. The redemption of this amount at the prevailing sterling exchange rate effects a reduction in the outstanding debt of the railway of \$5,503,500. This has been accounted for as a capital gain through the Proprietor's Equity Account.

There were no transactions during the year affecting the collateral securities held by the Securities Trust.

The Trustees present herewith the Balance Sheet of the Securities Trust as at 31st December, 1940.

For the Trustees,

W. C. CLARK,  
*Chairman.*

Mr. Chairman, the next two pages deal with the balance sheet and so forth. Do you want me to read that?

Mr. JACKMAN: Take it as read.

The CHAIRMAN: All right.







THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

SCHEDULE A. I

*Loans Outstanding*

CANADIAN NORTHERN RAILWAY—	
3½% Loan, Chapter 6, 1911.....	\$ 2,396,099 68
4% Loan, Chapter 20, 1914.....	5,294,000 02
5% Loan, Chapter 4, 1915.....	10,000,000 00
6% Loan, Chapter 29, 1916.....	15,000,000 00
Temporary Loan, 1918, repaid.....	.....
*6% Loan, Chapter 24, 1917.....	25,000,000 00
*6% Loan, Vote 110, 1918.....	25,000,000 00
*6% Loan, Vote 108, 1919.....	35,000,000 00
*6% Loan, Vote 127, 1920.....	48,611,077 00
*6% Loan, Vote 126, 1921.....	44,419,806 42
*6% Loan, Vote 136, 1922.....	42,800,000 00
6% Loan, War Measures Act, 1918.....	1,887,821 16
*6% Equipment Loan, Chapter 38, 1918.....	56,926,000 82
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918.....	.....
*Mortgage covering loans above.....	.....
Total Canadian Northern.....	<u>\$312,334,805 10</u>

GRAND TRUNK RAILWAY—	
6% Loan, Vote 478, 1920.....	\$ 25,000,000 00
6% Loan, Vote 126, 1921.....	55,293,435 18
6% Loan, Vote 137, 1922.....	23,288,747 15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk.....	15,000,000 00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans.....	.....
Total Grand Trunk.....	<u>\$118,582,182 33</u>

GRAND TRUNK PACIFIC RAILWAY—	
3% Bonds, Chapter 24, 1913.....	\$ 33,048,000 00
6% Loan, Chapter 4, 1915.....	6,000,000 00
6% Loan, Vote 441, 1916.....	7,081,783 45
6% Loan, Vote 444, 1917.....	5,038,053 72
6% Loan, Vote 110, 1918.....	7,471,399 93
Receiver's Advances, P.C. 635, March 26, 1919.....	45,764,162 35
Interest Guaranteed by Dominion.....	8,704,662 65
Interest Guaranteed by Provinces of Alberta and Saskatchewan.....	2,898,536 98
Agreement with Government under Chapter 71, 1903.....	.....
Total Grand Trunk Pacific.....	<u>\$116,006,599 08</u>

*\*Notes and Collateral Held*

None. Charge is on premises mortgaged Oct. 4, 1911.	
None.	
None.	
Mortgages dated June 23, 1916.	
6% Demand Notes.....	\$ 497,566 80
6% Demand Notes.....	33,012,414 32
6% Demand Notes.....	27,203,003 65
6% Demand Notes.....	40,031,122 27
6% Demand Notes.....	53,008,779 65
6% Demand Notes.....	50,259,312 47
6% Demand Notes.....	46,691,634 60
6% Demand Note.....	5,700,000 00
4% Debenture Stock.....	1,975,866 00
3½% and 4½% Debenture Stocks.....	7,139,399 00
6% Demand Notes.....	56,858,496 44
Miscellaneous Bonds and Debentures.....	24,573,539 90
Miscellaneous Bonds and Debentures.....	668,000 00
Miscellaneous Bonds and Debentures.....	20,721,191 12
Mortgage dated November 16, 1917.	

6% Demand Notes.....	\$ 25,479,226 97
6% Demand Notes.....	56,646,816 12
4% G.T. Pacific Mortgage Bonds.....	10,000,000 00
6% Demand Note.....	23,288,747 15
4% Demand Note.....	15,000,000 00
4% G.T.P. Debentures.....	15,000,000 00
4% Debenture Stock.....	60,801,700 00
6% 2nd Mortgage Equipment Bonds.....	1,693,113 33
3% 1st Mortgage Bonds.....	\$ 33,048,000 00
4% Sterling Bonds.....	7,499,952 00
Mortgage, June 28, 1916.....	.....
Mortgage, Oct. 18, 1917.....	.....
Mortgage, Oct. 18, 1917.....	.....
Receiver's Certificates.....	53,339,162 74
Cremation Certificates, coupons destroyed.....	8,698,170 42
Cremation Certificates, coupons destroyed.....	2,925,723 88
Grand Trunk Pacific Development Company Capital Stock.....	2,999,000 00



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
5 % Loan, Vote 137, 1924.....	10,000,000 00
5 % Loan, Vote 377, 1925.....	10,000,000 00
5 % Loan, Vote 372, 1926.....	10,000,000 00
5 % Loan, Vote 336, 1929.....	2,932,652 91
5 % and 5½ % Loans, Chapter 22, 1931.....	29,910,400 85
5½ % Loans, Chapter 6, 1932.....	11,210,815 56
Temporary Loan 1930, repaid.....	.....
Temporary Loan 1930, repaid.....	.....
Less: adjustment authorized.....	1,666,897 57
Total Canadian National Rly. Co. ....	<u>\$ 96,936,971 75</u>
Total Loans.....	<u>\$643,860,558 26</u>

{ 6% Canadian Northern Demand Note.....	\$ 12,655,019 57
{ G.T.P. Receiver's Certificates.....	3,313,530 01
{ G.T.P. Interest Coupons.....	1,925,706 96
{ 5% Canadian Northern Demand Note.....	1,318,315 86
{ G.T.P. Receiver's Certificates.....	4,691,173 58
{ G.T.P. Interest Coupons.....	1,925,706 96
{ 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.....	1,925,706 96
{ 5% Canadian Northern Demand Note.....	9,062,624 30
{ G.T.P. Receiver's Certificates—Cr. ....	364,898 78
{ G.T.P. Interest Coupons.....	1,925,706 96
5 % Can. National Rly. Co. Demand Note.....	2,932,652 91
5 % and 5½ % Can. Nat. Rly. Co. Demand Notes.....	29,910,400 85
5½ % Can. National Rly. Co. Demand Notes.....	11,210,815 56
166,877-6376 shares of Capital Stock of Grand Trunk Western Railroad.....	4,171,940 94
5% 1st and General Mtge. Temporary Gold Bonds of Central Vermont Railway, Inc. ....	8,609,000 00

\* 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.



The CHAIRMAN: Do you want to consider it?

Mr. JACKMAN: You will have to excuse my ignorance on these matters but I should like to know what the Canadian National Trust is. What is the purpose of the formation and what function does it perform?

Mr. COOPER: With regard to the Securities Trust, may I read a note which I have here? This question was asked last year and I made an effort to explain.

Mr. JACKMAN: I came in at the middle of the committee last year.

Mr. COOPER: I thought perhaps if I prepared a memorandum it would be more explanatory than any extemporaneous remarks I could make.

The Securities Trust is a corporation created under section 12 of the Canadian National Railways Capital Revision Act, 1937. Its outstanding capital stock consisting of five million shares of no par value was all issued to the Minister of Finance to be held on behalf of His Majesty. The trustees are the Deputy Minister of Finance, the Deputy Minister of Justice, the Deputy Minister of Transport, the president of the Canadian National Railways, and the vice-president of finance, Canadian National Railways.

The trusteeship was arranged to take over from the dominion government the obligations of the various railway companies (the Grand Trunk, Canadian Northern, Grand Trunk Pacific) forming the Canadian National Railway system for loans, advances and accrued interest made by the government to the railway companies mentioned. That is, the railway companies are now obligated to the Securities Trust in the same way and to the same extent as they previously were obligated to the government.

The purpose of this arrangement was to permit the elimination from the railway balance sheet of liabilities to the government for amounts advanced for deficits and accrued interest but at the same time to continue such liabilities on an inter-system basis in favour of the trust as against the railway companies in order not to improve the position of certain securities which ranked *pari-passu* with or junior to the government's claims. The removal of such liabilities from the railway balance sheet was a sound proceeding in itself but it had the highly desirable effect of eliminating a serious duplication of liabilities when those of the railway system were added to the public debt of Canada.

Such loans from the government as had been used for capital expenditures or debt redemption amounting to some \$270 millions were capitalized through the medium of the capital stock of the Securities Trust and continued in the railway balance sheet as part of the "Proprietor's equity account" which is equivalent to the share capital account. Capital gains or losses by the railway subsequent to the initial determination of value of the capital shares of the trust are excluded from the annual deficit of the railway (met by an appropriation of parliament) and are dealt with as increasing or reducing the value of the shares in the balance sheets of the railway and of the trust.

Mr. JACKMAN: It is a financial clearing account between the government and the railway system.

Mr. COOPER: Yes, we interjected this trusteeship, the trustee being a corporation comprised in the national system, so that the liabilities of the constituent corporations should be to a system corporation rather than to the government itself without relieving the debtor corporations of their liability.

Mr. JACKMAN: The Canadian National Railways Securities Trust does not appear on the balance sheet.

Mr. COOPER: The share capital of the trust is included in the capital liabilities of the system.

Mr. JACKMAN: Yes, I see it.

Mr. COOPER: Under the heading of "Proprietor's equity account", the second item in that group.



Mr. JACKMAN: Yes, I see it.

Mr. COOPER: It represents the five million shares.

Mr. JACKMAN: Yes.

Mr. COOPER: As the railway makes gains or losses on capital account as distinct from operating losses the value of the shares of the trust increases or diminishes and we make the correction accordingly. The committee if I may say so, has already approved of the railway balance sheet and of the items which brought about the change in the value of the shares during the year. All you do when you look at the balance sheet of the trust is to see the other side of the picture; there is not any difference.

Mr. JACKMAN: I shall have to study it some time.

The CHAIRMAN: Is there any discussion of this report?

Mr. HANSON: I move that the report be adopted.

The CHAIRMAN: It is moved that the annual report of the Canadian National Railways Securities Trust be adopted.

(Carried.)

There is hardly time now to start on a new report, so if it is the wish of the committee we will meet to-morrow afternoon at 3.30.

The committee adjourned to meet Thursday, May 22, at 3.30 p.m.















SESSION 1940-41  
HOUSE OF COMMONS



# STANDING COMMITTEE

ON

# RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

---

THURSDAY, MAY 22, 1941

---

## WITNESSES:

- Mr. S. J. Hungerford, President, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways.
- Mr. W. M. Armstrong, Assistant Chief of Research and Development,  
Canadian National Railways.
- Mr. O. Matthews, representing A. Touche & Co., Auditors.



At 6 o'clock p.m., on motion of Mr. Donnelly, the Committee adjourned to meet again at 8.30 o'clock p.m., this day.

The Committee met in camera at 8.30 o'clock p.m., the Chairman, Mr. J. P. Howden, presiding.

*Members present:* Messrs. Donnelly, Hanson (*Skeena*), Howden, Jackman, McCulloch, Maybank, Nicholson, Pouliot, Sanderson, Sissons.

The Committee discussed the question of the Report to the House in the light of the evidence adduced in the course of the previous sittings.

On motion of Mr. Hanson (*Skeena*), it was unanimously agreed that the Chairman be empowered to appoint a subcommittee of five members including himself and that such subcommittee be charged with the work of drafting a Report to the House and submit same to the Committee for consideration and adoption.

A vote of thanks to the Chairman was proposed by Mr. Pouliot.

At 9.10 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSÉ,

*Clerk of the Committee.*



## MINUTES OF PROCEEDINGS

THURSDAY, May 22, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 3.30 p.m., Mr. J. P. Howden, the Chairman, presiding.

*Members present:* Messrs. Donnelly, Emmerson, Gray, Hanson (*Skeena*), Harris (*Danforth*), Hazen, Howden, Jackman, McCulloch, Maybank, Pouliot, Ross (*Middlesex East*), Sanderson, Sissons.

*In attendance:* Mr. S. J. Hungerford, President and the following General Officers of the Canadian National Railways System: Mr. R. C. Vaughan, Vice-President; Mr. Allistair Fraser, Vice-President in charge of Traffic; Mr. T. H. Cooper, Comptroller; Mr. W. M. Armstrong, Assistant Chief of Research and Development; Mr. W. S. Thompson, Director of Publicity. Mr. O. A. Matthews, representing A. Touche & Co., Auditors of the Canadian National Railways System.

The Committee proceeded to the study of the Auditors' Report by George A. Touche & Co., Auditors of the accounts of the Canadian National Railways System for the year ended 31st December, 1940.

Mr. O. A. Matthews was requested by the Chairman to present the report and during the discussion which followed the witness was assisted by Mr. T. H. Cooper, the Comptroller.

(At 4.10 o'clock p.m., the sitting was suspended in order to allow the members to attend in the House for a Division. At 4.35 o'clock p.m., the proceedings were resumed.)

On motion of Mr. McCulloch, it was agreed to adopt the report of the Auditors.

The Committee afterwards took into consideration the 1941 Budget of the Canadian National Railways and Canadian National Steamships.

Mr. Hungerford requested Mr. Armstrong to read the various items of the Budget, the former replying to a number of questions relating thereto.

Concurrently, the following items of the Estimates for 1941-42 were considered by the Committee:—

Vote 403—Maritime Freight Rates Act—Canadian National Railways, Eastern Lines . . . . .	\$3,350,000 00
Vote 404—Maritime Freight Rates Act—Railways other than Canadian National Railways . . . . .	900,000 00
Vote 417—Prince Edward Island Car Ferry and Terminals	
Deficit 1941 . . . . .	400,000 00

On motion of Mr. McCulloch, it was agreed to adopt the Budget and the three Items of the Estimates 1941-42.

The Chairman expressed his thanks to each and all of the officials attending before the Committee for their kind and courteous answers to the many enquiries from the members.







## MINUTES OF EVIDENCE

HOUSE OF COMMONS, ROOM 277,

May 22, 1941.

The Standing Committee on Railways and Shipping met at 3.30 p.m. The Chairman, Mr. J. P. Howden, presided.

The CHAIRMAN: Order, gentlemen, we still have to consider the auditor's report on the budget. It is thought to be a good plan to go ahead with the auditor's report now and I think we might call on Mr. Matthews to read his report.

Mr. O. A. MATTHEWS (George A. Touche & Co., Chartered Accountants).

18th March, 1941.

The Honourable The Minister of Transport,  
Ottawa, Canada.

Sir,—Acting under authority of Sections 13 and 15 of The Canadian National-Canadian Pacific Act, 1936, and Chapter 4, 1940, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1940, and in accordance with the aforementioned authorities we now submit, through you, our report to Parliament.

The following financial statements of the National System are attached hereto:—

Exhibit I —Consolidated Balance Sheet at the 31st December, 1940—together with Audit Certificate.

Exhibit II —Dominion Government—Proprietor's Equity at the 31st December, 1940.

Exhibit III—Consolidated Profit and Loss Account—Year 1940.

Exhibit IV—Consolidated Income Account—Year 1940.

Exhibit V —Investments in Affiliated Companies at the 31st December, 1940.

Exhibit VI—Major Contingent Liabilities, including Pension Plans, at the 31st December, 1940.

### *Consolidated Balance Sheet*

Investments in Properties and Equipment appearing in the books of the companies as at the 1st January, 1923, were accepted by us. As against the corporate property investments brought into the National System accounts in 1923, there have been applied the reductions as authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the property additions and betterments less retirements have been shown at cost. The property additions from that date include construction expenditures on certain Branch Lines, the completion of which has been suspended for some years.

Investments in Affiliated Companies, as set out in Exhibit V, are represented in the main, apart from the Trans-Canada Air Lines, by a 50 per cent or less capital stock ownership. The basis of the Balance Sheet figure is cost, or in certain instances special valuations approved by the Interstate Commerce Commission some years ago. There are two principal factors for consideration in this type of investment by the railroad industry generally, viz:—



- (1) The extent of traffic benefits derived by parent companies as a direct result of their investments, and
- (2) The fact that the affiliates have utilized the proceeds from the sale of their securities largely for investment in transportation properties and equipment. It is obvious therefore, that the future valuation trend affecting Investments in Affiliated Companies will be dependent, basically, upon the future economic value of the properties and equipment of the railroad industry generally.

The Self-Insurance Reserve, in respect mainly of fire risks, is invested principally in the securities of Dominion, Provincial and Municipal Governments, together with securities of companies within the National System.

The accounts of the System are stated in Canadian currency. Sterling and United States currencies have been converted at the par of exchange with the exception of the portion of the Grand Trunk Railway Company of Canada 4 per cent Perpetual Consolidated Debenture Stock which remained subject to United Kingdom Vesting Order as at the 31st December, 1940.

A summary of Dominion Government—Proprietor's Equity at the 31st December, 1940, is set forth on the Balance Sheet and the transactions during the year 1940 affecting Proprietor's Equity are detailed in Exhibit II.

Major Contingent Liabilities, including Pension Plans, are dealt with in Exhibit VI. In respect of Pension Plans, we would make reference to the fact that reserves are not set up in the Balance Sheet against pensions presently being paid or conditionally accruing under the 1935 Contractual Plan and prior Non-Contractual Plans. Actual pension payments made at the expense of the railway are charged currently to Operating Expenses. In respect of the Pension Contracts already issued and in force under the 1935 Contractual Plan the railway has made a tentative estimate, which has been accepted by us, showing a capital amount approximating \$15,450,000. This capital estimate does not cover the pensions conditionally accruing under the 1935 Contractual Plan because their future payment is contingent upon the general trend of future railroad employment.

#### *Consolidated Profit and Loss Account*

The Cash Deficit contributed by the Government for the year 1940, as shown in Exhibit III, is after making provision for the following:—

- (a) Interest on Funded Debt held by the Public;
- (b) Interest on Current Loans from the Government;
- (c) Amortization of Discount on Funded Debt;
- (d) Depreciation on Rolling Stock, and
- (e) Fixed Property Retirements apart from those charged to Proprietor's Equity.

The amounts included in the Cash Deficit in respect of Amortization, Depreciation and Fixed Property Retirements are to be applied in reduction of the Capital Expenditure cash requirements from the Government for the year 1940.

From the 1st January, 1940, Depreciation Accounting has been applied to rolling stock owned by all Lines of the System and Retirement Accounting to fixed properties. Prior to that date Depreciation Accounting was applied to rolling stock owned by United States Lines and Retirement Accounting, on the basis of original cost, to other units of property on the System.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the Dominion.

In respect of current maintenance policy we have received certificates from the President to the effect that the Properties and Equipment of the



National System have been maintained in a proper state of repair and in an efficient operating condition during the year 1940.

#### *Capital Revision Act 1937*

The accounts of the National System comply with the provisions of The Canadian National Railways Capital Revision Act, 1937.

The Canadian National Railways Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System at the 31st December, 1940. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament of a Trustees' Report and a separate Balance Sheet for the Securities Trust. The Trustees' Report sets forth in a summary manner the transactions of the Securities Trust during the year 1940. Our audit certificate is appended to the separate Balance Sheet.

#### *General Scope of Audit*

The general scope of the test audit which we have made of the National System for the year 1940 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which were based mainly upon recorded Resolutions of the Directors. These major expenditure authorities in turn have been established mainly by Corporate By-laws of the Canadian National Railway Company, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests in the offices of Regions, Separately Operated Properties and System Headquarters, covering a cross section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staff of the System. In this connection we work 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, Accounts Receivable etc. There is the further objective of bringing about, in due course, a simpler corporate set-up within the System as one of the purposes of the Capital Revision Act, and
- (d) Audit and certification of the Consolidated Balance Sheet, Income and Profit and Loss Accounts for presentation to Parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the System.

The audit covered the various Balance Sheet accounting units with Income and Profits and Loss Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 96 companies comprising the National System as an operating entity.

The principal points at which our audit work was carried out were:—

In Canada—Halifax, Moncton, Montreal, Ottawa, Toronto, Winnipeg and Vancouver.

In U.S.A.—St. Albans, Cleveland, Detroit, Chicago and Duluth.

In England—London.

In addition, audit tests were made at other points according to special conditions and requirements.

---

A copy of our Memorandum to the Board of Directors dealing with inactive properties and other internal matters will be despatched to the Minister of Transport in due course.



We report to Parliament that the National System accounts have been maintained, during the year 1940, in an efficient manner and in general accordance with the present rules and regulations prescribed for steam railroads in Canada and those of the Interstate Commerce Commission for lines operated in the United States.

#### *Trans-Canada Air Lines*

The Trans-Canada Air Lines have not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company. A separate Balance Sheet and Income Account have been certified by us at the 31st. December 1940.

The surplus for the year 1940, as shown by the Income Account of the Air Lines, is after making provision for:—

- (a) Interest at 5 per cent on the capital investment in accordance with the Trans-Canada Contract, and
- (b) Depreciation on capital assets at similar rates to those used by other major air line companies in North America, in accordance with the Trans-Canada Contract.

#### *Canadian National (West Indies) Steamships, Limited*

The accounts of the Canadian National (West Indies) Steamships, Limited, and subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent company being vested in the Dominion. A separate Consolidated Balance Sheet together with Consolidated Income and Profit and Loss Accounts have been certified by us at the 31st December, 1940.

The Self-Insurance Reserve, in respect of fire and marine risks, is invested principally in the securities of Dominion, Provincial and Municipal Governments.

The Deficit for the year 1940, as shown in the Consolidated Income Account of the Steamships, is after making provision for:—

- (a) Interest on Funded Debt held by the Public;
- (b) Interest on Loans from the Government, and
- (c) Depreciation at 3 per cent on the capital value of vessels. This rate, which has been in effect since the inception of the companies, is based upon an anticipated 25 year life and 25 per cent salvage value.

In respect of both the Trans-Canada Air Lines and the Canadian National (West Indies) Steamships, Limited, the test audit which we have made for the year 1940 is similar in scope to that of the National System and may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities embracing mainly the recorded Resolutions of the Directors, Corporate By-Laws, Statutory and Financing Acts of Parliament and Orders in Council;
- (b) Audit tests covering a cross section of the major expenditures so authorized;
- (c) Examination into the adequacy of the internal audit control in general by the accounting staffs of the companies covering Cash Receipts and Expenditures, Securities Held, Material Stores, Accounts Receivable etc., and
- (d) Audit and certification of the Balance Sheets, Income and Profit and Loss Accounts for presentation to Parliament.

Yours faithfully,

GEORGE A. TOUCHE & CO.



The CHAIRMAN: Is there any discussion on the report so far? If there is no discussion we will proceed.

Mr. MATTHEWS: The statements attached are in fact confirmation of similar statements in the annual report of the Canadian National Railways. Our purpose in attaching these to our reports is mainly to confirm the figures which you have in your hand through the medium of the reports of the railway company itself.

The CHAIRMAN: In other words, we have been over all this before.

Mr. MATTHEWS: Yes, and our certificates appear on the bottom of the accounts of the railways' report.

The CHAIRMAN: Well, I think perhaps we will give the members a few moments to see if they want to discuss it.

Mr. HANSON: I see here that the auditors recommend the establishment at an early date of uniform accounting regulations, and that it be mandatory.

The CHAIRMAN: Mr. Matthews made a statement on that yesterday.

Mr. HANSON: Has that been considered by the directors? Has the recommendation of the auditors been considered by the directors?

The CHAIRMAN: Jot it down and try to get it in the report. Do you want Mr. Matthews to deal with it any further?

Mr. HUNGERFORD: Mr. Hanson, it is not a matter for us to deal with; it is a matter for the government to deal with and not the individual railways.

Mr. HANSON: I think it would be better if that were done. If that were done the members of the committee could compare the expenses and cost of the two systems much easier. I tried to get some information yesterday and could not get it because of the difference in the accounting systems of the two railways.

Mr. JACKMAN: Mr. Chairman, I wonder why there is a difference in the method of setting up the insurance on the T.C.A. as compared with the C.N.R. and the Canadian National (West Indies) Steamships Limited. In other words, in the T.C.A. there is no fund as a contra item against the liability. It is merely allowed as a general payment against the assets of the T.C.A.

Mr. MATTHEWS: It is a matter of corporate policy.

Mr. JACKMAN: If it is right in one case it is probably right in another case.

Mr. MATTHEWS: Not necessarily. It is a matter of policy. One company may choose to leave its reserves invested in current assets of free cash and materials. That is a matter of corporate policy. Some other company may choose to set it aside as a specific fund. I do not think there is any right or wrong about it, Mr. Jackman, or that the inclusion or the exclusion in one company or the other sets a proper precedent.

Mr. JACKMAN: In the case of T.C.A. there is sufficient cash, extra cash, from working capital to set up a fund probably at the present time. If you prefer to make the account uniform by adopting the T.C.A. policy then you would not invest further and you would perhaps dispose of the securities which are now in the insurance fund of the railway and in the Canadian National (West Indies) Steamships. If you did that you would save some of this 5 per cent interest you are paying on current loan to the dominion.

Mr. MATTHEWS: Mr. Jackman, the T.C.A. may be viewed perhaps just a little different from the others in that like all other enterprises in their early years they naturally will preserve their working capital as far as possible until their position is firmly established, but from our viewpoint as auditors we really have nothing to say on the matter. We present to you the facts. The facts indicate there is no fund set aside, and it then becomes a matter of corporate policy.

Mr. JACKMAN: Perhaps I should address the question to the president. Why the inconsistency of policy? What is the principle that differentiates the method of treatment of the insurance reserve in the three companies?



Mr. COOPER: I think, Mr. Jackman, in the case of the T.C.A. your assumption that there is sufficient working capital apart from the depreciation fund is not correct. If we did not utilize the depreciation fund for the purpose of extending the investment property and equipment we would have to issue additional capital stock on which the company would have to pay 5 per cent.

Mr. JACKMAN: But in the T.C.A. you have \$503,000 in cash and your total net working capital is close to \$1,000,000. It seems to me you have a little surplus there.

Mr. COOPER: Take the depreciation reserve. It is \$1,332,000. Out of that there is only \$500,000 of current cash which is just about a minimum that the company can operate on. The policy of the directors of the Trans-Canada Air Lines is to use the depreciation fund for capital purposes with the idea of reducing the amount of capital stock which it is necessary to issue, all with the object of reducing the interest charges which Trans-Canada will have to pay should additional capital stock be issued.

Mr. JACKMAN: The equipment seems in pretty good shape. Possibly you are depreciating faster here than is required. Even the necessity of using some of this cash as a draw down from depreciation reserves to replace capital asset in the future does not necessarily dictate what you should do about the insurance fund, whether you should set up as a fund on the asset side or simply as a claim against the general assets of the company. If it is sound in one case it would seem to me to be sound in the other, particularly when they are all under the same administration. However, I will not press the point further.

Mr. HARRIS: Probably Mr. Cooper will recall that some ten years ago this committee through some of the members complained that the present set-up of the Canadian National Railways lines did not set up in our opinion proper depreciation charges, but rather used the system of retiring certain equipment and writing it off, buying new equipment and writing it in at its full cost and maintaining that cost throughout. With the advent of Trans-Canada Air Lines they found themselves in the happy position of not being subsidized by the Post Office Department but receiving very substantial revenues for the carrying of mail by the Post Office Department, which helps out not only the possibility of their reducing the necessity of more capital investment but works out their working capital position from day to day and month to month as they go along, and they are able to set up very substantial depreciation charges against their equipment which I think, Mr. Chairman,—and I think Mr. Cooper will agree with me—is a departure, in my opinion, from the unsound practice of the Canadian National Railways in days gone by of not setting up depreciation charges on equipment.

In the report of the auditors I find this suggestion: From the 1st of January, 1940, depreciation accounting has been applied to rolling stock owned by all lines of the system and retirement accounting to fixed properties. Prior to that date depreciation accounting was applied to rolling stock owned by United States lines and retirement accounting, on the basis of original cost, to other units of property on the system.

We would again recommend the establishment at an early date of uniform accounting regulations, of a mandatory character, applicable to all Canadian railways under the statutory authority of the dominion.

This, Mr. Chairman, is to my mind a matter of congratulation on the part of the Canadian National Railways that they see fit now to adopt into their accounting system the idea that depreciation charges from year to year on certain parts of their equipment should be charged in conformity with what obtains under the rules of the Interstate Commerce Commission of the United States and in conformity with the idea that dominated the operations of the privately owned road in Canada, namely, the Canadian Pacific Railway.



Mr. MATTHEWS: Mr. Harris, did I hear that correctly; that you are suggesting that the Canadian Pacific Railway have had depreciation accounting on rolling stock?

Mr. HARRIS: No; they have not.

Mr. MATTHEWS: I just wanted to make sure.

Mr. HARRIS: I say I congratulate you on the idea that you have embalmed in this record, namely, that you are coming around to an idea which I, in all humility, suggested should be brought to your attention some ten years ago.

Mr. COOPER: We have been working towards this for about ten years. It was rather a big change to make; we had to take a step at a time. In 1940 the directors decided that there was sufficient—

Mr. HARRIS: I will make this observation to you: that you see to it when you do set this up that you do not come before this body here next year and ask for ten or fifteen million dollars to take care of that deficit which is in your balance sheet because you have a deficit due to the fact that you found it necessary to set up depreciation charges.

Mr. JACKMAN: Did I understand you to say that you were working toward a depreciation policy on all property?

Mr. COOPER: No; I said we had been working towards a depreciation policy with respect to rolling stock on the national system for the last ten years.

Mr. JACKMAN: Is it true that since the British railways have been taken over by the British government depreciation accounting was set up particularly in order to calculate the amount which the government shall either reimburse the British railways or allow them to earn? I understand from someone that the British railways did set up a depreciation reserve.

Mr. COOPER: They did, and so did the American railways.

Mr. MAYBANK: Is it true that the British government has taken over all the railways?

Mr. COOPER: They certainly control them, but they have not taken over the ownership. It is for the period of the war.

Mr. MAYBANK: It is just general control for the duration of the war.

Mr. COOPER: I wanted, Mr. Jackman, to disabuse your mind of what I understood you seemed to suggest, that there is a difference in the method of handling depreciation funds of the Trans-Canada as compared with those of the railway.

Mr. JACKMAN: No; the insurance fund.

Mr. COOPER: The insurance fund is a very small thing; it is only a matter of \$200,000. If it ever gets to a sizeable amount the question of separate investment of those funds will have to be considered. For a small amount we would not consider it necessary to establish a separate fund.

Mr. JACKMAN: It is not a very big company, the T.C.A. I am not pressing the point at all; it is just a difference which I noticed.

Mr. MATTHEWS: Mr. Harris, there was just one further observation I would like to make with respect to the matter of the depreciation in retirements. Have you in mind that the difference is great between the retirement charges and depreciation charges, and have you in mind that the railways have ever drawn down in cash the amounts included in the income for equipment retirement, or that they ever would draw down for depreciation?

Mr. HARRIS: Not being the witness but you being the witness, I would reply by saying no; that is not the point at all. I have this in mind: Since the inception of the set-up of this committee, Mr. Chairman, we have found that depreciation charges as presented to us each and every year are not in conformity with, first, the rules and regulations laid down by the Interstate



Commerce Commission of the United States; and, secondly, that they are not in conformity with depreciation charges as set up by the Canadian Pacific Railway. They are certainly not in conformity with usual accounting practice in ordinary business as regards depreciation and reserves which are set up against equipment. The result is that you and I, Mr. Chairman, are not able to get any sort of comparative picture in our minds as to how the railway is progressing.

If we could get a system accounting similar to that which applies to the Interstate Commerce Commission or similar to that which applies to the usual accounting practice in an ordinary business, you and I, Mr. Chairman, could sit here and probably give more intelligent thought to the statements that are presented to us. That is all that is running through my mind. This move appears in that direction, and I look forward to it being a starting point.

Mr. JACKMAN: How much were the capital retirements last year in the C. N. R.?

Mr. COOPER: About eight million dollars.

Mr. JACKMAN: \$8,000,000,000?

Mr. COOPER: Yes. There was an increase in the depreciation reserves of \$2,000,000. That means that the amount set aside exceeded the charges by that much.

Mr. JACKMAN: That is all in rolling stock?

Mr. COOPER: Yes.

Mr. JACKMAN: I mean on the whole system.

Mr. COOPER: There is no one who can answer that question.

Mr. JACKMAN: I am trying to find out, although I am not very hopeful of being able to get the answer, whether or not, in view of the fact that we do not adopt any depreciation policy in connection with railways, which on the capital account of \$1 billion \$980 million, 1 per cent depreciation alone per annum would be \$90,800,000—a very substantial item—if we had depreciation at 5 per cent it would obviously run into very considerable figures. Now, in lieu of setting up an account such as that we adopt in this company the policy of maintenance and capital retirements, writing off the capital value of any piece of equipment that passes out of service.

Mr. COOPER: No, sir—

Mr. JACKMAN: There are two methods of looking after the wastage in capital account; one is by the ordinary depreciation accounting method and the second is by capital retirement method; and the third point is that on equipment we are now adopting, shall I call it, the value depreciation policy.

Mr. COOPER: Yes.

Mr. JACKMAN: I pointed out how much the depreciation would be even at 1 per cent on the assets of the property, 1 per cent on \$1 billion \$980 million. Now, can you tell me briefly whether or not a commensurate item is being charged to the company by way of maintenance? We have two accounts for maintenance: ways and structures; and equipment expenses. On the first one \$40 million was spent last year and on the second one \$48 million odd was spent which would give us \$88 million. Then we have a few million set aside for depreciation on rolling stock.

Then I also asked the question a little while ago as to what the total of capital retirements during the year were. I am trying to find out whether the aggregate of those accounts come to anything like a comparable figure with, let us say, a 3 per cent depreciation rate or whatever rate might be adjudged proper if you did follow a depreciation policy in connection with railway accounting which policy was designed to replace the wastage of capital assets. Do I make that reasonably clear?



Mr. COOPER: Yes. I understand your question. I think the answer was given in the report of the directors itself. They make the statement that the railway and its equipment have been adequately maintained. That is the statement of the directors to the government; and in the report of the auditors which Mr. Matthews just read they make the statement that in respect of current maintenance policy "we have received certificates from the president to the effect that the properties and equipment of the national system have been maintained in a proper state of repair and is in an efficient operating condition." Now, if we are maintaining our property—that is if we are renewing it adequately—it seems to me that we are adequately taking care of any depreciation which may be presumed to have taken place.

Mr. JACKMAN: There can be no question about the relative operating efficiency of the railway.

Mr. COOPER: This is not the operating efficiency; it is the physical condition.

Mr. JACKMAN: You cannot operate efficiently until you have a fairly good physical state appertaining.

Mr. COOPER: The statement I am making here is that the physical condition of the property has been adequately maintained.

Mr. JACKMAN: Well, you see, like a human being—we maintain ourselves well up to death—the analogy is not quite perfect with an industrial company we are able to carry on our detailed duties efficiently and with no diminution in results. But the whole conception of the railroad industry, I should think, must have changed in the last thirty or forty years, perhaps the last two decades. Once upon a time, I suppose, railways were looked upon as performing a service for which there would always be a great demand. The competition of other forms of transportation was not then foreseen; it certainly was not then in existence. Now, you have alternative means of transportation. You have the airways as a new development in the last few years. So that no longer—it may be a matter of opinion, in my view anyway—can you say that if you simply maintain the physical condition of a railway you have maintained the value of those capital assets?

Mr. MATTHEWS: Mr. Jackman, you are dealing with the matter of depreciation—of two elements of depreciation—

Mr. JACKMAN: I did not deal with obsolescence.

Mr. MATTHEWS:—in regard to fixed properties. The Inter-State Commerce Commission about twelve years ago, or maybe some little time before that, established the order 15,100 that was a model of theoretical perfection along the lines you are now speaking. In fact, it was so perfect, they thought, that they made it mandatory on all the railroads of the United States—depreciation for fixed properties. But before they got to the point where it was possible of application in view of all of the practical problems involved, they entirely rescinded the order although they spent years on that study. Now, that matter of obsolescence of which you speak is one of the realities undoubtedly in the railroad industry, and anyone who does not give cognizance is closing his eyes to the realities of our time. But, on the other hand, to suggest that by some magical means of depreciation that kind of thing could be provided for is to attempt something that the Inter-State Commerce Commission studied for years and abandoned. And the position of the American railroads to-day in regard to those fixed properties is identical with that of the Canadian National Railways; and I think, as we ourselves have pointed out in report from year to year, the question of obsolescence is admitted to be something that the owners of all railroads must bear in mind as a contingency. But what appeared to be a contingency two or three years ago, that very fact to-day is a national asset, and I do not know when you are going to level that out. There is no



such thing in the railroad industry to-day as obsolescence; to-morrow with the war over that is another day.

During the period of 1920-30 there was not any obsolescence in the railroad industry, but following upon the collapse of railroad revenues in 1929 and 1930 you had this spectacle in the United States, of railroads having had depreciation accounting for long years in regard to equipment and having still in addition to all of them to write off many hundreds of millions of dollars of capital loss arising out of a straight decline in revenue from 100 cents to 50 cents; but the railroad industry simply had to take that loss. Take the United States Steel Corporation: if you make a study of their capital position in the last ten years you will find this identical situation; and it seems to me that we are living in days where we have to acknowledge that as a fact; but to suggest that for the Canadian National Railways, in the light of all the facts that are at hand, in regard to the suggestion made by the Inter-State Commerce Commission and the experience of industry generally in the ten years following 1929 is to suggest something that is not possible of accomplishment, because many industries have had a very liberal basis of depreciation but they still have had to suffer tremendous capital losses.

Mr. JACKMAN: Yes, I quite agree that depreciation and obsolescence—particularly the latter item—may be an arbitrary matter—a certain fixation of it is—but nevertheless I think you did say that we could not shut our eyes to the fact that the railroad industry was an industry which suffered rather substantially from obsolescence, and while I should not expect you to determine that actuarially, nevertheless we cannot shut our eyes to the fact that this two billion dollar assets which we have is, over the longer term, facing a considerable obsolescence which obsolescence should in the best judgment of the board of directors of the Canadian National be offset by yearly appropriation from profits, if you have them or if there were no profits, to losses, by an increase in the annual losses so that the people of Canada know that this item of two billion dollars which represents the capital cost on the books is not a true or actual item but one which is suffering from this disease of obsolescence and is being constantly reduced, perhaps not as fast as we would like to see it, but nevertheless we are making some gesture toward getting accuracy and truth in our statement.

The CHAIRMAN: Gentlemen, I do not believe that we should unduly pursue any definite point. We are not really here to debate. We have made good headway, that is true, but having followed some point as far as possible and having made ourselves clear I think we should leave it to the report of the committee to deal with it thereafter.

Mr. McCULLOCH: I move the adoption of the report.

Mr. JACKMAN: May I finish?

The CHAIRMAN: Yes.

Mr. JACKMAN: As for myself, naturally I have to accept the ruling of the chair, but I do so chiefly because I doubt very much will develop from it although I still wish to go on record with the statement that what I have claimed has not in my opinion been changed or negated.

The CHAIRMAN: Your record is here.

Mr. COOPER: To make it quite clear, Mr. Chairman, may I have on the record that I disagree with Mr. Jackman?

The CHAIRMAN: All right, gentlemen.

Mr. ROSS: I should like to ask something in connection with the auditing company. When did this company perform its first audit, Mr. Matthews?

Mr. MATTHEWS: The year of amalgamation, 1923.

Mr. ROSS: You have not audited the books continuously since then?

Mr. MATTHEWS: Except the year 1935.



Mr. ROSS: Only one year?

Mr. MATTHEWS: Yes.

Mr. ROSS: Is the cost laid out in the report any place?

Mr. MATTHEWS: No. The auditors are appointed annually by parliament and the fees of the auditors are fixed by Order in Council.

Mr. ROSS: In the Auditor General's report, I presume?

Mr. MATTHEWS: No, it is paid by the Canadian National Railways.

Mr. ROSS: It is not in the report?

Mr. MATTHEWS: As a separate item?

Mr. ROSS: Yes.

Mr. MATTHEWS: No.

Mr. ROSS: Could we have the cost of your report?

Mr. MAYBANK: I thought it was paid out of the consolidated revenue fund.

Mr. MATTHEWS: No; the Canadian National-Canadian Pacific Act provided that the auditors whomever they are would be appointed by parliament annually and that the fees of the auditors would be fixed by Order in Council and paid by the Canadian National Railways.

Mr. ROSS: They are fixed?

Mr. MATTHEWS: Fixed by Order in Council.

Mr. ROSS: That is, from 1923 they have not changed?

Mr. MATTHEWS: In 1923 the situation was that the auditors did not report directly to parliament. The auditors did not report directly to parliament until the Canadian Pacific-Canadian National Act. Prior to that time—

Mr. ROSS: The fee has changed since 1923, then?

Mr. MATTHEWS: Very little. The only change since 1923 has arisen out of the Trans-Canada Air Lines.

The CHAIRMAN: There is a motion to adopt the report.

Mr. POULIOT: Just before it is adopted may I say that yesterday I saw in *La Presse* of Wednesday, May 21, there is an air mail C.P.R. service around the world and that the C.P.R. controls eight aviation companies. It is a B.U.P. despatch. I am not going to ask any questions on it but I direct its attention to the company for their information.

The CHAIRMAN: Your statement goes on the record, Mr. Pouliot.

Mr. POULIOT: It is just to give the company notice of the situation.

The CHAIRMAN: It has been moved that the report be adopted.

Mr. JACKMAN: What was the cost of the audit in 1940? After all, it is a very big job.

Mr. MATTHEWS: It is fixed at \$51,800. I think it was \$50,000 a year.

Mr. ROSS: \$51,800?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: There is a private report in the auditors' report with regard to inactive properties. What is the cost value of the inactive properties, the book value now?

Mr. MATTHEWS: Uncompleted branch lines in which construction has been suspended about \$7,100,000, and other minor uncompleted projects \$675,000 and miscellaneous inactive property of \$1,400,000.

The CHAIRMAN: All in favour of the motion please indicate.

Mr. POULIOT: I have a question to ask Mr. Hungerford and then I shall be through. Mr. Hungerford, I hold in my hand a copy of the statement that you made before the Senate committee and it is entitled "Railway unification opposed by Canadian National president, 1939." You still hold the same view?



Mr. HUNGERFORD: I do.

Mr. POULIOT: Thank you.

The CHAIRMAN: Shall the motion carry?

Motion agreed to.

Mr. MAYBANK: I wish to make a motion. It is not necessary that it be done now as it deals with the report of the committee.

The CHAIRMAN: All right. The next document for us is the budget of 1941.

Mr. ARMSTRONG: This is the budget of the Canadian National Railways and the Canadian National Steamships for the year 1941.

### CANADIAN NATIONAL RAILWAYS

#### CANADIAN NATIONAL RAILWAYS AND CANADIAN NATIONAL STEAMSHIPS BUDGET FOR YEAR 1941 SUMMARY

	Reference page	Amount	Total
<i>Canadian National Railways—All-Inclusive System—</i>			
Net Income Deficit			Nil
Canadian National Railways.....	2	Nil	
Capital Expenditures.....	3	\$19,692,206	
Acquisition of Securities.....	4	344,000	
Retirement of Maturing Capital Obligations Including Sinking Fund and Equipment Principal Payments.....	5	9,378,000	\$29,414,206
Total Budget.....			<u>\$29,414,206</u>

NOTE.—In event of Equipment Trust being issued for the purchase of new equipment for the Grand Trunk Western Railroad, the total Budget Requirement of \$29,414,206 will be reduced by approximately \$4,500,000.

	Reference page	Total
<i>Canadian National Steamships—</i>		
Canadian National (West Indies) Steamships, Limited		
Net Income available towards payment of Interest on Advances by Government of Canada.....	6	\$ 500,000
Capital Expenditures Additions and Betterments.....	6	20,000

MONTREAL, May 1, 1941.

### CANADIAN NATIONAL RAILWAYS

(All-inclusive system)

#### BUDGET FOR YEAR 1941

	Amount	Total Requirements
Net income deficit—		
Operating Revenues, excluding 20% Contribution, M.F.R. Act.	\$ 286,250,000	
Contribution from Government under Maritime Freight Rates Act (20%) .....	3,350,000	
Government Share of Operating Account, P.E.I. Car Ferry and Terminals .....	400,000	
Total Operating Revenues.....	290,000,000	
Operating Expenses .....	227,000,000	
Net Revenue from Railway Operation.....	63,000,000	
Taxes .....	6,810,000	
Other Income Debits or Credits—Net Debit.....	2,551,000	
Net Income Before Fixed Charges.....	53,639,000	
Fixed Charges:		
Interest Due Public on Long Term Debt.....	44,847,000	
Interest on Dominion Government Loans for Capital and Refunding .....	6,038,000	
Other Fixed Charges.....	2,754,000	
Total Fixed Charges.....	53,639,000	
Estimated Net Cash Requirement on Deficit Account...	\$ NIL	NIL



Mr. JACKMAN: You must have worked backwards on this one, didn't you?

Mr. ARMSTRONG: To some extent.

The CHAIRMAN: Page 3.

Mr. ARMSTRONG: Page 3 deals with the estimated capital expenditures for the year 1941.

The CHAIRMAN: If these items were read you could make a notation oposite any one that you want to discuss later on and if you do not want to discuss any of them we will be through with them and they will be in the record.

## CANADIAN NATIONAL RAILWAYS

## BUDGET FOR YEAR 1941—ESTIMATED CAPITAL EXPENDITURES

## General Additions and Betterments, less Retirements:

	Amount	Total
Atlantic Region .....	\$ 3,341,533	
Central Region .....	3,215,306	
Western Region .....	2,770,223	
Grand Trunk Western Railroad Company .....	708,609	
Central Vermont Railway, Inc. ....	169,221	
Hotels .....	121,500	
Montreal Terminals Development .....	4,100,000	
Prince Edward Island Car Ferry and Terminals .....	27,650	
Subsidiary Companies .....	444,030	
General, including additions and betterments to equipment .....	793,185	
	<hr/>	<hr/>
		<u>\$15,691,257</u>

## NEW EQUIPMENT PURCHASES:

*Canadian National Railways*

## Freight Cars

- 125 ore cars
- 100 overhead refrigerator cars
- 250 70-ton triple hopper cars
- 200 52' flat cars
- 150 Hart cars

## Passenger cars

- 25 air conditioned first-class coaches
- 7 steel mail and baggage cars
- 28 second-hand coaches

*Grand Trunk Western Railroad Company*

## Locomotives

- 25 locomotives

## Freight cars

- 200 50' auto cars
- 100 50' box cars
- 100 flat cars
- 200 gondola cars

Total Estimated Cost, including Sales Tax and Inspection Charges .....	\$13,270,206
Equipment Retirements .....	<u>2,069,257</u>
Available from Depreciation Reserve .....	<u>7,200,000</u>

Total Requirement for Capital Expenditures .....

\$19,692,206

Mr. HAZEN: How do the expenditures in the Atlantic region and the central region for 1940 compare with the estimated expenditures for 1941?

Mr. ARMSTRONG: The actual expenditures in 1940 as compared with the estimated expenditures for 1941? The Atlantic region in 1940, \$1,675,467. The budget for 1941, \$3,341,533.

For the central region the actual in 1940 was \$765,442; and the budget for 1941, \$3,215,306.

Mr. HAZEN: What is a hart car.

Mr. ARMSTRONG: That is a ballast car.

Mr. HAZEN: For dumping?

Mr. ARMSTRONG: Yes.

Mr. HAZEN: From whom do you buy your locomotives?

Mr. ARMSTRONG: The locomotives in Canada are from Montreal Locomotive Company or the Canadian Locomotive Company.



Mr. HAZEN: Were all these locomotives bought in Canada?

Mr. ARMSTRONG: For 1941?

Mr. HAZEN: Yes. I am speaking of the new equipment of 25 locomotives.

Mr. ARMSTRONG: Those are to be bought in the United States.

Mr. HAZEN: In the United States?

Mr. ARMSTRONG: In the United States. That is equipment for our American lines.

Mr. JACKMAN: Where are you getting the second-hand coaches?

Mr. ARMSTRONG: They were purchased in the United States.

Mr. HUNGERFORD: I might explain that while we are purchasing new locomotives for the Grand Trunk Western of a certain type to suit the requirements, we are going to transfer at least an equal number of engines that now belong to the Grand Trunk Western to the Canadian National. All these engines will be of a type suitable to meet our requirements on the Canadian lines; so, in effect, the buying of these 25 engines for the Grand Trunk Western is to provide additional power in Canada.

Mr. JACKMAN: What percentage of your rolling stock would have this new type of airbrake equipment.

Mr. HUNGERFORD: It is practically all equipped.

Mr. JACKMAN: But there is a new type that the I.C.C. make.

Mr. HUNGERFORD: You are referring to what is known as the A.B. brake. It is being applied to all new equipment, but it is being applied progressively; rather slowly to the older equipment.

Mr. JACKMAN: Of the total rolling stock approximately what percentage would have the new A.B. equipment?

Mr. HUNGERFORD: We will have to get that for you.

Mr. JACKMAN: I only want a round figure. 10 per cent or 20 per cent?

Mr. HUNGERFORD: I could not say.

Mr. JACKMAN: You are making pretty slow progress in putting it on the new equipment?

Mr. ARMSTRONG: I would not say that; no.

Mr. HUNGERFORD: We can easily get that for you but we have not got it here.

Mr. HAZEN: Do you have to pay duty on second-hand equipment which you bring in from the United States?

Mr. HUNGERFORD: There will be Canadian duty on a depreciated value.

The CHAIRMAN: I think we would make better time if we ran through these items and you made notations concerning items which you wished to discuss afterwards. However, we shall do as you prefer.



Mr. ARMSTRONG:

CANADIAN NATIONAL RAILWAYS  
BUDGET FOR YEAR 1941—ACQUISITION OF SECURITIES

<i>Toronto Terminals Railway Company—</i>		
Joint with the Canadian Pacific Railway Company		
Provision for Canadian National Railways' Proportion of Capital Expenditures of the Toronto Terminals Railway Company, which may be required in 1941.....		\$ 100,000
<i>Northern Alberta Railways Company—</i>		
Joint with the Canadian Pacific Railway Company		
Provision for Canadian National Railways' Proportion of Capital Expenditures of the Northern Alberta Railways Company, which may be required in 1941.....		100,000
<i>Chicago and Western Indiana Railroad Company—</i>		
Advance to be made to the Chicago and Western Indiana Railroad Company, under terms of Fourth Supplemental Indenture dated as of March 1, 1936, between that Company and the Bankers' Trust Company—\$131,800 (say).....		132,000
<i>Atlantic and St. Lawrence Railroad Company—</i>		
Provision for approximate amount required to purchase 155 currency shares of the Atlantic and St. Lawrence Railroad Company, which are outstanding in the hands of the Public.....		12,000
Grand Total.....		<u>\$ 344,000</u>

CANADIAN NATIONAL RAILWAYS  
BUDGET FOR YEAR 1941

RETIREMENT OF MATURING CAPITAL OBLIGATIONS, SINKING FUND  
AND EQUIPMENT PRINCIPAL PAYMENTS

Due Date 1941	Issue	Amount
April 16th	Payment under Hire-Purchase Agreement.....	\$ 517,173
April 18th	Payment under Hire-Purchase Agreement.....	991,968
May 1st	Canadian National Railway Company 4½% Equipment Trust Series "J" Certificates.....	1,000,000
May 1st	Canadian National Railway Company 5% Equipment Trust Series "K" Certificates.....	1,200,000
June 1st	Canadian National Railway Company 4½% Equipment Trust Series "L" Certificates.....	1,050,000
July 1st	Canadian National Railway Company 2% 1927 Guaranteed Debenture Stock.....	988,441
July 1st	Canadian National Railway Company 2½% Equipment Trust Series "Q" Certificates.....	650,000
July 1st	Wellington, Grey and Bruce Railway Company 7% Bonds....	5,840
July 1st	New England Elevator Company 3½% Bonds.....	10,000
August 1st	Canadian National Railway Company 2½% Equipment Trust Series "O" Certificates.....	1,430,000
September 1st	Province of New Brunswick Debentures, account of St. John and Quebec Railway Company.....	166,000
September 15th	Canadian National Railway Company 2½% Equipment Trust Series "P" 1938.....	500,000
October 1st	St. John and Quebec Railway Company 4% Stock.....	27,280
December 14th	Grand Trunk Western Railroad Equipment Trust, 1929.....	283,000
December 14th	Central Vermont Railway, Inc., Equipment Trust, 1929.....	124,000
December 31st	Indebtedness to State of Michigan re Woodward Avenue...	428,537
1942		
January 1st	Wellington, Grey and Bruce Railway Company 7% Bonds...	5,840
Grand Total .....		9,378,079
		(say) <u>9,378,000</u>

NOTE.—There has not been included in the above statement the semi-annual Sinking Fund Payments of \$250,000 each, due July 1, 1941, and January 1, 1942, for Canadian Northern Railway Company 6½% Sinking Fund Bonds, as these amounts, in the judgment of the Management, will not be required owing to the improbability of our being able to use same in accordance with the terms of the Trust Agreement.



Mr. SANDERSON: What is meant by "hire-purchase agreements"?

Mr. ARMSTRONG: That is an arrangement that was made with the government in connection with the purchase of equipment. The government in the first instance paid for the equipment and the Canadian National pays the cost back in equal annual instalments.

Mr. MAYBANK: The government has a lien note on it and can take it away from you if it likes?

Mr. ARMSTRONG: Yes.

Mr. HUNGERFORD: They continue to own the equipment until it is paid for.

Mr. ARMSTRONG:

#### CANADIAN NATIONAL STEAMSHIPS

##### CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED—BUDGET FOR YEAR 1941

	1941 Estimate
<i>Estimated Net Income from Operation—</i>	
Operating Revenues.....	\$4,629,000
Subsidies to be received from the West Indies Colonies, in conformity with Trade Agreement entered into with the Government of the Dominion of Canada.....	183,000
<b>Total Revenues.....</b>	<b>4,812,000</b>
Operating Expenses.....	3,790,000
<b>Net Operating Income.....</b>	<b>1,022,000</b>
Interest Requirements on 5 per cent 25-Year Bonds issued in 1930, Principal Amount \$9,400,000.....	470,000
Exchange Premium on Bond Interest.....	52,000
<b>Net Income Available towards Payment of Interest on Advances by Government of Canada.....</b>	<b>500,000</b>
<i>Capital Expenditures—</i>	
Additions and Betterments.....	\$ 20,000

The CHAIRMAN: Before we pass the budget, gentlemen, I have some items I should like you to consider for a moment. The first is item No. 403 on page 47 of the current estimates, departmental administration, \$335,070. Shall the item carry?

Carried.

Item 404 on the same page?

Carried.

Vote No. 417, on page 52?

Carried.

Shall we pass this budget?

Mr. JACKMAN: You mean the budget report which we have in front of us?

The CHAIRMAN: Yes.

Mr. JACKMAN: That is an important thing: I had better give some consideration to it.

The CHAIRMAN: We are through with the consideration of this portion of the business.

Mr. EMMERSON: There might be a few questions we would like to ask on the budget.

The CHAIRMAN: All right.

Mr. EMMERSON: I wanted to ask just one question in connection with the Prince Edward Island Car and Ferry Terminals. There is an amount of \$27,650. Is that for the construction of the radio beacon, or is it for the maintenance of the car ferry or repairs, or what is it?



Mr. ARMSTRONG: That includes an amount for the erection of beacons at Cape Tormentine and the installation of direction finding equipment on the S.S. Charlottetown.

The CHAIRMAN: Are there any other questions?

Mr. MAYBANK: What is this item of \$121,000 for, under "Hotels." Can you give us a little detail on that?

Mr. ARMSTRONG: It is made up of a large number of small items, Mr. Maybank.

Mr. MAYBANK: As far as I can see, at any rate, in our budget of the former year I do not see anything comparable. The only hotel expenditure I notice is the one for the Vancouver Hotel.

Mr. ARMSTRONG: There are altogether 28 items in that.

Mr. MAYBANK: There are a large number of expenditures in all the different hotels?

Mr. ARMSTRONG: Yes; there are eleven hotels and twenty-eight items.

Mr. HUNGERFORD: Generally speaking, they represent some improvements at the different places.

Mr. MAYBANK: You have been making quite a few of the old type refrigerator cars into the new overhead type; have you mostly all overhead refrigerator cars now?

Mr. HUNGERFORD: I think we only have 100 and we are proposing to get another 100.

Mr. MAYBANK: But these are new?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The other 100 are converted, are they not?

Mr. HUNGERFORD: No; they were built new.

Mr. MAYBANK: You also converted some, did you not?

Mr. HUNGERFORD: No.

Mr. MAYBANK: The new scheme, referring to the overhead type, is where you lay the ice all across the ceiling?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: That is the meaning of it?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The heating arrangement is different too, is it not?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: The manner in which you distribute it in the car is different, is it not?

Mr. HUNGERFORD: The improved heating arrangement has been applied to a large number of the old cars, and it is also applied to these new cars.

Mr. MAYBANK: Then there would be that much conversion to a number of old cars?

Mr. HUNGERFORD: Yes.

Mr. MAYBANK: But you did not convert the old cars into the overhead freezer type?

Mr. HUNGERFORD: Quite right.

The CHAIRMAN: Gentlemen, we really do not need to detain the officials of the railway.

Mr. JACKMAN: Mr. Chairman, there are one or two questions on the budget which I should like to ask. This is a very important part of our duties.

The CHAIRMAN: All right.



Mr. JACKMAN: As I understand it, the system should break even on operating charges in the coming year and also pay interest on its debt to the public and on its funded and current debt to the government?

Mr. ARMSTRONG: That is right.

Mr. HUNGERFORD: That is what we predict.

Mr. JACKMAN: That is what the budget calls for. In addition to that you want \$29,441,000.

Mr. HUNGERFORD: Yes.

Mr. JACKMAN: \$19,000,000 is for capital expenditures which are set forth on page three. I just want to understand these book-keeping items thoroughly. There is thirteen million and nineteen million to go for new equipment?

Mr. ARMSTRONG: That is correct.

Mr. JACKMAN: On page 3 we have two items in red: Equipment Retirements, \$2,069,257, and available from Depreciation Reserve, \$7,200,000. Could you throw some light on those two red items?

Mr. COOPER: They represent the amounts which will be available from the retirement of equipment and the amount available in the depreciation reserve. In other words, we are going to use the funds available in the depreciation reserve as far as they will go towards meeting our capital expenditures.

Mr. JACKMAN: Those funds having been set up out of charges to pass operating accounts?

Mr. COOPER: Yes.

Mr. JACKMAN: In addition to the \$19 million we have a cost, the first item being \$344,000, for acquisition of securities; that cost is entailed by purchasing certain securities?

Mr. COOPER: Yes.

Mr. JACKMAN: It does not represent the actual securities; it represents the cost of acquiring them, funds or exchange.

Mr. COOPER: Let us take one, for example, the Toronto Terminal Railway. It is expected to require \$200,000 for capital expenditure and of that the Canadian National Railway as part owner would be required to provide \$100,000.

Mr. JACKMAN: That is acquiring new securities, not old ones.

Mr. COOPER: The Toronto Terminal Railway will issue its bonds. From the point of view of the Canadian National Railways we are purchasing the bonds of the Toronto Terminal Railway and they are making a capital expenditure.

Mr. JACKMAN: With regard to those amounts concerning the Toronto Terminal Railway they will use those amounts to purchase new equipment or something new; it is not to cover a deficit on their part?

Mr. COOPER: No, for improvements to the Terminal at Toronto. The operating costs of the Terminal are borne by the two railways on the basis of use.

Mr. JACKMAN: The \$34,000 all goes to other companies for the acquisition of new assets of the other companies.

Mr. COOPER: As far as the Toronto Terminal is concerned, yes; as far as the Northern Alberta Railway is concerned, yes; but the item for the Chicago and Western Indiana is not quite in that character. I do not know whether you want me to explain it.

Mr. JACKMAN: No, it is not large. You want \$9,378,000 for retiring maturing securities, and they are set out on the schedule on page 5, all being rolling stock certificates.

Mr. COOPER: Not all, but most of them.



Mr. JACKMAN: Perhaps you had better explain.

Mr. COOPER: Well, in the funded debt of the railway which appears in the balance sheet as \$1 billion \$199 million and of which details appear on pages 19 and 20 you see all the different securities of the national system which are outstanding in the hands of the public at the end of 1940. Now, some of those fall due for retirement during 1941.

Mr. JACKMAN: These are securities already in existence in regard to which you are the debtor?

Mr. COOPER: Yes.

Mr. JACKMAN: And you have not been able to set up funds to take care of them. In other words, they have not been charged to operations during the life of the equipment which would accumulate so you could meet these maturities which fall due in 1941.

Why do you have to call upon the government to give you funds to pay off a debt which you owe on rolling stock if you have charged the wear and tear on the rolling stock during the years in which it has been in use?

Mr. COOPER: To the extent that money has been provided by charges to operations for the retirement of rolling stock, it has been our practice to use those moneys for general additions and betterments rather than for the retirement of capital obligations. You cannot use the money twice. If we use the sums which are provided by charges to operations for improvement of the property, then they are not available for the retirement of capital debts.

Mr. JACKMAN: You do not think it should have been earmarked as you met the charges to operations for the specific purpose of retiring these equipment trusts certificates?

Mr. COOPER: No, definitely not.

Mr. JACKMAN: We discussed that the other day. This amount of money \$9,000,000 has really been charged to current operations, but the money was used currently rather than accumulated to meet the maturities.

Mr. COOPER: No, I would not quite agree with that. We purchase equipment by the issue of equipment trust certificates which mature serially over a period of fifteen years. I do not know whether you are suggesting in some way that we should take up in our operations in that fifteen-year period a sufficient amount to retire the certificates, because if that is your suggestion then I do not think we could accept it because obviously equipment lasts more than fifteen years. As a matter of fact, the discharge of capital obligations in point of time has no relation to the life of the property itself; we might issue perpetual securities, but we would not suggest that the property acquired by the issue of such securities is perpetual.

Mr. JACKMAN: The point that still sticks in my mind is that you have a certain amount of rolling stock against which you issue these equipment trust certificates, and now you come to the maturity date when you want \$9,000,000 to retire them, in part at least. I think you said that amounts had been charged to operations to offset that.

Mr. COOPER: Yes, but the amounts which have been charged to operation have been used for general betterment and addition; they are not earmarked and they are not available for the discharge of these equipment trust obligations. You may think that the funds should be earmarked, that we should take the sum available in the depreciation reserve and use it as far as it will go for the discharge of capital debt. We prefer to apply it against general additions and betterments.

Mr. ARMSTRONG: You realize that this equipment is still in service.

Mr. JACKMAN: Yes, it makes my point all the stronger.

Mr. ARMSTRONG: It has not been retired.



Mr. JACKMAN: I realize it is a financial operation.

Mr. COOPER: I do not think there is any direct connection between the redemption or discharge of the capital debt and the operating account itself. The only effect it has may be to change the interest rate. If we change our capital debts from one character such as equipment trust obligations and substitute a 20-year bond; that is purely a financial transaction and has no relation to operations, and it is not conditioned in any sense upon the life of the equipment.

Mr. JACKMAN: But as I understand equipment trust certificates, they are based on the useful life.

Mr. COOPER: No, I do not think so; not at all.

Mr. GRAY: I suppose Mr. Jackman and Mr. Cooper might get together and thresh this out in Mr. Jackman's room and let us get on.

Mr. COOPER: Our practice with respect to accounting in this kind of thing follows the accounting regulations of the Interstate Commerce Commission precisely. You will find every other railroad doing what we are doing. You will find the Canadian Pacific Railway which is often held up to us as an example doing what we are. There is nothing wrong with it.

The CHAIRMAN: Gentlemen, I do not believe that the Canadian National Railway system will alter its accounting unless we get at them through the reports. I do not think that any amount of debate will make any change. It is well to have these matters explained, no doubt, but we have had quite a lengthy explanation and I think probably we might defer.

Mr. MAYBANK: Mr. Chairman, I indicated yesterday that I wanted to move a resolution relative to the amount of government work the Canadian National Railways does. I have drafted a few paragraphs of what I would like to see put into the report, and I would like to do that now while the representatives of the railway are here, because should there be anything factually wrong they would be able to correct it. I would like to move, seconded by Mr. Hanson, that in the report of this committee to the house the following words should be included—or as Mr. Harris says “embalmed”, but I will say embodied, because I believe he was indulging in a witticism when he used that word:—

Your committee has inquired carefully into the position of the Canadian National Railway with reference to the amount of government or government-controlled business which it receives in comparison with the Canadian Pacific Railway, and more particularly such business of that kind which may be said to be a result of the war, e.g., the movement of the armed forces, the shipment of commodities for them and the movement of munitions of war, etc.

It would appear to your committee that the railroad which is the property of the people of Canada obtains about 50 per cent of the total business of this kind; possibly a little less or a shade more.

Your committee feels strongly that a considerably larger share of all such railway business should go to the National system.

Your committee is influenced towards such a conclusion, in part by the fact that the Canadian mileage of the two systems is approximately 21,790 for the C.N.R. and 16,829 for the C.P.R., and this great difference in miles of track would tend to show the justice of the larger share of government and government-controlled business going to the C.N.R.

Again, the number of employees on the two railways would tend to point to the same conclusion. Canadian National Railway employees are about 75,000 whereas Canadian Pacific employees are about 53,000: the ratio of about 3 to 2.

Moreover, considering the fixed charges of the two roads, it is seen that the C.N.R. has to find a much larger sum of money for interest each year than does the privately owned road and if the C.N.R. should fail



to earn enough to pay its fixed charges, the people of Canada, the owners of the road, have to tax themselves to make up the deficit. The ratio of fixed charges of the C.N.R. to the C.P.R. is as 53 to 26. This is another and further indication that the government should make sure that the national road gets the major share of all government railway business and government-controlled business.

As a result of the foregoing as well as other considerations, your committee strongly recommends to parliament that effective steps be taken by the government to make certain that from this time forward the Canadian National Railway will obtain not less than 65 per cent of all railway business which is in the control of the government of Canada.

I just wish to add to that that I do not want to be understood as making any attack whatsoever upon the Canadian Pacific Railway. Personally I appreciate the service that it is rendering to this country and has rendered in the past. I have every respect for it. I think that Canada has been very well served by it; but it seems to me that considering all of the facts that from time to time we discover in relation to the railway business in Canada and with relation to the manner in which the C.N.R. is carrying on, I think they lead us inescapably to the conclusion that the people's road—for I might call it that—should get the major share of the sort of business that is mentioned in these clauses that I desire to get into the report.

The CHAIRMAN: May I point out, gentlemen, that this is very unusual if it is in order. I question whether it is in order, but any motion I suppose is in order. It is very unusual; it makes it impossible for the officials here to comment on a report that is not yet submitted because I do not see how we can put it in the minutes of this committee. The usual practice in the past has been for the committee to meet in camera and discuss these things and draft a report.

Mr. MAYBANK: Mr. Chairman, I believe I can restore order or a condition of order if we are for the moment a little out of order. As I said when I introduced this I want to do it at this time so that should there be any factual misstatements the officers present could correct them. May I put it this way: I am giving notice that I shall move that this go into the report.

The CHAIRMAN: That makes it all right.

Mr. MAYBANK: Then I would like to ask whether there is anything factually wrong. I am not asking these officers to talk about the policy in regard to this. That is not their sphere. But I should like to ask the officers if there is anything factually wrong with that statement.

Mr. JACKMAN: And does it include the whole truth.

Mr. MAYBANK: My proposed proposition is to find out if there is anything wrong with it other than my figures. They can go as far as they like in a further examination of it.

The CHAIRMAN: We can accept this as a notice of motion and have the officials here correct you if you have been in error.

Mr. MAYBANK: For your convenience then I will give you what I have read from.

The CHAIRMAN: Would it be in order for a copy of this to be left with the officials until we draft our report to-morrow?

Mr. MAYBANK: I submit what has been said by me here now.

Hon. Mr. CARDIN: Can not that be considered as a suggestion made instead of a recommendation?

Mr. MAYBANK: It may be, Mr. Cardin, when we are actually draftng the report that some variation in words may be made. I am not stuck on the precise phraseology or anything like that. My sole purpose in doing it at this moment was, as I have said, to get any incorrect facts corrected.



Mr. HAZEN: May I ask what the motion is?

Mr. GRAY: There is no motion.

Mr. HAZEN: Yes, I understand there is.

The CHAIRMAN: As the matter stands Mr. Maybank contemplates moving that this clause be embodied in the report. But he is asking, in order to avoid his making any misstatement, that the officials of the road who are here correct any statement that he has made that is incorrect. He is not asking them to comment on the motion at all, and it is up to them entirely to say anything or nothing if they wish.

Mr. MAYBANK: The question I put to Mr. Hungerford and his associates is: Are there any misstatements of fact there?

Mr. HUNGERFORD: May I ask this, Mr. Maybank, that so far as your statement in respect to numbers of employees and the mileage is concerned we believe the figures to be correct.

Mr. MAYBANK: I noted that from Mr. Armstrong.

Mr. ARMSTRONG: May I add these figures are as reported to the Dominion Bureau of Statistics.

Mr. MAYBANK: There may have been a few taken on since.

Mr. ARMSTRONG: No; what I meant is this: The difference in methods of reporting may result in some variation. I do not think it would be great.

Mr. MAYBANK: That is sufficient for the purpose.

Hon. Mr. CARDIN: From a practical point of view do you really think it would be possible to take the traffic that way, taking into consideration the situation of the plants along different lines?

Mr. ARMSTRONG: It would not be impossible.

Hon. Mr. CARDIN: Would not that entail much policing on the part of the government if we undertook to do that?

Mr. HUNGERFORD: It would be quite possible for the government to determine how the business was being divided by the amount of money paid by the government to the two roads.

Mr. ARMSTRONG: It has already been done in the case of the Department of National Defence in connection with the movement of troops.

Mr. DONNELLY: Are the employees to which you referred a moment ago full time employees or is part time taken into consideration?

Mr. ARMSTRONG: The employees are counted once a month; that is, the average.

Mr. DONNELLY: The average?

Mr. ARMSTRONG: Yes.

The CHAIRMAN: I think a motion to adjourn this meeting would be in order, but before you do that I should like to suggest that we meet to-night and consider the drafting of a report. Whether we all get into the drafting of the report or not, or whether we should appoint a sub-committee, it is up to you. Before the committee does adjourn or when it does adjourn I should like to thank all and singly the gentlemen who have so kindly and courteously answered all the inquiries of this committee.

Mr. JACKMAN: Before we do rise may I say that Mr. Maybank has elicited an amazing array of facts. It might be well to make sure that we have all the facts with regard to these two systems and the amount of traffic they haul and their relation with the government. For instance, does the C.N.R. pay as much in taxes as the C.P.R. to the government?

The CHAIRMAN: Gentlemen, we are all out of order. I think the whole business is out of order. We have finished with the consideration of this report.



I think Mr. Maybank's statement is out of order, but it is only a notice of motion. We are gathered together to prepare the report. If the majority of the members of the committee feel there is something in this situation that should not be considered it will be struck out entirely.

Mr. JACKMAN: There are some important things in regard to it, Mr. Chairman, leaving aside the question of taxation. I was rather surprised—not while I was sitting here yesterday but when I had time to think things over—that someone from the Canadian National Railways, Mr. Fraser, I think, should suggest that traffic was directed not necessarily by the ministers in charge of various departments but by those junior to him, the deputies and those under the deputies; and coupled with that suggestion was one from Mr. Maybank that one of your C.N.R. officials did not have as much of an expense account as perhaps certain other people who solicit the traffic. There was no charge made but the inferences and innuendos are obvious. I think that if there are any charges against any people who have the direction of government business they should be most definite and most explicit and they should come before this committee for further investigation.

Mr. MAYBANK: I think Mr. Jackman will permit me to interrupt him to this extent to say that I intended no imputation, no bad imputation upon anybody whatsoever, either the officers of the C.P.R. or civil servants. When I said what I did it was half jocular, I only had in mind that very often moneys are supplied to persons soliciting business for the purpose of making proper social contacts and that sort of thing. It is done every day in every business. There is nothing wrong with it. It does not come in the class of bribery or anything like that. I certainly intended no imputation.

The CHAIRMAN: A motion to adjourn would be in order.

Mr. DONNELLY: I move we adjourn.

Mr. JACKMAN: Certain facts have been brought out by officials who are here, but there are a number of questions which implement those asked by Mr. Maybank which might throw some light on the subject. If the chair does not wish to entertain it that is satisfactory.

Mr. DONNELLY: I move we adjourn to meet at the call of the chair.

The CHAIRMAN: Eight-thirty to-night?

Mr. HAZEN: Mr. Jackman evidently has something in his mind about this matter that he would like to ask some of the directors who are here to-day. It seems to me that before we should embody any clause like this suggestion to-day in our report we should have the opportunity to go into the matter much more fully. Mr. Maybank's suggestion, I noticed, said, "We have inquired carefully into the amount." Personally I do not think we have inquired carefully at all. The inquiry has been a most casual one. If this matter is to be gone into I think we should go into it more fully.

The CHAIRMAN: Mr. Hazen, you had your opportunity to inquire into it carefully. I did not shut anybody off. I allowed them very very free and full discussion.

Mr. HAZEN: You did. But this is something new and has just come up.

Mr. GRAY: We went fully into it yesterday.

The CHAIRMAN: We have finished with all the reports.

Mr. JACKMAN: As a matter of fact some of these matters have nothing to do with the reports. I know nothing about the comparison of the two lines. That matter came up and I think it is extraneous to the report. The number of man miles carried by the C.P.R. as against the C.N.R. was mentioned in connection with soldiers.

Mr. GRAY: We can decide whether we are going to incorporate Mr. Maybank's suggestion into the report or not when we meet in camera.



The CHAIRMAN: I will make this ruling, gentlemen: if you want to ask questions of the gentlemen assembled here before this meeting adjourns we will hear the questions, but as far as going into a general debate on the topics is concerned I will rule against it.

Mr. JACKMAN: My first question is: Does the C.P.R. pay taxes to the dominion government and to what amount other than the taxes which are paid by the Canadian National Railways?

Mr. ARMSTRONG: We do not know in detail what the taxes of the Canadian Pacific Railway are. The total taxes paid by the Canadian Pacific both direct and indirect are substantially less than those of the Canadian National Railways. We pay in direct taxation something like \$11,000,000.

Mr. JACKMAN: Including sales tax?

Mr. ARMSTRONG: Municipal and provincial taxes over \$7,000,000. Excluding sales tax and all other taxes, those are readily discernible. In direct taxes we pay probably \$11,000,000 or a little over. Of course, on everything we buy there is an indirect tax. Taxes are included on all materials we buy. Taking the whole thing together we pay in taxes more than the Canadian Pacific Railway.

Mr. JACKMAN: Do you pay corporation tax now of 40 per cent on your earnings? Are you subject to the corporation tax which is now 40 per cent on any earnings?

Mr. ARMSTRONG: We do not happen to have any net earnings at present.

Mr. JACKMAN: The C.P.R. will pay 40 per cent on any earnings which it may have.

Mr. ARMSTRONG: Naturally they must abide by the laws of the country.

Mr. JACKMAN: How much non-productive mileage would you say was contained in the C.N.R. system?

Mr. ARMSTRONG: Just what do you mean by that? I do not understand your definition.

Mr. JACKMAN: I understand that is the term apparently used and means the taking of all mileage which does not gather up traffic on the way, that is, it is just merely between two points.

Mr. ARMSTRONG: Every mile of line is productive to some degree or other. Just what do you mean by "productive"? I do not quite get your definition. It is a matter of relativity.

Mr. JACKMAN: Yes but there are long distances between points, such as in Northern Ontario, where you do not pick up traffic. You might pick up traffic at a few way stations, perhaps, but it is hauled between one point and another where there is no tributary traffic, if you like, for long stretches.

Mr. ARMSTRONG: That is not quite correct. There are few stretches where there is not some local traffic. The question is how much traffic do you call productive; that is, when does the line become productive? If you could define that, I might be able to give you an answer.

Mr. JACKMAN: It is a relative term, perhaps, but there must be some stretches on both lines where the amount of traffic picked up is of such a small percentage as compared with the amount of through traffic that it is infinitesimal.

Mr. ARMSTRONG: That is true. The through traffic on the main line, for instance, between Ottawa and Winnipeg is much more important and much greater in volume than the local traffic. But would you call that an unproductive line?

Mr. JACKMAN: It certainly is not producing anything.

Mr. ARMSTRONG: It is producing transportation between eastern and western Canada.



Mr. JACKMAN: Yes, but I am trying to find out whether your lines are located so that you are in a position to acquire as much traffic as does the C.P.R.

Mr. ARMSTRONG: I would say we are in a much better position.

Mr. JACKMAN: As a whole?

Mr. ARMSTRONG: Oh, yes, much because of our much greater mileage in the industrial areas. Furthermore, as far as potential traffic is concerned, I would say we are in a much more favourable position, because we serve territories which have not even been tapped yet, as far as natural resources are concerned. When I say "not even tapped," I mean not to anywhere near their full extent. I particularly mention the line in the vicinity of Noranda. That line was built for one purpose as a Transcontinental line, but has developed into a very good branch line.

Mr. JACKMAN: I suppose that some people might have a different opinion as to the amount of unproductive lines held by the two systems?

Mr. ARMSTRONG: Definitely. It is a question, as I pointed out yesterday, of what you are going to credit to the line for revenues, and what are you going to debit to the line for expenses. In other words: when does a line become productive or unproductive?

Mr. JACKMAN: Passenger man miles is a railroad term?

Mr. ARMSTRONG: Passenger miles, not passenger man miles; the ladies are counted too.

Mr. JACKMAN: How many passenger miles for the carrying of troops or of government people—

Mr. ARMSTRONG: We have not any such figures.

Mr. JACKMAN: —did you receive as against the C.P.R.?

Mr. ARMSTRONG: We have not any such figures; we do not know.

Mr. JACKMAN: In other words, a great deal of the comparison between the movement of government business carried by the two systems must be a matter of conjecture?

Mr. ARMSTRONG: We know the money fairly definitely, as you saw by the return made in the house. The money is really what we want; it is not so much the matter of carrying passengers; it is a question of getting revenues.

Mr. JACKMAN: When you speak of money, take the amount of money which is paid to the respective railways or the amount of money which they retain; obviously if a ticket is purchased at a C.N.R. station and part of the route lies over a C.P.R. line, you have to pay them, and vice versa?

Mr. ARMSTRONG: Quite.

Mr. JACKMAN: And the answer to that is—

Mr. ARMSTRONG: I explained that, I think, yesterday, in giving an answer to Mr. Maybank; that the return in the house showed the money paid to each railway. In each case that would be the railroad which originated the movement. After an adjustment was made for inter-line settlements the figures showed there was a slight balance, as far as we could figure it, in favour of the Canadian National.

Mr. POULIOT: What is the total mileage of the lines of the C.N.R. as compared with the total mileage of the lines of the C.P.R.?

Mr. ARMSTRONG: 23,000 for the C.N.R. and 17,000 for the C.P.R.

Mr. POULIOT: Therefore the mileage of the C.N.R. is considerably more than the mileage of the C.P.R.?

Mr. ARMSTRONG: Considering the total mileage of the Canadian National and C.P.R., it is about 58 per cent for the C.N.R.

Mr. POULIOT: To be fair, it should be divided on that basis. There is a big railway and a small one, and it is divided fifty-fifty.



Mr. MAYBANK: Mr. Chairman, while Mr. Pouliot is substantially in agreement with me I nevertheless mention a point of order.

The CHAIRMAN: Yes, gentlemen; there is a motion before the committee.

Mr. MAYBANK: You opened this up.

Mr. POULIOT: I did not open up this question.

The CHAIRMAN: I was permitting Mr. Jackman to ask a few questions. For the last twenty minutes there has been a motion before this committee to adjourn. Is the motion carried?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The committee stands adjourned.











SESSION 1940-41

HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

---

MONDAY, MAY 26, 1941

---

INCLUDING  
SECOND AND THIRD REPORTS TO HOUSE

OTTAWA  
EDMOND CLOUTIER  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1941







## MINUTES OF PROCEEDINGS

ROOM 277

MONDAY, May 26, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met in camera this day at 11.30 o'clock, p.m. The Chairman, Mr. J. P. Howden, presided.

*Members present:* Messrs. Bercovitch, Donnelly, Emmerson, Howden, Jackman, McCulloch, Maybank, Pouliot, Sanderson, Shaw, Sissons.

The Committee took into consideration the draft of a Report submitted by the Chairman on behalf of the subcommittee.

On motion of Mr. Maybank, the first paragraph of the draft-Report was adopted unanimously.

On motion of Mr. Maybank, the second paragraph of the draft-Report was adopted unanimously.

Mr. Bercovitch moved that the draft-Report as read be adopted in its entirety and that the Chairman be instructed to make the Report as adopted to the House.

The question being put on the motion it was agreed to in the affirmative as follows: Yeas, 7; Nays, 2.

Mr. P. T. Coolican, Assistant Deputy Postmaster General filed with the Committee certain statistics and estimates for the Trans-Canada air mail service. (See appendix "A" appearing in to-day's minutes of proceedings and evidence.)

At 12.30 o'clock p.m., the Committee adjourned *sine die*.

ANTOINE CHASSÉ,  
*Clerk of the Committee.*



## REPORTS TO THE HOUSE

FRIDAY, May 23, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

## SECOND REPORT

Your Committee has considered the following Items of the Estimates referred to the Committee on May 6, 1941, and approves of same, viz:—

Vote No. 403—Maritime Freight Rates Act—Canadian National Railways Eastern Lines.....	\$3,350,000 00
Vote No. 404—Maritime Freight Rates Act—Railways other than Canadian National Railways.....	900,000 00
Vote No. 416—Canadian National (West Indies) Steamships, Ltd., Capital—Advances.....	20,000 00
Vote No. 417—Prince Edward Island Car Ferry and Terminals Deficit 1941.....	400,000 00

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*



MONDAY, May 26, 1941.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government begs leave to present the following as a

### THIRD REPORT

Your Committee views with satisfaction the purchase of a block of 4 per cent perpetual consolidated debenture stock of the former Grand Trunk Railway Company of Canada by the Canadian National Railways Co. through the Canadian National Railway's Financing and Guarantee Act, 1940, and would respectfully suggest the acquirement of the balance of this outstanding perpetual issue. The Committee holds the same view with regard to purchase or refunding of the 6½ per cent Sinking Fund Debenture Bonds of the former Canadian Northern Railway.

In accordance with the recommendation of the duly appointed auditors, the Committee recommends the establishment at an early date of uniform accounting regulations of a mandatory character applicable to all Canadian railways under the Statutory authority of the Dominion.

Your Committee has enquired into the position of the Canadian National Railway with regard to the amount of Government or Government-controlled business it receives in comparison with its chief competitor, the Canadian Pacific Railway. It would appear that in relative strength the respective systems are as follows:—

Mileage. . . . .	C.N.R.	21,790 miles of road
	C.P.R.	16,829 miles of road
Number of employees. . . . .	C.N.R.	75,000
	C.P.R.	53,000
Ratio of fixed charges. . . . .	C.N.R.	53
	C.P.R.	26

The major differences in miles of track, number of employees and ratio of fixed charges would indicate the desirability for a rational division of Government-controlled business.

Your Committee, therefore, recommends that steps be taken to assure a division of Government-controlled business more in accord with the relative responsibility of the two roads.

A copy of the printed evidence taken is tabled herewith.

All of which is respectfully submitted.

J. P. HOWDEN,  
*Chairman.*



## APPENDIX "A"

OTTAWA, May 26, 1941.

A. CHASSÉ, Esq.,  
 Clerk, Committee on Railways and Shipping,  
 Room 431, House of Commons,  
 Ottawa, Ontario.

Dear SIR,—Enclosed herewith please find statistics and estimates for the Trans-Canada air mail service.

The statements are self-explanatory and, I believe, will supply you with the required information.

Yours truly,

COOLICAN,  
*Assistant Deputy Postmaster General.*

---

AIR AND LAND MAIL SERVICES,

OTTAWA, May 23rd, 1941.

SYNOPSIS OF THE DEVELOPMENT OF TRANS-CANADA AIR MAIL SERVICE

September 1, 1937—Trans-Canada Air Lines commenced Air Mail operations on September 1, 1937, when the Vancouver-Seattle route was taken over upon the request of Canadian Airways Ltd., who had operated the service until that date. The service was performed at the existing contract rate of 50 cents per mile. Mail prepaid at air mail rates only was carried.

March 1, 1938—On March 1, 1938, experimental air mail flights were commenced between Vancouver and Winnipeg, ordinary first class mail being carried at the rate of 50 cents per mile. The rate was increased to 60 cents per mile on July 1, 1938.

October 1, 1938—Carriage of ordinary mail discontinued over the Vancouver-Winnipeg route. Only mail prepaid at air mail rates carried. Lethbridge-Edmonton service commenced.

December 1, 1938—Service extended experimentally east to Montreal.

March 1, 1939—Service between Montreal, Toronto and Vancouver inaugurated on night schedules.

July 18, 1939—Service between Montreal and Toronto increased by one round trip daily.

November 1, 1939—Daylight familiarization flights commenced between Montreal and Moncton, ordinary mail being carried. Regular schedules were inaugurated on January 1, 1940, and carriage of ordinary mail discontinued.

April 1, 1940—Extra daily flights commenced between Montreal and Vancouver and a third daily trip placed on the Vancouver-Seattle route starting April 14, 1940.

July 15, 1940—Toronto-Windsor service commenced on a daily frequency, which was increased to semi-daily on July 25, 1940.



August 1, 1940—One extra round trip between Montreal and Toronto.

September 29, 1940—Vancouver-Seattle service reduced from three to two round trips per day.

April 1, 1941—Rates reduced from 60 cents to 45 cents per mile.

April 15, 1941—Service extended from Moncton to Halifax, and the frequency east of Montreal increased to two round trips per day. Service between Montreal and Toronto increased by one round trip daily. The Moncton-Charlottetown A.S.S. was also taken over temporarily from the Canadian Airways Ltd. at the request of the Post Office Department.

April 30, 1941—Toronto-New York service inaugurated on a frequency of two round trips per day.

May 12, 1941—Vancouver-Seattle service discontinued.



STATISTICS REGARDING AIR MAIL SERVICE PERFORMED BY TRANS-CANADA AIR LINES

PREPARED BY AIR AND LAND MAIL SERVICES DIVISION

	Mail Miles Flown	Gross Weight of Mail Carried (pounds)		Average Gross Daily Poundage (Air Mail only)	Cost		Estimated Revenue Attributable to Air Mail Service		Difference between Cost and Estimated Revenue Surplus-Blk. Deficit-Ital.	Difference between Cost and Revenue in terms of Poundage Surplus—Black Deficit—Italic		
		At Ordinary Rate	At Air Mail Rate		\$	cts.	(Approximate)	Daily Average		Per Month	Per Day	
<b>1937</b>												
September.....	6,344		4,724	157	3,172 00	106 00	4,742 00	158 00	<b>1,570 00</b>	<b>785</b>	<b>26</b>	
October.....	6,344		3,778	122	3,172 00	102 00	4,408 00	142 00	<b>1,236 00</b>	<b>618</b>	<b>20</b>	
November.....	6,344		3,307	110	3,172 00	106 00	4,106 00	137 00	<b>844 00</b>	<b>422</b>	<b>14</b>	
December.....	6,344		2,697	87	3,172 00	102 00	3,586 00	116 00	<b>414 00</b>	<b>207</b>	<b>7</b>	
<b>TOTAL (1937).....</b>	<b>25,376</b>		<b>14,506</b>	<b>119</b>	<b>12,688 00</b>	<b>104 00</b>	<b>16,752 00</b>	<b>137 00</b>	<b>4,064 00</b>	<b>508</b>	<b>17</b>	
<b>1938</b>												
January.....	5,978		2,533	82	2,989 00	96 00	3,034 00	98 00	<b>45 00</b>	<b>23</b>	<b>1</b>	
February.....	6,344		2,692	96	3,172 00	113 00	3,710 00	133 00	<b>538 00</b>	<b>269</b>	<b>10</b>	
March.....	46,048	15,792	3,875	125	23,024 00	743 00	7,750 00	250 00	<i>15,274 00</i>	<i>7,637</i>	<i>246</i>	
April.....	89,252	31,918	4,438	148	44,626 00	1,488 00	8,876 00	296 00	<i>35,750 00</i>	<i>17,875</i>	<i>596</i>	
May.....	96,159	36,108	5,165	167	48,079 50	1,551 00	10,330 00	334 00	<i>37,749 50</i>	<i>18,875</i>	<i>609</i>	
June.....	99,452	38,766	5,980	199	49,604 00	1,653 00	11,960 00	398 00	<i>37,664 00</i>	<i>18,832</i>	<i>628</i>	
July.....	160,968	55,029	7,460	241	52,094 40	1,680 00	14,920 00	482 00	<i>37,174 40</i>	<i>18,587</i>	<i>600</i>	
August.....	120,814	49,788	7,416	239	52,387 20	1,690 00	14,832 00	478 00	<i>37,555 20</i>	<i>18,778</i>	<i>606</i>	
September.....	84,464	39,857	6,975	233	50,092 80	1,670 00	13,950 00	466 00	<i>36,142 80</i>	<i>18,071</i>	<i>602</i>	
October.....	104,234		16,173	522	61,881 60	1,996 00	32,346 00	1,044 00	<i>29,535 60</i>	<i>14,768</i>	<i>476</i>	
November.....	96,541		14,042	468	57,339 00	1,911 00	28,084 00	936 00	<i>29,255 00</i>	<i>14,628</i>	<i>488</i>	
December.....	188,056		27,493	887	110,903 60	3,578 00	54,986 00	1,774 00	<i>55,917 60</i>	<i>27,959</i>	<i>902</i>	
<b>TOTAL (1938).....</b>	<b>1,098,310</b>	<b>267,168</b>	<b>104,242</b>	<b>286</b>	<b>556,193 10</b>	<b>1,524 00</b>	<b>204,778 00</b>	<b>564 00</b>	<b>351,435 10</b>	<b>14,643</b>	<b>481</b>	
<b>1939</b>												
January.....	194,130		21,382	690	115,599 60	3,729 00	42,764 00	1,380 00	<i>72,835 60</i>	<i>36,418</i>	<i>1,175</i>	
February.....	176,114		24,221	865	105,009 60	3,750 00	48,442 00	1,730 00	<i>56,567 60</i>	<i>28,284</i>	<i>1,010</i>	
March.....	216,805		42,245	1,363	129,497 40	4,177 00	84,490 00	2,726 00	<i>45,007 40</i>	<i>22,504</i>	<i>726</i>	
April.....	218,488		41,879	1,396	128,442 00	4,281 00	83,758 00	2,792 00	<i>44,684 00</i>	<i>22,342</i>	<i>745</i>	
May.....	223,510		48,844	1,576	133,227 60	4,298 00	97,688 00	3,152 00	<i>55,539 60</i>	<i>17,770</i>	<i>573</i>	



June.....	215,830	46,955	1,565	129,058 80	4,302 00	93,910 00	3,130 00	35,148 80	17,574	586
July.....	234,318	49,580	1,599	139,712 40	4,507 00	99,160 00	3,198 00	40,552 40	20,276	654
August.....	247,320	53,648	1,731	147,806 40	4,763 00	107,296 00	3,462 00	40,510 40	20,255	653
September.....	238,313	52,388	1,746	142,015 20	4,734 00	104,776 00	3,492 00	37,239 20	18,620	621
October.....	244,382	48,411	1,562	143,746 20	4,637 00	96,822 00	3,124 00	46,924 20	23,462	757
November.....	275,506	43,817	2,073	162,367 20	5,412 00	124,410 00	4,146 00	37,957 20	18,979	633
December.....	269,640	24,910	2,406	156,390 60	5,045 00	149,150 00	4,812 00	7,240 60	3,620	117
Total (1939).....	2,754,356	68,727	1,552	1,632,873 00	4,474 00	1,132,666 00	3,104 00	500,207 00	20,842	685
1940										
January.....	274,684	64,880	2,093	159,978 80	5,161 00	129,760 00	4,186 00	30,218 80	15,109	487
February.....	259,015	63,701	2,197	152,653 20	5,264 00	127,402 00	4,394 00	25,251 20	12,626	451
March.....	269,977	64,685	2,087	159,056 40	5,131 00	129,370 00	4,174 00	29,686 40	14,843	479
April.....	381,253	57,235	1,908	227,591 40	7,586 00	114,470 00	3,816 00	113,121 40	56,561	1,752
May.....	431,471	76,536	2,469	258,360 00	8,334 00	153,072 00	4,938 00	105,288 00	52,644	1,698
June.....	403,856	68,270	2,276	241,946 40	8,065 00	136,540 00	4,552 00	105,406 40	52,703	1,423
July.....	443,859	78,765	2,544	265,165 80	8,546 00	157,530 00	5,088 00	107,635 80	53,818	1,736
August.....	485,076	86,664	2,796	290,058 00	9,357 00	173,328 00	5,592 00	116,730 00	58,365	1,883
September.....	465,718	86,078	2,869	278,949 60	9,298 00	172,156 00	5,738 00	106,793 60	53,397	1,780
October.....	475,626	94,164	3,038	284,746 80	9,185 00	188,328 00	6,076 00	96,418 80	48,209	1,555
November.....	437,425	89,829	2,994	258,894 60	8,630 00	179,658 00	5,988 00	79,236 60	39,618	1,321
December.....	425,968	96,230	3,104	254,962 20	8,225 00	192,460 00	6,208 00	62,502 20	31,251	1,008
TOTAL (1940).....	4,753,928	927,037	2,533	2,832,363 20	7,739 00	1,854,074 00	5,066 00	978,289 20	40,762	1,336

ESTIMATED REVENUE ATTRIBUTABLE TO AIR MAIL SERVICE is approximate and gives only a very general idea of the situation. Its use lies principally in observing the trends in air mail development and should not be considered as an accurate profit and loss statement. Several factors prevent its computation with any degree of accuracy.

1. The poundage figures listed show gross weights, containing a certain amount of duplication due to the same mails being carried over more than one link of the service. Any attempt at obtaining net figures for strictly new air mail would involve a costly system of recording with a probable slowing up of transmission.
2. Mail prepaid at air rates, but given surface routing, does not appear in the poundage figures; nevertheless, the extra revenue derived therefrom is directly attributable to the existence of the air mail service.
3. The various Branches of the Post Office Department are auxiliary to and dependent upon each other, thus preventing an exact segregation of revenues and costs to one Branch. Nor can any practical means be devised for determining accurately the revenue per pound of air mail. The following system has been employed which, it is believed, gives a fairly close estimate:

Sampling has shown an average of fifty letters to the pound, prepaid at 6c. per letter; of this, 3c. is the air surcharge. To this surcharge is added 1c. as the saving to surface transport caused by air transmission. The revenue attributable to air mail service, is therefore, estimated at 4c. per letter.



CHART SHOWING PROBABLE COSTS AND REVENUES FOR THE TRANS-CANADA AIR MAIL SERVICE DURING YEAR 1941 AND FISCAL YEAR 1941-1942

Prepared by the Air and Land Mail Services Division

The statistics for the month of January 1941 show the actual experience, and, using this month as a basis, an estimate was made of the poundage for the balance of the calendar and fiscal years in the following manner:

(1) POUNDAGE—An analysis of the Daily Average Poundage, shown on Page I, discloses the fact that since March 1939; i.e., since the inauguration of overnight schedules and a regular transcontinental air mail service, the Daily Average Air Mail Poundage carried has increased by an average rate of 4% per month approximately. Assuming therefore that this rate of progressive growth will continue during the next year, the poundage for the months February–December 1941 was estimated by increasing the January 1941 Daily Average Poundage by 4% per month. The poundage for January 1942 was estimated by pro rating the estimated daily average poundage for December 1941 according to the ratio of January 1941 to December 1940 poundage. This was done in line with the observation that the month of January also shows a marked decline in air mail poundage in relation to the preceding month. The figures for February and March 1942 were computed by increasing the average daily poundage for January 1942 by 4% per month.

(2) MILEAGE AND COST—Figures for January 1941 show the actual experience, the others being estimated as follows:

(a) February and March, 1941: 95% performance of schedules (15,144 miles daily) at 60c. per mile.

(b) April, 1941–March, 1942 inclusive: 97% performance of schedules at 45c. per mile. It has been assumed that the current schedules will remain unchanged for the balance of the fiscal year.

Percentage performance according to Trans-Canada Air Lines Tentative Operating Budget for 1941.

(3) ESTIMATED REVENUE ATTRIBUTABLE TO AIR MAIL SERVICE—See footnote to Page I.

1941	Mail Miles Flown	Gross Weight of Mail Carried (pounds)		Average Gross Daily Poundage (Air Mail only)	Cost	Average Daily Cost	Estimated Revenue Attributable to Air Mail Service		Difference between Cost and Estimated Revenue Surplus-Blk. Deficit-Ital.	Difference between Cost and Revenue in terms of Poundage Surplus—Black Deficit—Italic	
		At Ordinary Rate	At Air Mail Rate				(Approximate)	Daily Average		Per Month	Per Day
					\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.		
January	442,670		82,920	2,677	265,602 00	8,568 00	165,840 00	5,354 00	99,762 00	49,881	1,609
February	402,830		77,952	2,784	241,698 00	8,632 00	155,904 00	5,568 00	85,794 00	42,897	1,532
March	445,991		89,745	2,895	267,595 00	8,632 00	179,490 00	5,790 00	88,105 00	44,053	1,421
April	472,032		90,330	3,011	212,414 00	7,080 00	180,660 00	6,022 00	31,754 00	15,877	529
May	551,400		97,061	3,131	248,130 00	8,004 00	194,122 00	6,262 00	54,008 00	27,004	871
June	528,689		97,680	3,256	237,910 00	7,930 00	195,360 00	6,512 00	42,631 00	21,315	710
July	546,312		104,966	3,386	245,840 00	7,930 00	209,932 00	6,772 00	35,908 00	17,954	579
August	546,312		109,151	3,521	245,840 00	7,930 00	218,302 00	7,042 00	27,538 00	13,769	444
September	528,689		109,860	3,662	237,910 00	7,930 00	219,720 00	7,324 00	18,271 00	9,135	305
October	546,312		118,048	3,808	245,840 00	7,930 00	236,096 00	7,616 00	9,744 00	4,872	157
November	528,689		118,800	3,960	237,910 00	7,930 00	237,360 00	7,920 00	391 00	195	7
December	546,312		127,658	4,118	245,840 00	7,930 00	255,316 00	8,236 00	<b>9,476 00</b>	<b>4,738</b>	<b>153</b>
<b>TOTAL—CALENDAR YEAR 1941</b>	<b>6,086,238</b>		<b>1,224,171</b>	<b>3,354</b>	<b>2,932,529 00</b>	<b>8,034 00</b>	<b>2,448,342 00</b>	<b>6,708 00</b>	<b>484,430 00</b>	<b>20,185</b>	<b>664</b>

ESTIMATED



1942											
January.....	546,312		110,112	3,552	245,840 00	7,930 00	220,224 00	7,104 00	<i>25,616 00</i>	<i>12,808</i>	<i>413</i>
February.....	493,443		103,432	3,694	222,049 00	7,930 00	206,864 00	7,388 00	<i>15,185 00</i>	<i>7,592</i>	<i>271</i>
March.....	546,312		119,102	3,842	245,840 00	7,930 00	238,204 00	7,684 00	<i>7,636 00</i>	<i>3,818</i>	<i>123</i>
TOTAL—FISCAL YEAR 1941-1942.....	6,380,814		1,306,200	3,579	2,871,363 00	7,867 00	2,612,400 00	7,157 00	<i>259,206 00</i>	<i>10,800</i>	<i>355</i>

The following table showing actual results for February, March and April 1941 compares favorably with the estimated poundage for the three months as shown above. It should be noted that the figures for January in the above chart, show the actual results and are therefore excluded from the table below. The actual poundage has in every month so far exceeded the estimated figure by a comfortable margin. The estimated cost has also been exceeded due to the fact that percentage performance has been better than anticipated.

The figures for the month of April 1941 do not include statistics for the Moncton-Charlottetown Air Stage Service which has been taken over temporarily by the Trans-Canada Air Lines since April 15, 1941, at the request of the Department.

	Mail Miles Flowed	Gross Weight of Mail Carried (pounds)		Average Gross Daily Poundage (Air Mail only)	Cost	Average Daily Cost	Estimated Revenue Attributable to Air Mail Service		Difference between Cost and Estimated Revenue Surplus-Blk. Deficit-Ital.	Difference between Cost and Revenue in terms of Poundage Surplus—Black Deficit—Italic	
		At Ordinary Rate	At Air Mail Rate				(Approximate)	Daily Average		Per Month	Per Day
1941					\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.		
February.....	417,337		82,487	2,946	249,819 00	8,922 00	164,974 00	5,892 00	<i>84,845 00</i>	<i>42,423</i>	<i>1,515</i>
March.....	459,419		91,453	2,950	275,251 80	8,879 00	182,906 00	5,900 00	<i>92,346 00</i>	<i>46,173</i>	<i>1,489</i>
April.....	483,621		99,071	3,302	216,629 80	7,221 00	198,142 00	6,604 00	<i>18,488 00</i>	<i>9,244</i>	<i>308</i>



