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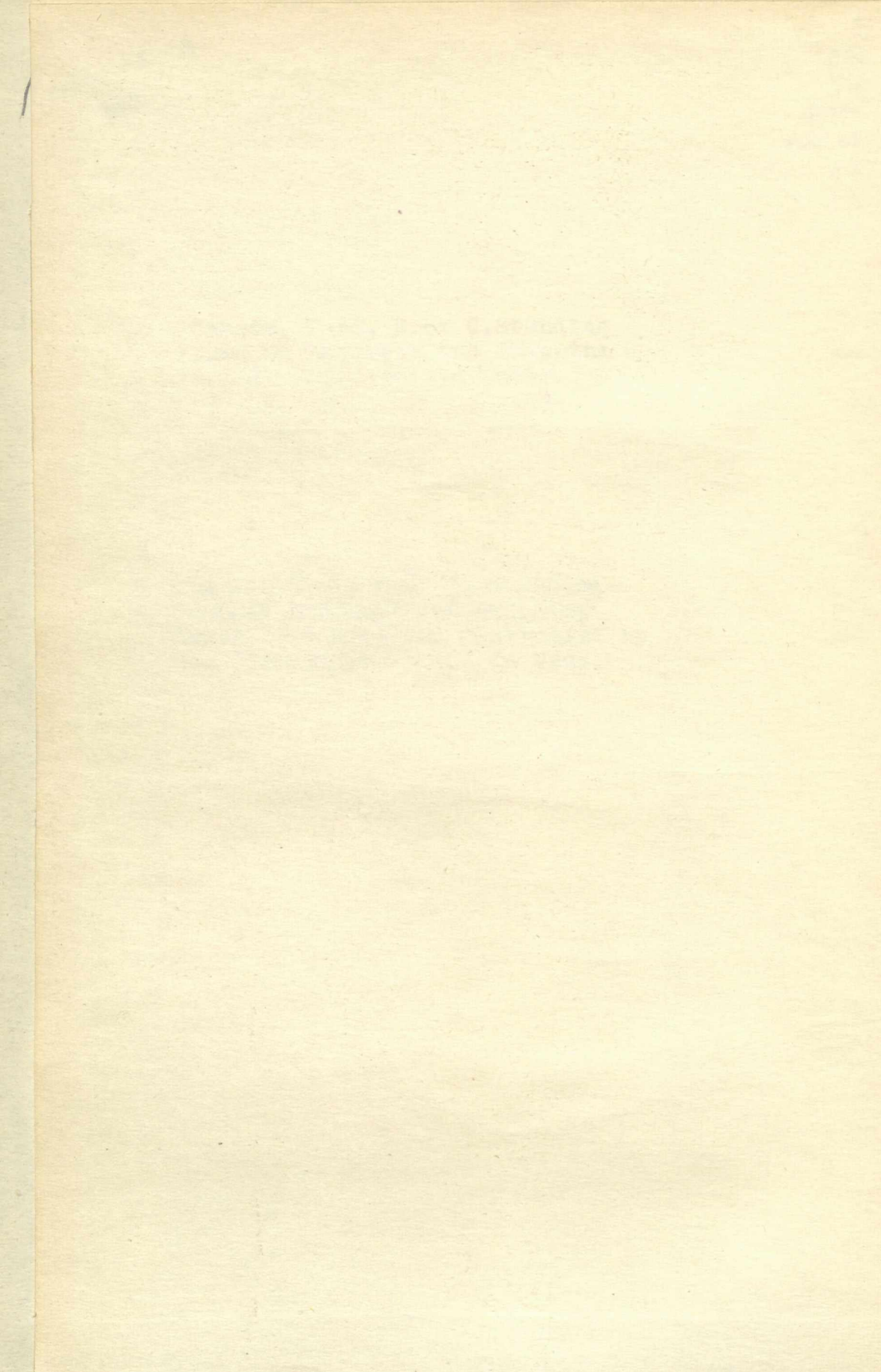
Canada. Parl. H. of C. Standing
Comm. on Railways and Shipping
Owned, Operated and Controlled
by the Govt., 1945, 2d Sess.
Minutes of proceedings
and evidence.

DATE

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Canada. Parl. H. of C. Standing
Comm. on Railways and Shipping
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the Government, 1945, 2d Sess.

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SESSION 1945
HOUSE OF COMMONS

STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 1

THURSDAY, OCTOBER 18, 1945
TUESDAY, OCTOBER 23, 1945

WITNESSES

- Mr. R. C. Vaughan, Chairman and President Canadian National Railways;
- Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;
- Mr. T. H. Cooper, Comptroller, Canadian National Railways;
- Mr. W. S. Thompson, Director of Public Relations, C.N.R.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, 16th October, 1945.

Resolved,—That a sessional committee on Railways and Shipping owned, operated and controlled by the Government be appointed to consider the accounts and estimates and bills relating thereto of the Canadian National Railways, the Canadian National (West Indies) Steamships, and Trans-Canada Air Lines, saving always the powers of the Committee of Supply in relation on the voting of public moneys; and that the said committee be empowered to send for persons, papers and records and to report from time to time, and that, notwithstanding Standing Order 63, the said Committee consist of Messrs. Chevrier, Clark, Coyle, Beaudoin, Belzile, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Harris (*Danforth*), Hazen, Jackman, LaCroix, Lockhart, Maybank, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Reid, Shaw.

Attest.

R. T. GRAHAM,
Assistant Clerk of the House.

WEDNESDAY, October 17, 1945.

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

Financial Budget of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited, for the year 1945.

Annual Report of the Directors of the Trans-Canada Air Lines for the year ended December 31, 1944.

Annual Report of the Canadian National Railways system for the year ended December 31, 1944.

Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1944.

Annual Report of the Canadian National Securities Trust for the year ended December 31, 1944.

Report of the firm of George A. Touche and Company, Auditors of the Accounts of the Canadian National Railways System, Canadian National Railways Securities Trust, Trans-Canada Air-Lines, Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1944.

together with the following items of Estimates for 1945-46:—

Vote 377, Maritime Freight Rates Act, Canadian National Railways;

Vote 378, Maritime Freight Rates Act, Railways other than Canadian National Railways;

Vote 421, Prince Edward Island Car Ferry and Terminals Deficit.

And that the Resolution passed by the House of the 7th September, 1945 referring certain Estimates to the Committee of Supply, be rescinded in so far as the said Resolution relates to votes Nos. 377, 378 and 421.

Attest.

R. T. GRAHAM,
Assistant Clerk of the House.

THURSDAY, 18th October, 1945.

Ordered,—That the said Committee be authorized 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 given leave to sit while the House in sitting.

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

Attest.

R. T. GRAHAM,
Assistant Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, 18th October, 1945

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

FIRST REPORT

Your Committee recommends:

1. That it be authorized 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 given leave to sit while the House is sitting;

3. That its quorum be reduced from 12 to 8 members.

All of which is respectfully submitted.

RALPH MAYBANK,
Vice-Chairman.

Concurred in October 18, 1945.

MINUTES OF PROCEEDINGS

Room 429,

THURSDAY, 18 October, 1945

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. Beaudoin, Bourget, Chevrier, Coyle, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, LaCroix, Lockhart, Maybank, Mutch, Nicholson, Reid and Shaw.

The Clerk of the Committee invited the members to proceed with the election of the Chairman. Whereupon, Mr. Maybank proposed, seconded by Mr. Beaudoin, that Mr. Murray Clark, a member of The Committee, be elected Chairman.

And there being no other nomination the question on the motion was put and carried unanimously, and Mr. Murray Clark was declared elected Chairman.

Mr. Maybank explained that Mr. Murray Clark, the Chairman-elect, was unavoidably absent and suggested that the Committee proceed with the election of a Vice-Chairman who would preside in the absence of the former.

The Clerk having invited nominations thereto, Mr. Harris (*Grey-Bruce*) proposed, seconded by Mr. Emmerson, that Mr. Maybank be nominated Vice-Chairman. And there being no other nomination the motion was put and carried unanimously. Mr. Ralph Maybank was declared elected Vice-Chairman and he took the Chair.

The Committee decided to ask leave to print its minutes of proceedings and evidence, to sit while the House is sitting and to reduce its quorum.

On motion of Mr. Reid,

Resolved,—That the Committee ask authority 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. Reid,

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

On motion of Mr. Nicholson,

Resolved,—That the House be asked to reduce the quorum of the Committee from 12 to 8 members.

It was agreed that Mr. Maybank, Vice-Chairman of the Committee, would present the necessary Report to the House and ask for its concurrence in the above recommendations.

Mr. Chevrier, Minister of Transport, stated that the Officers of Canadian National Railways would be available to the Committee on Monday, 22nd October or thereafter. However, the Minister added, the Officers of Trans-

Canada Air Lines might not be available for some time. Therefore, he suggested, the Committee might wish to proceed now with any business other than that which relates to Trans-Canada Air Lines before the Committee, and if necessary adjourn until such time as the Officers of Trans-Canada Air Lines are available for hearing.

Some considerable discussion followed. Some members, while recognizing that the officers of the Transport companies should not be unduly held for too long a period in Ottawa, felt that sittings should be so arranged as not to interfere too much with the duties of the members of the Committee engaged on other Committees, having regard also to the business of the House.

On motion of Mr. Hazen, it was finally agreed that the Committee would adjourn until 11 o'clock a.m. Tuesday, October 23, 1945, at which time Mr. R. C. Vaughan, Chairman and President, Mr. N. B. Walton, Executive Vice-President, and Mr. T. H. Cooper, Comptroller, of Canadian National Railways, would be heard.

ROOM 429,

TUESDAY, 23rd October, 1945.

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

Members present: Messrs. Chevrier, Clark, Coyle, Beaudoin, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Harris (*Danforth*), Hazen, Jackman, LaCroix, Lockhart, Maybank, Moore, Mutch, Nicholson, Picard, Reid, Shaw.

In attendance: Mr. R. C. Vaughan, Chairman and President, Mr. N. B. Walton, C.B.E., Executive Vice-President, Mr. T. H. Cooper, Comptroller, Mr. W. S. Thompson, Director of Public Relations, of the Canadian National Railways; also, Mr. H. J. Symington, C.M.G., C.R., President of Trans-Canada Air Lines and Mr. C. P. Edwards, O.B.E., Deputy-Minister of Transport.

The Chairman thanked the members for his election to the Chair and offered his apologies for his absence at the previous meeting.

Mr. Vaughan was called and made a statement to the Committee, following which he read his Annual Report of the operations of Canadian National Railways for the calendar year 1944.

In answering questions thereon from the members, Mr. Vaughan was assisted by Mr. Walton and Mr. Cooper.

At 1 o'clock p.m., the Committee adjourned to meet again the same day at 8 o'clock p.m.

The Committee met again at 8 o'clock p.m., Mr. Murray Clark, Chairman, presided.

Members present: Messrs. Chevrier, Clark, Coyle, Beaudoin, Belzile, Bourget, Emmerson, Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, LaCroix, Maybank, Moore, Mutch, Nicholson, Picard, Reid, Shaw.

In attendance: The Officers of Canadian National Railways mentioned as in attendance at the morning meeting.

The Committee resumed consideration of the Annual Report of the operations of Canadian National Railways for the calendar year 1944. Mr. Vaughan was heard and assisted by Messrs. Walton Cooper and Thompson.

At the conclusion of the study of the Report Mr. Maybank proposed the adoption of the said report and the question being put, the motion was carried unanimously.

At 10.10 o'clock p.m. the Committee adjourned to meet again at 4 o'clock p.m., Wednesday, 24th October, 1945.

ANTOINE CHASSE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

October 23, 1945.

The Standing Committee on Railways and Shipping met this day at 11 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, I want to apologize for not being at your organization meeting. I happened to be away at the time. However, I appreciate the honour you have conferred on me of making me chairman of this committee.

I think every one realizes that the men we have here from the Canadian National Railways are busy men. I do not suggest that we should not take their time, for they are here for that purpose; but if we can run our committee as expeditiously as possible, I know they will appreciate it and I think the members should too.

It has been suggested as a course of procedure, which will be followed if it meets with your approval, that the C.N.R. report be first taken up, then the budget for the coming year. I might say that we are having two reports running pretty closely together, because another report will be here shortly, in another few months. Then perhaps the auditor for the C.N.R. could give you the picture from his point of view. Perhaps that is enough to start with. If that is agreeable to you, that is the way we shall proceed.

We have with us the president of the Canadian National Railways, in pursuance of the arrangement made at your last meeting that these officials be here. I would call on Mr. Vaughan, the president of the Canadian National Railway to give his report at this time.

Mr. R. C. VAUGHAN: I think, Mr. Chairman and members of the committee, for the benefit of the new members I might read a short resume of some things that we have accomplished. I shall do that with your permission, Mr. Chairman, and the permission of the members.

Each member of the committee has been furnished with a copy of our report for 1944 and we shall be pleased to have it examined and discussed in as much detail as the committee may desire. The report with its accompanying accounting and statistical statements is a clear resume of the business transacted by the railway during the year 1944, but in addition there have been included statistics indicating the gigantic task performed by the railway since the outbreak of war to the end of 1944. I have received many congratulatory letters since the report was published as to its style and contents and the public press also has been very kind in its complimentary expressions as to the work done by the railway and of the results which have been attained. The railway has

proved itself to be a valuable national asset in a time of grave emergency, and has clearly demonstrated its earning power and its ability to handle an immense volume of business economically as well as expeditiously.

The committee will please note the report is dated March 15th last. I point this out lest there be in any quarter a misconception as to why we are reporting at this late date on our 1944 operations. The delay in the committee's consideration of the report, of course, has been caused by the short session of the last parliament. But time marches on and I rather expect you will be more interested in our present situation than with the results obtained in 1944. Our budget both on capital and operating account for 1945 will be placed before you.

For the nine months ending September 30, 1945 our gross revenue was \$327,320,000. This was \$28,000 or 3/10 of 1 per cent less than for the corresponding period of 1944. To the end of August our revenue had been slightly larger than in the previous year, but during September the trend turned downwards and for that month we had a decrease of \$2,350,000, or 6.2 per cent. Our budget forecast is based on the assumption that our revenues in the last quarter of the year will be 6.5 per cent under 1944, in which event they will approximate \$433 millions for the full year as compared with \$441 millions in 1944, a decrease of \$8 millions or slightly less than 2 per cent. At \$433 millions they will average \$1,186,000 per day Sundays included, which indicates the tremendous volume of business depending on our railway for transportation. Prior to the war only in one year—1928—did our revenues exceed \$300 millions. The figures for the last seven years are:—

1939.....	\$203	millions	
1940.....	247	"	
1941.....	304	"	
1942.....	375	"	
1943.....	440	"	
1944.....	441	"	
1945.....	433	"	(estimated)

For the nine months ending September 30, 1945, our operating expenses were \$265,247,000. This was \$1,690,000 or 6/10 of 1% less than for the corresponding period of 1944. Our budget forecast for the full year 1945 is for a total expense of \$354,800,000 compared with \$362,500,000 in 1944, a decrease of \$7,700,000 or slightly more than 2%.

Assuming our forecasts are found to be reasonably correct we shall have net revenue in 1945 of \$78,200,000 compared with \$78,600,000 in 1944, and after providing for other income charges and for interest payable to the public and to the government we expect to report an overall surplus of \$25 millions, or \$2 millions more than in 1944.

Some of the new members of this committee may not be aware of the provisions which we have been making in our accounts in view of the exceptional conditions which have prevailed during the war years. We have not attempted to make reports on the most favourable basis. We have been concerned to charge against revenue all normal and special costs created by war-time conditions so that no portion of such costs shall be carried forward to the post-war period.

Deferred Maintenance

Due to shortages of labour and materials, repairs and renewals not immediately essential have had to be deferred. Controls over maintenance expenditures had to be enforced so that the limited supply of labour and material could be utilized to maintain safe operating conditions. To the extent repairs and renewals not immediately essential have been deferred a reserve has been provided by direct charges to operating expenses. The reserve at the end of 1944 amounted to \$34 millions and we expect to provide a further sum of between \$6 and \$7 millions in 1945. This is a cash reserve, the funds being invested in Victory Bonds.

War Projects—Amortization

Since the outbreak of war and apart from the acquisition of additional rolling stock, approximately \$15,286,000 has been expended on capital account for so-called war projects, involving the construction, extension or improvement of tracks, yards, sidings and other railway facilities. It has been considered the end of the war will terminate the usefulness of some portion of these facilities and that in such case the capital expenditure involved, less salvage, should be amortized by charges to operating expenses. The amount so amortized to the end of 1945 will total \$3,826,000. This reserve fund is also invested in Victory Bonds.

Depreciation

Prior to the war the practice was followed on our Canadian lines of charging to operating expenses the loss when units of property were destroyed or worn out in service. This related to both fixed property and to rolling stock. In 1940 depreciation accounting was adopted with respect to rolling stock. This matter is the subject of a separate memorandum which has been prepared for the information of the committee, following a suggestion made by Mr. Jackman. During the six years 1940-1945 the total charge to operating expenses for system equipment depreciation accruals will have been \$98,427,000. The funds thus made available have been used to finance our capital expenditures.

Inventory Reserves

Notwithstanding price controls the war brought in its train substantial increases in the price of materials used in railway maintenance and operation. The purchase price of fuel now averages \$6.02 per ton against \$4.016 in 1939. Treated ties average \$1.90 each against \$1.35 and untreated ties \$1.26 each against 61 cents each. New rail costs \$7.73 per ton more and there has been an increase in the price of other railway material of about 17½%. To provide against loss which might have to be taken if there were any important recession in the post-war prices, involving a write-down of our inventories, a reserve of \$7,524,000 has been provided by charges to operating expenses. This reserve fund also is invested in Victory Bonds.

Pension Contracts

Previous to 1943 reserves had not been set up against annuity contracts issued by the railway company to employees going on pension under the 1935 contractual plan. Theretofore the practice had been to charge currently to

operating expenses the actual pension payments made at the expense of the company. Advantage has been taken of the high revenues of the war period to put the accounting for pension contracts on to a fund reserve basis. The total additional revenue which will have been set aside 1943 to 1945 under this arrangement is \$25,926,000. This reserve also is invested in Victory Bonds.

The committee I am sure will agree we have amply protected our post-war revenues against delayed wartime costs.

Apart from these special provisions we have had to shoulder higher wage rates and higher unit prices for materials. We estimate that last year alone these two factors increased our costs over the 1939 price level by \$67,823,000.

In spite of these added costs and the special provisions I have mentioned the railway has earned a substantial surplus which has been paid in to the federal treasury. While we get much satisfaction from the work we have accomplished we have also made a significant contribution to the financing of the war itself. Our surplus earnings during the six war years (1945 estimated at \$25 millions) will have amounted to \$95,780,887. This amount has been paid in to the government in cash. We have also paid to the government \$80,271,910 in cash for interest. We have paid \$66,500,000 in cash for duty and sales tax. We have invested \$77,776,000 in Victory Bonds from the reserves which I have mentioned. The total of the figures I have given is \$320,328,797. In addition to this huge sum we have financed capital expenditures out of the amount available from depreciation reserves to the extent of \$98,427,000.

That is what the *company* has done. In addition our *employees* have made Victory Bond subscriptions through our payrolls amounting to \$62,813,200. That is to the end of September, 1945. A further \$16 millions of Victory Bonds have been purchased from their pension fund contributions. I do not know what their individual income tax payments would amount to but we deducted from their 1944 pay cheques on tax account the sum of \$21,076,301.

The war has demonstrated beyond any doubt the capacity of the Canadian National Railways to handle traffic in tremendous volume and it is obvious from the figures I have given that with volume the railway can be operated at a profit. I feel it is necessary, however, to sound a note of caution. It is probable that with the war emergency over, traffic will recede from its wartime levels. To what extent it will recede we shall have to wait to find out. All the indications are that there is going to be more work in Canada than there was prior to the war and that there will be more work for the railways. In the past the railway could earn a surplus on a gross revenue of \$300 millions. The picture has changed in the interval because prices for labour and material have been substantially increased.

There has been some reduction in our interest charges but they still absorb far too large a proportion of our gross earnings. Last year 11.44% of our gross revenues were absorbed by our fixed charges. In 1939 the proportion was 26.24%. May I indicate to the committee how we compare in this respect with other major railroads? (See exhibit attached).

I am sure anyone studying these figures will be convinced that the burden of fixed charges on the Canadian National Railways is a very heavy one and one which may be more than the railway can carry if there should be any substantial decline in gross revenues and should operating costs remain at the

present level. Our greatest problem has been and will continue to be one of obtaining sufficient volume of traffic to enable us to meet our enormous interest charges. We shall continue to operate the railway as efficiently and economically as possible. That has been our policy during the war notwithstanding our greatly increased income which has been more than double what it was in 1939. It will continue to be our policy.

TOTAL DEBT AND RATIO OF FIXED CHARGES TO REVENUES

		Miles of Road Oper- ated	Operating Revenues	Total Debt	Total Fixed Charges	Ratio of Fixed Charges to Operating Revenues	
						1939	1944
			\$	\$	\$		
U.S. Class I Roads.....	1939	233,277	3,955,004,251	10,352,646,039	607,740,479	15.21	.....
	1944	228,624	9,435,446,955	9,830,186,255	566,400,041	.....	6.00
Pennsylvania.....	1939	10,270	430,930,778	692,114,134	79,595,750	18.47	.....
	1944	10,098	1,010,015,912	644,425,247	75,539,810	.....	7.48
New York Central.....	1939	11,008	341,086,708	685,780,343	48,103,444	14.10	.....
	1944	10,746	714,963,385	612,719,371	46,187,801	.....	6.46
Southern Pacific.....	1939	13,069	217,572,889	716,781,019	30,007,291	13.79	.....
	1944	12,595	628,223,517	580,444,416	24,660,432	.....	3.93
Atchison, Topeka and Santa Fe.	1939	13,443	160,039,967	332,127,036	11,056,699	6.91	.....
	1944	13,103	528,080,530	243,662,500	10,080,425	.....	1.91
Union Pacific.....	1939	9,901	164,253,371	359,969,867	14,221,976	8.66	.....
	1944	9,781	506,590,966	380,749,652	15,139,681	.....	2.99
Baltimore & Ohio.....	1939	6,307	161,030,252	677,153,821	20,421,656	12.68	.....
	1944	6,144	387,193,036	583,044,588	17,742,199	.....	4.58
<i>Canadian National</i>	1939	23,668	203,820,187	1,308,783,392	53,488,165	26.24	.....
	1944	23,496	441,147,510	1,274,557,778	50,474,480	.....	11.44
Canadian Pacific.....	1939	17,176	152,148,993	523,848,955	24,700,692*	16.12	.....
	1944	17,030	320,262,132	401,321,229	20,185,720*	.....	6.30

* Fixed Charges ex Soo Line Guaranteed Interest.

I shall now proceed with the reading of the report of the chairman and president of the Canadian National Railways.

Mr. MAYBANK: Before you go on to that, might I say this. In other years we very often adopted the practice of asking questions as we went along. I should like to make the suggestion that, as this report is only three or four pages in length, we wait until it is concluded before asking questions.

Mr. VAUGHAN: That would be very helpful if the members agree to it.

The CHAIRMAN: Does it meet with the approval of the committee, that Mr. Vaughan present his report before questions are asked.

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Then go ahead, Mr. Vaughan.

Mr. VAUGHAN:

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA.

Sir,

In conformity with *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 1944.

The fifth full year of the war, which brought victory after victory to the United Nations, made greater demands upon the people of Canada. The Canadian National Railways were again privileged to join the citizens of the dominion and its allies in meeting the challenge.

A review of the year's traffic reveals the magnitude of the work accomplished by the company. Revenue freight amounted to 80,851,179 tons and the number of passengers transported was 35,928,212. The system carried almost twice as much freight and four times as many passengers as in 1939, without serious deterioration in service. Inconveniences were kept to a minimum and carefully scrutinized with a view to correction. Over the years, the company has kept abreast of railroad development making for improvement in both equipment and methods and it was this, coupled with the efficient cooperation of the staffs and the active collaboration of the shipping and travelling public, that enabled the company to cope with the strain of the war traffic.

Gross revenues rose slightly in 1944, but with a large increase in operating expenses due to higher wage rates, higher prices of materials and additional maintenance of track and equipment, the net operating revenue was not as great as in the previous year.

As compared with 1939, the higher wage rates added \$47,823,000 to the payroll and the higher unit prices added approximately \$20,000,000 to the cost of materials.

As the result of the 1944 operations a cash surplus of \$23,027,000 has been turned over to the federal treasury, after the payment of interest due the public and the government.

The following is a summary of operating results. The full income statement appears on the opposite page.

	1944	1943
Operating revenues	\$441,147,510 35	\$440,615,954 58
Operating expenses	362,547,043 53	324,475,669 50
Net operating revenue	\$ 78,600,466 82	\$116,140,285 08
Revenue appropriated for pension reserve.....		19,069,000 00
Net operating revenue after appropriation for pension reserve	\$ 78,600,466 82	\$ 97,071,285 08
Taxes, equipment and joint facility rents.....	10,875,822 81	15,437,346 89
Net railway operating income.....	\$ 67,724,644 01	\$ 81,633,938 19
Other income, less deductions.....	Cr. 3,371,920 27	3,668,518 37
Interest on funded debt—public.....	28,135,938 36	30,998,196 32
Interest on government loans.....	19,933,701 57	18,664,848 01
Cash surplus	\$ 23,026,924 35	\$ 35,639,412 23

RESULT OF 1944 OPERATIONS

CONSOLIDATED INCOME ACCOUNT

	1944	1943
RAILWAY OPERATING REVENUES:		
Freight	\$321,588,728 30	\$324,899,723 64
Passenger	69,776,256 67	66,891,033 94
Mail	4,204,761 03	4,047,893 92
Express	18,008,142 96	17,490,783 01
Commercial Telegraphs.....	7,012,442 34	7,103,475 65
All other.....	20,557,178 96	20,183,044 42
TOTAL OPERATING REVENUES.....	\$441,147,510 35	\$440,615,954 58
RAILWAY OPERATING EXPENSES:		
Maintenance of Way and Structures.....	\$ 76,503,925 59	\$ 67,308,429 46
Maintenance and Depreciation of Equipment.....	80,215,292 75	72,366,530 73
Traffic	6,058,693 52	5,647,080 21
Transportation	177,889,699 03	159,477,448 33
Miscellaneous Operations.....	5,922,378 37	5,380,416 75
General	15,957,054 27	14,295,764 02
TOTAL OPERATING EXPENSES.....	\$362,547,043 53	\$324,475,669 50
NET OPERATING REVENUE.....	\$ 78,600,466 82	\$116,140,285 08
Revenue Appropriated for Pension Reserve.....	.....	19,069,000 00
NET OPERATING REVENUE AFTER APPROPRIATION FOR PENSION RESERVE	\$ 78,600,466 82	\$ 97,071,285 08
Taxes	7,341,513 86	8,390,677 72
Equipment Rents—Net Debit.....	2,956,314 10	6,488,739 04
Joint Facility Rents—Net Debit.....	577,994 85	557,930 13
NET RAILWAY OPERATING INCOME.....	\$ 67,724,644 01	\$ 81,633,938 19
OTHER INCOME:		
Income from Lease of Road and Equipment.....	\$ 61,578 31	\$ 56,663 39
Miscellaneous Rent Income.....	954,858 42	864,379 75
Income from Non-transportation Property.....	598,717 23	452,410 38
Results of Separately Operated Properties.....	767,528 37	3,013,645 15
Hotel Operating Income.....	1,188,802 92	1,030,033 68
Dividend Income.....	659,726 10	685,755 62
Interest Income.....	3,923,760 98	3,255,316 57
Miscellaneous Income.....	2,367,210 34	556,359 05
TOTAL OTHER INCOME.....	\$ 10,522,182 67	\$ 9,914,563 59
DEDUCTIONS FROM INCOME:		
Rent for Leased Roads and Equipment.....	\$ 1,163,904 38	\$ 1,246,514 40
Miscellaneous Rents.....	539,891 47	529,207 28
Miscellaneous Taxes.....	90,839 21	91,427 71
Interest on Unfunded Debt.....	304,644 93	219,512 32
Amortization of Discount on Funded Debt.....	936,291 03	1,060,464 64
Miscellaneous Income Charges and Appropriations.....	4,142,362 79	3,068,782 60
Profit and Loss Items—Net Debit or <i>Credit</i>	27,671 41	30,136 27
TOTAL DEDUCTIONS FROM INCOME.....	\$ 7,150,262 40	\$ 6,246,045 22
NET INCOME AVAILABLE FOR PAYMENT OF INTEREST..	\$ 71,096,564 28	\$ 85,302,456 56
Interest on Funded Debt—Public.....	28,135,938 36	30,998,196 32
Interest on Government Loans.....	19,933,701 57	18,664,848 01
CASH SURPLUS	\$ 23,026,924 35	\$ 35,639,412 23

The property was maintained to meet the heavy traffic requirements, but shortages of labour and materials restricted certain classes of work.

The number of Canadian National men and women in the armed forces continued to grow and now represents twenty-five per cent of the peacetime staff. The problem of training substitute staff and rehabilitating those returning to the company from wartime service is receiving the attention of all officers.

The production by the company of weapons of war, including ships, showed little diminution from other war years.

During the year consideration was given to a program of post-war projects, and a special committee was actively engaged in selecting works which, by geographical distribution and the nature of the undertaking, would permit participation by the company in any government plan for post-war employment.

In addition, the company is engaged in a program of research designed to improve its facilities with the joint object of achieving economy and improving the quality of service. In particular, trends in passenger equipment design are being studied and new passenger equipment will be lighter in weight, for more economical operation, and much improved as regards the convenience and comfort of the travelling public. Attention is also being given to the design of freight equipment and locomotives, both steam and diesel, as well as to improvements of stations, terminals, road and shop facilities.

OPERATING REVENUES

Operating revenues amounted to \$441,147,000, the highest in the company's history, the increase being \$532,000 over 1943. Revenue from the transportation of freight was less by \$3,310,000, but passenger revenue increased \$2,885,000 and other revenue \$957,000. Total revenues averaged \$1,205,000 per day throughout the year.

Apart from minor adjustments, freight and passenger rates remained fixed at the pre-war level, this being in accordance with the regulations of the Wartime Prices and Trade Board.

Whereas there was an increase of some 424,000 revenue tons handled, freight revenues at \$321,589,000 were less by 1.02 per cent. This resulted from decreased movements of higher rated war and industrial materials and increased movements of lower rated products. There was also a sharp decline in movement of traffic for war projects in Alaska and Northern Canada.

Every effort was made, with the co-operation of the Transport Controller, to secure a continuance of heavy loading of freight equipment. Beneficial results were also obtained through other measures for the intensive use of rolling stock.

Notwithstanding that equipment was urgently needed for other important loadings, the company was able to meet the demand for increased grain deliveries and the necessary stocks were maintained at the Lakehead to permit of the expeditious loading of vessels there. The elevator stocks at the Lakehead have been increased during the winter months in preparation for a heavy movement down the lakes when navigation opens in the spring.

Passenger revenues reached a new high level at \$69,776,000, an increase of 4.31 per cent over 1943, and an increase of 291.62 per cent over 1939.

Increases were again reported in revenues from mail, express, sleeping cars, and hotels.

OPERATING EXPENSES

Operating expenses increased by \$38,072,000. Stated briefly, this increase was occasioned by higher wage rates in 1944 as compared with 1943 amounting

to \$23,348,000, higher prices of materials \$7,102,000, and additional maintenance of track and equipment \$5,893,000. The amounts referred to for wages and materials do not represent additional man hours or additional quantities of material, but result from the higher unit prices paid by the Railway for labour as the result of retroactive wage awards by regulatory authorities, and the increased prices paid for fuel, ties, rail and other materials used in maintenance and operation.

Of the increased charge to operating expenses of \$23,348,000 due to higher wage rates, \$18,956,000 represents the recent wage awards granted by the National War Labour Board, \$3,436,000 the additional cost of living bonus, and \$956,000 the increased wage rates on the United States lines of the System.

As regards materials, the largest item of increase over 1943 is locomotive fuel. Fuel cost in 1944 was \$43,329,000. The average price increased from \$5.37 to \$6.10 per ton, involving an added expense of \$4,906,000. New rail averaged \$57.33 per ton compared with \$55.26 in 1943. Treated ties averaged \$1.65 each compared with \$1.42 and untreated ties \$1.04 compared with 88 cents. There was an increase of 2.5 per cent in the price of other railway material.

The directors feel that more than passing attention should be directed to the higher cost of operation due to these increased unit prices for labour and material over which the management has no control.

\$10,000,000 was charged to operating expenses as provision for deferred maintenance, \$1,140,000 for amortization of war projects and \$2,375,000 for inventory reserve. The amount charged for depreciation on rolling stock was \$19,853,000, or approximately \$7,000,000 more than would be provided under average traffic conditions. These special charges have been taken up in the operating accounts, in continuance of the practice adopted in 1941, to ensure that future results will not be burdened with delayed charges arising out of wartime operations.

SURPLUS FOR THE YEAR

In the accounts below net revenue, the major changes were:—decreased taxes \$1,049,000, principally less income taxes due to less income of the Grand Trunk Western Railroad Company; decreased debit balance in the per diem account \$3,672,000, brought about by increased freight car ownership and changes in the traffic and operating conditions; decreased interest charges \$1,593,000, arising from the retirement of securities held by the public with funds borrowed from the government at current interest rates; and on the reverse side the less favourable results from the operation of Northern Alberta Railways \$1,486,000. The gross operating revenues of this railway, which is jointly owned with the Canadian Pacific Railway Company, were lower by \$3,853,000 than in the previous year.

The surplus for the year 1944 was \$23,027,000, as compared with \$35,639,000 in 1943, a decrease of \$12,612,000.

CAPITAL EXPENDITURE ACCOUNT

The capital expenditures during the year amounted to \$36,063,077, details of which are given on page 18. Of the total expenditures \$32,359,097 was for new equipment. Under hire-purchase agreements with the dominion government there were acquired 20 Mountain type locomotives and 7 Northern type locomotives, 4,762 box cars, 200 flat cars, 500 hopper cars, 250 ore cars and 54 refrigerator cars. Purchases for the Grand Trunk Western Railroad included 10 diesel switching locomotives, 1 passenger car, 200 automobile cars, and 300 gondola cars. 41 units of work equipment were also acquired.

Construction of the new line from Eastern Junction to Bout de l'Île, on the Island of Montreal, contract for which was let on March 22nd, is nearing completion and the line will be ready for operation during the summer of 1945. The Butler Street line from Atwater Avenue, Montreal, to the west end of the Victoria Bridge (two miles) was completed. These much needed undertakings will be of material assistance to operations and give improved service to the public.

FINANCE

The details of funded debt and government loans outstanding are shown on pages 19 and 20. Funded debt was reduced uring the year by \$114,778,566 and government loans increased \$107,780,106—a net reduction of \$6,998,460. Details are as under:—

Funded Debt Retirements

2½% 7-year guaranteed bonds, matured February 1, 1944	\$ 15,500,000 00
3% 9-year guaranteed bonds, matured May 1, 1944	35,000,000 00
5% 40-year guaranteed gold bonds, called for redemption July 1, 1944, at \$105—par value	56,684,000 00
Various securities repatriated under the arrangements referred to in the 1942 annual report—par value	1,805,079 32
Equipment trusts—annual principal payments	5,789,000 00
Fractional adjustments	487 35
Reduction in funded debt	<u>\$114,778,566 67</u>

New Government Loans

Balance of 1943 refunding requirements, etc.	\$ 1,750,636 92
Loans to retire the three issues of bonds referred to above, at par; and various securities repatriated at market value	108,945,843 56
Loan to acquire Atlantic and St. Lawrence Railroad Company shares under repatriation arrangements	57,846 26
Loans under equipment hire-purchase agreement 1943	17,753,889 06
Loans under equipment hire-purchase agreement 1944	13,680,405 62
Total New Loans	<u>\$142,188,621 42</u>
Loans repaid out of 1943 surplus earnings	\$ 5,639,412 23
Loans repaid out of 1944 surplus earnings	20,000,000 00
Equipment hire-purchase annual principal payments	2,891,775 68
Payment under Financing and Guarantee Act, 1943. The amount available from reserves for depreciation and debt discount amortization in 1943 exceeded the total capital requirements for the year	5,877,326 94
Total repayments	<u>\$ 34,408,514 85</u>
Increase in government loans	<u>\$107,780,106 57</u>
Net reduction in debt during the year	<u>\$ 6,998,460 10</u>

GENERAL WAGE NEGOTIATIONS

Pursuant to the provisions of the Wartime Wage Control Order 1943, P.C. 9384, the cost of living bonus was incorporated in the basic rates of pay.

Six days' vacation with pay was awarded by the National War Labour Board for maintenance of way employees and other hourly rated employees not previously receiving vacations with pay.

The National War Labour Board directed the application of a general wage award of six cents per hour or \$12.48 per month for steam line railway employees in Canada not above the rank of foreman.

Numerous applications for increases in basic rates of pay continue to be received from labour organizations. Hearings will be held before the National War Labour Board.

- CANADIAN NATIONAL EXPRESS

Owing to the completion of military contracts there was a considerable decrease in the number of carloads of war materials carried by the express department, but the volume of merchandise traffic was exceptionally heavy. Shipments aggregated 15,780,767, an increase of 7.55 per cent over 1943. Fruit and vegetable traffic was the heaviest on record.

Express revenues at \$17,375,000 were the highest in the company's history but, in common with other departments, operating expenses were affected by wage and other increases.

CANADIAN NATIONAL TELEGRAPHS

The volume of business in 1944 was on a level with the peak year 1943, revenues amounting to \$6,998,000. Leased wire revenues, including those from broadcasting circuits, were the largest on record.

During the year Canadian National Telegraphs completed its large construction program for the Department of National Defence in connection with the Pacific Communications Project and Defence Communications Limited, as well as furnishing the Department of Transport with a network of telephone despatching circuits for airways traffic control. Substantial improvements in equipment were also made in the teletype network used by Trans-Canada Air Lines across the continent.

HOTEL OPERATIONS

The combined revenues of the year-round hotels amounted to \$5,639,000, the highest in the history of the Hotel Department. Despite the difficulty in obtaining supplies under wartime restrictions, and the extreme shortage of skilled labour, service has been maintained at a high standard. The three resort hotels, Jasper Park Lodge, Minaki Lodge, and Pictou Lodge, were not operated in 1944.

The Hotel Vancouver, operated by a separate company for the Canadian National and Canadian Pacific Railways, had a very large measure of patronage.

SLEEPING AND DINING CARS

The company, under war conditions, has been unable to augment its supply of sleeping and dining cars. War traffic has put a great strain on both equipment and personnel, but the public has shown an understanding of the difficulties.

The number of dining, cafe, buffet, commissary, kitchen, sleeping, tourist and parlor cars in service in 1939 was 531, and the number in service in 1944 was 535.

Meals served in the company's dining cars totalled 4,903,968. This was more than five times the number served in 1939.

TRANS-CANADA AIR LINES

In 1944 the number of passengers carried by Trans-Canada Air Lines increased by 12 per cent, air express volume by 4 per cent and air mail by .3 per cent. The trans-Atlantic air service operated by T.C.A. for the Dominion government was expanded. A large amount of military aircraft overhaul was carried on in the T.C.A. shops. During the year plans were made for additional domestic and international services.

OTHER ACTIVITIES

In addition to providing railway transportation, air service, telegraph and express service and hotel accommodation, the National System continues to make its contribution to the nation's war effort in a number of other ways. Canadian National Steamships are playing a distinguished part. The Prince Rupert Dry Dock and Shipyard, National Railways Munitions Limited and the Company's shops are meeting their war contract schedules.

The Railways had the honour of operating two special trains from Halifax to Quebec for Prime Minister Churchill and his party attending the Second Quebec Conference in September. It also handled the trains for Mr. Churchill and President Roosevelt from Quebec en route to Hyde Park, N.Y. and to Highland, N.Y. at the conclusion of the conference. The Railway participated in the movement of a special train from Washington to Montreal and return carrying some 300 delegates to the United Nations Relief and Rehabilitation Administration Conference in September. In October, fifty delegates of the British Commonwealth travelled by Canadian National from Montreal to Chicago to attend the International Civil Aviation Conference.

VICTORY LOAN CAMPAIGNS

In the Victory Loan campaigns held during the year, Canadian National employees subscribed \$22,860,550, an increase of \$7,435,950 over 1943. Contributions by personnel of Trans-Canada Air Lines, included in this total, amounted to \$568,600 and those of National Railways Munitions Limited to \$265,850. The number of subscribers to the Seventh Victory Loan was 90,779.

Through the payroll deduction plan employees invested a further \$1,465,036 in War Savings Certificates during the year.

Apart from the individual purchases by employees, the Company subscribed \$27,646,500 to the 1944 loans for account of reserve and other funds.

The employees on lines in the United States subscribed substantially for United States war bonds during the year.

THE STAFF

The railway is proud indeed of its employees who have enlisted for active service. They have done a magnificent job in all branches of the armed forces on all the battle fronts, at sea, on land and in the air. The company will remember and honour those who have given their lives for their country, and to their bereaved families the directors extend their deepest sympathy.

The company is making the necessary plans for the re-assimilation of its employees on their discharge from the armed forces. Already some 1,400 have been welcomed back to the railway's service. A committee has been set up at headquarters to aid in the task of re-establishing all employees who wish to return to the service and every effort will be made to ensure satisfactory employment for those who by reason of disability are unable to resume their pre-war occupations.

Thanks are expressed to the men and women of the system whose duties have kept them on the home front for their loyal co-operation in the common task.

The CHAIRMAN: Gentlemen, would you like to take the balance sheet page by page, or have you some comments which you would like to make first, following Mr. Vaughan's statement?

Mr. EMMERSON: I would like to ask a question bearing on the last part of the statement with regard to absorption of men who served overseas and have been discharged from the army, more particularly with regard to apprentices

in the shops who replaced these men as they enlisted—that is, other apprentices were started on their apprenticeship. These soldiers are returning and are coming back to work. What does that mean so far as the young boys who have started during the war on their apprenticeship are concerned?

Mr. VAUGHAN: Do you mean what allowance has been made for their war service?

Mr. EMMERSON: No, I am thinking of the young men who were in there on their apprenticeship, not those serving overseas. Will they be displaced on the return of these other apprentices or will they complete their time?

Mr. VAUGHAN: If it is necessary to do so, that will be done. Of course, first consideration will be given to the men who went overseas.

Mr. EMMERSON: Yes, but is it going to mean that?

Mr. VAUGHAN: We cannot say what will be done there until the situation develops. We are not going to lay any of them off if we can avoid it.

Mr. WALTON: As Mr. Vaughan has said, I think much will depend upon developments. Naturally, the men who have served overseas and come back are entitled to first consideration. It may work out satisfactorily for all concerned because we have taken on fewer apprentices during the war. In many cases there were no available suitable young men; so it may develop that there is room for everybody. If not, to put it briefly, the returned men get the preference over the men who are here.

Mr. EMMERSON: And should many of the young men have to be laid off it would only be a temporary lay-off until they can be again absorbed to complete their apprenticeship?

Mr. WALTON: Yes, they are allowed to retain their former service rating and come in again whenever there is a call for additional men.

Mr. MAYBANK: You keep them on the roster?

Mr. WALTON: Yes.

Mr. MUTCH: In the case of personnel who were apprentices at the time that they enlisted, have you had a sufficient number of them back to enable you to state whether generally they are satisfied to go back and complete their apprenticeship?

Mr. VAUGHAN: I think our experience is that most of them are satisfied to come back and quite a number have come back.

Mr. MUTCH: They may be four or five years older and still in the apprentice class.

Mr. WALTON: Some of them have been in positions where their war service was a direct addition to their experience as mechanics; for example, men who have been working as naval artificers and trades like that, and that experience works in with their work if they had been apprentice machinists.

Mr. MUTCH: That was to be my next question. With regard to these men who have been employed, for instance, as machinists or mechanics or artificers in the services, do you give them credit on their apprenticeship?

Mr. WALTON: Yes, where their employment in war service has been of a nature that couples in with the railway work that is allowed as qualifying experience.

Mr. MAYBANK: The labour unions have something to say. Is it a fact that they co-operate fully?

Mr. WALTON: Yes, this whole arrangement has been by co-operation with the unions, sir, and the whole thing has been worked out in a mutually satisfactory way.

Mr. EMMERSON: I have one more question to ask. Take the case of an apprentice who enlisted and became a casualty or suffered a disability to such

an extent that he cannot continue on in that particular craft—he may be a boilermaker—now, suppose he wanted to continue in some other craft that would be permitted by the medical officer, what could be done for him?

Mr. VAUGHAN: We have a committee set up to deal with all these cases, and they would endeavour to put him in some satisfactory position.

Mr. EMMERSON: There would be an endeavour to place him?

Mr. VAUGHAN: Yes, we have a committee set up especially to deal with these sort of cases.

Mr. BEAUDOIN: I understand that the employees who were hired during the war to replace service men were hired on a temporary basis; they were not allowed to believe that their jobs would be permanent?

Mr. WALTON: In all the different departments the date that a man starts to work establishes his seniority. Now, as all the men who went into the armed forces were assured of continuity of service they automatically are senior to those who came in later during the war years; so that the relative position between the two groups—the men who were in the armed forces and those who were not—is automatic.

Mr. BEAUDOIN: Your company has many post-war projects, according to your report. A special committee has been instituted and has listed certain works which would enable your company to participate in the post-war employment projects. Could you give us a list of the post-war projects?

Mr. VAUGHAN: There was a committee set up by the House to deal with all these matters, and we, in common with other interests, submitted a list at that time. There is a list on file in some department of the government.

Mr. MAYBANK: The list is also in the report of that committee. It was put in verbatim in the proceedings of the Reconstruction Committee of last year.

Mr. BEAUDOIN: Of last year?

Mr. MAYBANK: Yes. What was the amount you set at that time in that committee which you estimated you would be able to expend in this fashion?

Mr. VAUGHAN: I do not remember the exact amount; we divided it into several categories.

Mr. MAYBANK: I remember it was a large sum.

Mr. VAUGHAN: Yes, we did point out that we ourselves did not feel like spending and did not propose to spend any money unless we could see some return on it, but if the government expected to give some assistance from a reconstruction fund we would be able carry on certain work on that basis.

Mr. MUTCH: The reserves which you have created for the express purpose of completing maintenance which you have not been able to do and furnishing rolling stock is in itself a help.

Mr. VAUGHAN: Exactly; but those reserves were not created for new capital work.

Mr. MUTCH: They do create jobs.

Mr. VAUGHAN: Yes, undoubtedly, they will create a lot of jobs.

Mr. BEAUDOIN: I notice with regard to the subject of negotiations on wage increases that the employees have already been granted by the National War Labour Board six cents per hour increase. There is also the statement that many more demands for wage increases are now before the National War Labour Board. Could you give us an idea of what are the new wage increases?

Mr. VAUGHAN: We have got applications. We have to bear in mind that this is a 1944 report; increases have been granted since; and we have now before us applications from many of the different classes of labour in our employ, and those applications will go before the War Labour Board in due course. The total amount involved would probably be \$25,000,000—that represents all the requests. I do not think I have a list here, but I have a list some place of the various organizations' requests.

Mr. MAYBANK: Would it not be a fact that you have them from practically every organization?

Mr. VAUGHAN: We have that here some place. I could probably get it for you, but we have so many papers before us here that I cannot find the information at the moment. It represents applications from many classes of labour.

Mr. HAZEN: Did you say it would amount to \$25,000,000?

Mr. VAUGHAN: Pretty close to that.

Mr. HAZEN: If you had to pay that amount then, instead of having a surplus of \$23,000,000 last year, you would have a deficit?

Mr. VAUGHAN: That would be quite true.

Mr. HAZEN: And that deficit has to be paid by the taxpayers of the country?

Mr. VAUGHAN: Quite so. We do not expect to have to pay anything like that amount, though.

Mr. MAYBANK: I think that is a bargaining figure.

Mr. VAUGHAN: I see at the present time there are applications presently before the National War Labour Board for \$13,547,000 and then there are others pending that have not yet reached the Board.

Mr. BEAUDOIN: This is not a joint submission.

Mr. LOCKHART: Could I have those figures repeated?

Mr. WALTON: \$13,547,997. I think it should be emphasized that these are applications before the National War Labour Board and what the outcome will be we do not know.

Mr. BEAUDOIN: That is not a joint submission; it is made by the union?

Mr. WALTON: Yes.

Mr. VAUGHAN: Our position is that we have told the men we could not afford to pay these wages and they have been referred to the War Labour Board.

Mr. REID: If there is a decline in passenger and freight traffic will there be a proportionate drop in the personnel—the employees?

Mr. VAUGHAN: Undoubtedly, as our traffic goes down we will have to reduce our expenses, and the only way or the principal way of doing that is to reduce the number of employees. We cannot get away from it.

Mr. MAYBANK: Personnel now numbers about 100,000?

Mr. VAUGHAN: Approximately.

Mr. LOCKHART: Will there be any reduction in wage scales? Will the present wage scales, as awarded, be maintained on a permanent basis, or will there be reductions?

Mr. VAUGHAN: They have already been granted by the National War Labour Board at Ottawa as permanent increases. They have not been given as war bonuses.

Mr. NICHOLSON: The president mentioned the reduction of labour costs. As a member of the committee during the war years I wish to express my own personal appreciation to the president and the officers and staff of the Canadian National Railways for the wonderful job they have done during the war years. I was down in Halifax recently when the New Amsterdam and the Ile de France arrived over the week-end, and I never realized before what a tremendous organizational job it is to get those troops moving out in the course of a short time. They had to see that the troops were moved to British Columbia and Alberta and all other parts of Canada and provide sleeping cars and dining cars and all other facilities. In connection with the point we were discussing, I would like to ask the president to enlarge on the last paragraph on page 5 of his brief where he says that the burden of fixed charges on the Canadian National Railways is a very heavy one and one which may be more than the

railway can carry if there should be any substantial decline in gross revenues and should operating costs remain at the present level. I wonder if Mr. Vaughan could give us some indication as to what sort of adjustment there should be to bring the ratio of fixed charges and operating revenue in line with those of the Canadian Pacific, for example?

Mr. VAUGHAN: We think that our ratio of gross earnings to fixed charges should at least be about on the same average as class 1 railroads in the United States, which is almost half what it is in the Canadian National Railways.

Mr. NICHOLSON: In terms of dollars and cents, how much is involved in your capital?

Mr. VAUGHAN: Last year it would have been \$23,000,000 or \$24,000,000 as against \$45,000,000 or \$46,000,000.

Mr. NICHOLSON: That would be half a billion dollars; you would have to write your capital down.

Mr. VAUGHAN: Yes, while we have this traffic we can meet those charges, but I think it is only fair to point out that when traffic declines, if wages remain as they are, there is bound to be a different showing.

Mr. NICHOLSON: What attempts have you made during the years to get your capital brought down?

Mr. VAUGHAN: We have accomplished quite a bit. The maximum fixed charges in 1932 were \$56,000,000, and we have reduced them down to below \$46,000,000.

Mr. NICHOLSON: That still represents a large amount. What was your point precisely: to have the government of the country face up to your capital structure and give you a chance to operate on the same basis as American railways, for example?

Mr. VAUGHAN: There have been many discussions, as the minister knows, and he might want to say something himself.

Hon. Mr. CHEVRIER: The only thing I can say with reference to that is as to what has already been done in the Capital Revision Act. You probably remember that an amendment was brought in to amend the Act the other day and certain general statements were made having to do with the different method of revising the capital of the Canadian National Railways. That was done in 1937 under the Act of that time.

Mr. VAUGHAN: I think I might point out that at that time none of our capital was written down—

Mr. COOPER: That was so as regards debt held by the public.

Mr. VAUGHAN: None of the public debt was written down?

Mr. COOPER: There was no reduction in the debt to the public.

Mr. MAYBANK: As a matter of fact, it comes to this, that the only way to improve that situation, barring a very long time of exceptionally good net revenue, is for some person to lift that load of debt off the railroad, and that person is the government of Canada. Is not that what it comes down to?

Mr. VAUGHAN: That is so.

Mr. JACKMAN: We seem to be jumping around and the subjects do not check up. How much was written off by that Capital Revision Act? Have we now to give consideration to this problem?

Hon. Mr. CHEVRIER: I wonder if we could not discuss that when we come to the report on the securities trust?

Mr. JACKMAN: Any time is suitable, but we started off this way. Now, may I ask about these apprentices in the services who are now being taken back? Mr. Walton said they had to have qualifying experience, implication being that the military experience—

Mr. WALTON: I did not mean they had to have qualifying experience before they got back, but that where their work was comparable to the work they had left on the railway that did count in advancing them and qualify them for graduating out of the apprentice class.

Mr. JACKMAN: Is that a rather rigid qualification put in there, because after all, while the movement of supplies and troops is very essential to the military authorities nevertheless most of the men are in the fighting commands?

Mr. WALTON: The point we cannot ignore is that the apprentice is working toward the point where he graduates from the apprentice class and becomes a fully qualified man in his trade, whether as a machinist, a boilermaker or whatever it may be. If he, by any chance, is given his rating as a machinist when he has not properly learned his trade then he is of no use to himself or to the railway or to any other employer as a machinist; we have to have some record of his qualifications for his rating as a machinist, so to speak, before he can take over that work. It is a matter of the practical working out of the finishing of his trade, so to speak.

Mr. JACKMAN: With regard to the boys who have had this qualifying experience in the armed services, there is no objection on the part of the unions to advancing them to master mechanics, is there?

Mr. VAUGHAN: No, they have gone along with that.

Mr. JACKMAN: Do the unions allow you to give full priority if the employee has been in the services; there is no line of seniority by reason of military services?

Mr. WALTON: No. That was agreed to by the company at the outset of the war; and in order to avoid any misunderstanding it was reduced to the form of an agreement with the respective brotherhoods for the various classes of employees. They are very glad to go along with it, and there has been no difficulty on that score at all.

Mr. JACKMAN: The pension plan was kept operating, I believe, as far as the company is concerned?

Mr. VAUGHAN: That is correct.

Mr. HARKNESS: What is the position of a man who joined up who would have become a passenger agent in Calgary, but during the time he was away somebody else, who was junior to him, might get that job?

Mr. VAUGHAN: We have obligated ourselves to re-employ each one of these men who left our services to enter war services in at least as good a position as he would have had had he remained; so he would not have to take second place to some man who had been junior to him and had received promotion during the war.

Mr. JACKMAN: In other words, he is fully protected.

Mr. VAUGHAN: Yes, he would not suffer at all by reason of his overseas service.

Mr. MAYBANK: I suppose you would have more difficulty in that regard with offices than in cases where there is seniority?

Mr. VAUGHAN: Yes.

Mr. MAYBANK: You cannot do it in offices, can you?

Mr. VAUGHAN: We are following it out pretty well. There are many difficulties. We have had men who have gone over as office boys and have come back as squadron leaders, and we have had a man who had gone over as a clerk and come back as a major general.

Mr. MAYBANK: Some one of them might have become president?

Mr. VAUGHAN: Yes, As I said, we have a committee studying these things, and we are trying to put these people in a suitable place.

Mr. WALTON: Out of some 1,500 employees who had returned there were four cases in which there was some difficulty as to just where they could be fitted in, and these cases are being dealt with.

Mr. JACKMAN: Do you have a retiring age?

Mr. VAUGHAN: Yes, 65 is our compulsory age. A man may retire at 60 after 35 years of service.

Mr. JACKMAN: And he gets all the pension?

Mr. VAUGHAN: He gets what he has earned up to the time of his retirement.

Mr. REID: Is it contributory?

Mr. VAUGHAN: The company matches the contributions of the men up to 5 per cent of their wages.

Mr. JACKMAN: I know you have several pension plans, but about what what would be the average percentage of a man's earning capacity if he retires at 65—would it be 30 per cent?

Mr. COOPER: The average pension under the present plan is \$503 a year.

Mr. JACKMAN: At 65?

Mr. COOPER: Yes, at 65.

Mr. JACKMAN: Is that likely to increase owing to the more modern pension plans that have been introduced in more recent years?

Mr. VAUGHAN: We have not altered our pension scheme except that we have changed one or two of our rules. For example, up until recently a man could not retire before age 65, regardless of how much service he had, unless he was incapacitated, now he can retire at 60 years of age if he has a minimum of 35 years' service. We have altered some of the rules, but the basic pension plan has not been altered.

Mr. JACKMAN: A man cannot look forward to retirement in the near future and getting an average of much better than \$503?

Mr. VAUGHAN: No, I do not think so.

Mr. COOPER: The present arrangement is that if he contributes 5 per cent, his pension will not be less than it would have been under the old rules where it was 1 per cent for each year of service.

Mr. JACKMAN: You may have noticed that 5 per cent used to be the maximum that a company was allowed to deduct, and the suggestion was made by Mr. Ilsley that it be raised to 9 per cent if it be agreeable to the company.

Mr. COOPER: He now permits a deduction for tax purposes up to \$900 a year. Our plan, of course, does permit an employee to contribute up to 10 per cent, but the company will only match up to 5 per cent.

Mr. JACKMAN: You have a few who do not contribute.

Mr. COOPER: That is so.

Mr. JACKMAN: Would you have as many as a third or half?

Mr. COOPER: I think you are about right as to the proportion. I believe that under the budget proposals, which will permit the deduction of pension contribution for tax purposes, there will be an incentive to our employees to contribute, which they did not have prior to the amendment which Mr. Ilsley has made.

Mr. JACKMAN: You have had a 5 per cent maximum, \$600, for some years now—now that is to be increased in order to allow a fund to be built up, which would more adequately take care of a man's old age?

Mr. MUTCH: Is the pension optional?

Mr. COOPER: The contribution is optional. Of course, Mr. Ilsley was speaking of a pension equal to one-half of the salary.

Mr. JACKMAN: That was the desired objective.

Mr. COOPER: Very few of us have any hope of getting anything like that.

Mr. WALTON: There are a lot of temporary employees not in the fund.

Mr. JACKMAN: Are you faced with a shortage of help on the railways?

Mr. VAUGHAN: In some classes we are still short of help, but men are coming back now and we think that in six months or a year's time that situation will correct itself.

Mr. SHAW: Mr. Vaughan, you have a compulsory retirement age of 65, but I understand that you did grant extensions beyond that age. Can you give us the number who have continued to carry on beyond 65?

Mr. VAUGHAN: We did grant extensions, particularly during the war. In fact, we asked such men as mechanics and telegraphers who had been retired to come back into our service. As the labour situation corrects itself, these men will go out on their pension immediately. Apart from this I do not suppose we have half a dozen men in the service who have had their service extended beyond 65 years of age; they are nearly all specially trained technical men whom we have had to keep on due to the shortage or inability to get men trained in a particular class.

Mr. SHAW: How many have been brought back from retirement to the service?

Mr. VAUGHAN: Are you referring to mechanics and telegraphers?

Mr. SHAW: I should like an answer that is all-embracing, if possible.

Mr. COOPER: At the present time we have 462 people who are on extension in the service; that is, beyond the age of 65.

Mr. SHAW: I have one other question. Have you any idea of the percentage of former employees who went into the services, who have come back and requested reinstatement?

Mr. VAUGHAN: Yes.

Mr. COOPER: The proportion brought back from retirement has been very small.

Mr. SHAW: A very small percentage?

Mr. COOPER: Very small.

Mr. WALTON: Just to make the situation clear, I might say that arrangements are already in hand, for those who were brought back in and who were continued beyond the age of 65, to terminate those extensions. In the classes such as engineers, conductors, firemen and brakemen, they are already running out, there may be a few extensions yet, but as they reach the end of that extension it will not be renewed, and new extensions are not being granted. The same applies in the shops to mechanics and so on. Telegraphers are still short. But just as soon as the situation permits in any of those departments, we are bringing to an end these services over age 65.

Mr. VAUGHAN: I think this will perhaps answer part of your question. The number of employees resuming service after being discharged from the armed forces up to September 30, 1945, was 3,269.

Mr. SHAW: Out of about 25,000?

Mr. VAUGHAN: Hardly 25,000; something nearer 20,000 went overseas.

Mr. SHAW: Can it be assumed as reasonable that applications will not come from a larger percentage than that for reinstatement?

Mr. VAUGHAN: I have no doubt that most of these men will come back to our service. We feel that they will.

Mr. JACKMAN: In those classifications where you have no shortage of men now, largely because of the re-employment of ex-service personnel, you have had to let go some of the temporarily employed men during the war?

Mr. WALTON: Yes, some.

Mr. JACKMAN: Have you had to let them out of the service or have you been able to transfer them? What I want to find out is this: what is their reaction? You are going to have many more men, as Mr. Vaughan has suggested, applying for re-entry into the railway service; and I want to find out whether or not you expect to have a real problem on your hands.

Mr. WALTON: We will take care of any we can, but there will be some inevitably who will be dropped. Just what that number will amount to it is difficult to say. In the maintenance of way department, for track work, starting next spring we will require a large number of men. If men of that class are available, there will be a very good number required.

Mr. JACKMAN: When you transfer a man from one class of work to another, what happens? Suppose he was in the shop and you want to put him out on the maintenance of way. Do you have to go through National Selective Service?

Mr. WALTON: No; not as long as he stays in our organization.

Mr. VAUGHAN: Not unless he had left our service; we would not have to do that, unless that were the case.

Mr. WALTON: National Selective Service contemplates separation notice. If you do not separate from your employment, you do not have to go through National Selective Service.

Mr. LOCKHART: You can transfer without permission?

Mr. VAUGHAN: Yes.

Mr. HARKNESS: Could you tell us what proportion of your revenues were derived both from the point of view of freight and passengers from the government, from hauling troops and government war supplies?

Mr. VAUGHAN: That question was asked last year, but it would be impossible for us to separate our ordinary revenues from that which might be attributed to war revenue; because they are all mixed up and the same firms are shipping war materials and other materials. It would be a very difficult matter to segregate them.

Mr. HARKNESS: What I was trying to get at was what reduction in revenue you would likely suffer due to the ending of that traffic.

Mr. VAUGHAN: That remains to be seen. It depends upon the general condition of industry in Canada. Undoubtedly, during the four war years, or the five or six war years quite a substantial proportion of our increased revenue has been due to the movement of war materials and troops.

Mr. HARKNESS: No doubt you have made estimates as to what would be the loss of revenue because of that?

Mr. VAUGHAN: Have we any figures on that, Mr. Cooper?

Mr. COOPER: No, sir; we have not considered the 1946 budget yet.

Mr. VAUGHAN: No. When we deal with our 1945 report, we will also deal with our 1946 budget. I presume we will be dealing with that 1945 report about March or thereabouts.

Mr. JACKMAN: Mr. Vaughan, when you have commandeered by the army all possible cars for troop movements, as at the present time, sending cars from Ontario, and elsewhere probably, to Halifax, what do you charge for them? After all, the cars take perhaps three or four days or a week in order to go down there and bring the boys home. How do you assess your charges for that?

Mr. VAUGHAN: There are special rates, which I think Mr. Cooper has on record here. The rates charged the Department of National Defence on that account are as follow: 250 or more, 100 miles or more, $1\frac{3}{4}$ cents per mile, all ranks; 250 or more, less than 100 miles, $2\frac{3}{4}$ cents for officers, $1\frac{3}{8}$ cents for other ranks. Then there are various other rates. I think what you have in mind, Mr. Jackman, is what we assess the department, for bringing empty cars from Vancouver to Halifax to bring the troops up to Montreal and points west.

Mr. JACKMAN: Are you charging enough to the proper department?

Mr. VAUGHAN: I think the rates are low, but we cannot get any more.

Mr. WALTON: Of course, as far as handling the equipment for that purpose is concerned, we do not get anything for that.

Mr. VAUGHAN: No.

Mr. WALTON: We have to place the equipment in position for this business, and then we get those rates.

Mr. JACKMAN: You must be losing tremendously from the operating point of view.

Mr. VAUGHAN: There is very little money in it. Of course, Halifax is an exclusive point on our line, and being the principal point of embarkation and debarkation, we have to handle everything in and out of Halifax. We have to haul cars sometimes long distances to accumulate enough of them to take care of the troops from a vessel such as the Queen Elizabeth which will have 12,600 troops on board. Of course, the C.P.R. will supply some of the equipment, but it will be turned over to us at Saint John. We will move their empty equipment from Saint John, and then we will turn back some of the trains to them for which they have supplied empty equipment, back at Saint John again. But we have to move everything for that entire 278 miles.

Mr. JACKMAN: In view of the fact that you have to mobilize all these cars there, are you not bound to lose?

Mr. VAUGHAN: We have to mobilize and service all the cars and trains at Halifax.

Mr. JACKMAN: Are you not bound to lose on that particular operation, in view of the fact that you are probably making enough on some other aspect of troop movements?

Mr. VAUGHAN: Passenger traffic or troop movement is like everything else. If you get it in sufficient volume, a little money can be made. We do not think we have lost anything in the movement of troops, although the rates charged are low. But we did not think it was opportune for us during the war to try to get increased rates for the carriage of troops. Those rates were all agreed upon and were considered as fair and reasonable at the time. The same rates are, of course, paid to the other railroads as are paid to us. We all get the same rates.

Mr. REID: Would not the great number of men coming to Halifax compensate you to a considerable extent for the equipment you have to provide? If you were sending down for 100 men you would have to send down a certain amount of equipment and a certain number of crew, as you would if you send down for 12,000 men. The extra number would compensate the company, would it not?

Mr. VAUGHAN: Yes.

Mr. REID: It compensates you in the great number you handle from Halifax.

Mr. WALTON: It largely means an empty movement in one direction in order to get the equipment placed, and that is a non-revenue movement in one direction. That is substantially what it means.

Mr. VAUGHAN: There is very little profit, if any, in the movement of troops, because we have so much empty haulage of equipment.

Mr. NICHOLSON: How about the movement of troops from Halifax to Calgary, for example? Do you move them all the way over the C.N.R. or where do you turn them over to the C.P.R.?

Mr. VAUGHAN: The business is divided fairly well between the two companies. On account of our larger mileage and as we originate most of the traffic, we handle more of the troops on the C.N.R. than the C.P.R. do. That is only natural. We handle trains from Halifax right through to Vancouver and right through to Edmonton and right through to Winnipeg; and the C.P.R. may handle similar trains via Saint John. We would deliver them to them at Saint John. We could not supply all the equipment for all the troop movements.

Mr. HAZEN: In your report to the Minister of Transport on March 15, 1945, which you read, there is an item, "Revenue appropriated for pension reserve, 1943, \$19,069,000." This year, or rather for 1944 nothing was appropriated.

Mr. VAUGHAN: Something for that has gone into ordinary expenses.

Mr. HAZEN: Why was nothing appropriated in 1944?

Mr. VAUGHAN: Mr. Cooper will answer that.

Mr. COOPER: 1943 was the year in which we placed our pension contracts on a fund reserve basis, and we then had to take up the arrears on all contracts issued from 1935 to 1943. \$19,000,000 represents the arrears prior to 1943. The amount chargeable for that year itself was included in operating expenses and likewise in 1944, the charge for the contracts issued during 1944 was taken up as an ordinary operating cost.

Mr. HAZEN: It sets out, in the first statement that Mr. Vaughan read, that the total additional revenue which will have been set aside, 1943 to 1945, under this arrangement is \$25,926,000.

Mr. COOPER: Mr. Vaughan's statement is speaking as if we had reached the end of 1945. The situation is that the cost applicable prior to the year 1943 was \$19,000,000. The charge for 1943, 1944 and 1945, which is in the neighbourhood of \$2,000,000 a year, is taken up in the operating costs of each of those three years; and that is why we say that as of the end of 1945, the cumulative figure would amount to \$25,000,000.

Mr. HAZEN: It appears from this statement to the minister that the net operating revenue for 1943 was \$116,140,000. In 1944 it had dropped to \$78,600,000; and the drop apparently was due or largely due to the fact that operating expenses increased by \$38,072,000 as stated on page 7.

Mr. VAUGHAN: Yes.

Mr. HAZEN: This \$38,072,000 increase in operating expenses was made up of \$23,348,000 higher prices of materials—

Mr. JACKMAN: No, wages.

Mr. HAZEN: Pardon me. It was made up of \$23,348,000 higher wage rates and \$7,102,000 higher prices of material. Is that right?

Mr. VAUGHAN: Yes.

Mr. HAZEN: Then you go on in your report and you say, "The directors feel that more than passing attention should be directed to the higher cost of operation due to these increased unit prices for labour and material over which the management has no control."

Mr. VAUGHAN: That is right.

Mr. HAZEN: I should like to ask you, Mr. Vaughan, if you think this committee should direct their attention to this matter; and if you think they should direct their attention to it, have you any suggestions to make as to how they should approach it and how they should deal with it?

Mr. VAUGHAN: That is a difficult question to answer, Mr. Hazen. After all, these bodies that have granted these wage increases have been Boards that have been appointed by the government. They have heard the evidence pro and con in connection with these applications for wage increases, and they have come to their decision, apparently based on the evidence given to them. I presume the increases have been granted largely due to what is said to be the increased cost of living and so on. I would not think that this committee could do very much about it.

Mr. REID: What about the cost of materials? I notice that fuel oil has gone up by at least 14%; coal has gone up; new rail has advanced and the price of steel. Some of these articles were under the price ceilings. Evidently something has escaped the price ceiling.

Mr. VAUGHAN: That is true. When some of the steel mills wanted an increase in the price of their products, it was felt that the ordinary consumer of steel could not pay. Apparently in Ottawa they thought the railways were doing pretty well and they could afford to pay, so they selected some of the commodities the railways used and advanced the price.

Mr. REID: And they went over the ceiling. Those steel prices were not under the ceiling, so they made the railways the goat.

Mr. VAUGHAN: Those prices were ceiling prices. That ceiling price was raised by the wartime price control on some of these commodities that the railways used. That was true of other commodities such as ties and lumber. All those prices were increased very substantially.

Mr. REID: Do you think the raise was allowed so the steel companies could get a little more from the railway companies on their steel?

Mr. VAUGHAN: Well, it was felt that the railways used certain steel commodities that no one else used, such as tracks fastenings, steel rails and things of that kind; and apparently at that time if the steel mills received an advance on the products that the railways used that would satisfy them for the time being.

Mr. REID: What about fuel oil? It was increased considerably too.

Mr. VAUGHAN: Yes. Fuel oil has increased very substantially. Fuel oil increased about \$500,000 over 1939. That was based, of course, on the cost of production. We have not been able to get as much, or very little fuel oil, from the United States. On our lines from British Columbia, before the war they used fuel oil that was brought up and put in our tanks at Vancouver or Prince Rupert. We were able to get but very little of that fuel oil during the war, and we had to get it where we could obtain it.

Mr. MAYBANK: Do you suggest that there is the possibility of a drop in fuel oil?

Mr. VAUGHAN: Well, we hope it will drop. That is all we can say.

Mr. MAYBANK: You hope, but there is no real expectation of that, is there?

Mr. VAUGHAN: Not immediately, no.

Mr. PICARD: On page 2 of the chairman's statement there is a paragraph on deferred maintenance. Do you expect that the amount of \$40,000,000 reserve that you expect to have at the end of 1945 will provide sufficient coverage for the expected new expenditures?

Mr. VAUGHAN: Yes. We think it will.

Mr. PICARD: What would be the proportion of that which would apply to the renewal of rolling stock and so on?

Mr. VAUGHAN: You have that figure here, Mr. Cooper?

Mr. COOPER: At the end of 1944 we had \$19,000,000 for deferred maintenance of way and \$15,000,000 for deferred maintenance of equipment; that is \$34,000,000 in the accounts at the end of 1944.

Mr. PICARD: Do you include in maintenance of equipment your buildings and railway stations and so on, or just rolling stock? Of course I do not know the details of your administration.

Mr. VAUGHAN: We expect these amounts which we have set aside will provide for all the deferred maintenance on locomotives and cars; that is the amount we would have spent had labour and material been adequate to take care of our ordinary requirements.

Mr. PICARD: I suppose that all the equipment, passenger, freight and so on, must have aged considerably on account of being overworked during the war and will need to be replaced on a larger scale than had there been just an ordinary amount of wear and tear?

Mr. VAUGHAN: These amounts set up, of course, are entirely for repairs to existing units of equipment. They do not apply to new equipment at all. Take, for instance, passenger cars. As you know, our passenger cars do not look as nice as we would like to see them look, either inside or outside. We have kept the running gear in safe condition for operation but we have not been able to doll them up inside and outside as we would have done under ordinary circumstances. This amount we set aside for deferred maintenance of equipment will take care of items of that kind.

Mr. PICARD: Do you have any reserves for renewals of rolling stock, because there must be a great need for that?

Mr. VAUGHAN: You are referring to new rolling stock?

Mr. PICARD: New rolling stock equipment.

Mr. VAUGHAN: We have no reserve to provide for new rolling stock. Any purchases of new rolling stock will be taken care of from year to year as the need arises.

Mr. PICARD: My question is this: Do you not expect that, after these last four or five years, that would be needed on a much heavier scale than normally?

Mr. VAUGHAN: The need will largely be for passenger equipment, modernized passenger equipment. We think we will have sufficient locomotives except perhaps diesel switchers or something of that kind and there might be a few freight cars needed; but we do not see any need for large purchases of freight equipment or locomotives. We have quite substantial new locomotives and freight deliveries since 1941, but there is need for passenger equipment.

Mr. PICARD: As it is a fact that the equipment has been overworked, according to your statement, will that not mean that there will be large orders for replacements?

Mr. VAUGHAN: No.

Mr. PICARD: Then there would be large amounts of repairs?

Mr. VAUGHAN: No, because we have added a large number of new units of equipment during the war, freight equipment and locomotives. There will be a lot of equipment which will have to go into the shop for rehabilitation, and those reserves will provide for that.

Mr. PICARD: You divide your expenditures from the \$34,000,000 reserve between \$19,000,000 for road maintenance and \$15,000,000 for equipment.

Mr. VAUGHAN: Yes.

Mr. PICARD: Where would stations and buildings and so on be provided for; in which of those two items?

Mr. COOPER: In the \$19,000,000.

Mr. PICARD: In the road equipment?

Mr. VAUGHAN: In the road provision.

Mr. PICARD: Would it be possible for you to give us an idea of when the company would be in a position to start to put into effect these new repairs or alterations?

Mr. VAUGHAN: That will depend largely on labour and material. It will be a gradual process. It will not be done all at once. It will be a gradual process when men and materials are available.

Mr. PICARD: Do you feel that whatever you would have to purchase in the way of new rolling equipment and so on, over a period of time, would help in the reconstruction era and help solve many of the problems that might confront us in the years to come?

Mr. WALTON: It means work.

Mr. VAUGHAN: It will assist, because we will have to employ large numbers of people and purchase large quantities of material to do this rehabilitation work.

Mr. PICARD: It will have to be spread over a number of years.

Mr. VAUGHAN: Yes.

Mr. MOORE: Will most of that construction which the railways will have to make, be made in their own shops? I have reference to rolling stock.

Mr. VAUGHAN: Most of the new equipment we get is purchased from outside shops. We do build some equipment in our own shop, especially in the Winnipeg shop, such as refrigerator cars. Generally speaking, we have not the facilities in our own shops to keep pace with repairs to our equipment already in service and build new equipment.

Mr. HAZEN: In your statement to the minister it sets out that you acquired in 1944 twenty Mountain type locomotives and seven Northern type locomotives, 4,762 box cars, 200 flat cars, 500 hopper cars, 250 ore cars and 54 refrigerator cars.

Mr. VAUGHAN: That is right.

Mr. HAZEN: And in addition there was purchased for Grand Trunk Western Railroad 10 diesel switching locomotives, 1 passenger car, 2 automobile cars and 300 gondola cars.

Mr. VAUGHAN: Yes.

Mr. HAZEN: And 41 units of work equipment were also acquired.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Would you tell us from whom you made those purchases? I notice on page 18 of your report, it says, "Equipment purchased or built, \$32,000,000 odd."

Mr. VAUGHAN: There are only three companies in Canada building railway cars. There is the National Steel Car Corporation in Hamilton, the Canadian Car and Foundry Company and the Eastern Car Company. There are two locomotive builders, Canadian Locomotive Company at Kingston and the Montreal Locomotive Works at Montreal. The business has been spread between them, but in the last few years the allocation of business has been controlled by the Department of Munitions and Supply, and we have had to place our rolling stock where they thought there was space available not occupied by war work.

Mr. HAZEN: Take the 20 Mountain type locomotives. Can you tell us from whom they were purchased?

Mr. VAUGHAN: Yes. They were purchased from Montreal Locomotive Works.

Mr. HAZEN: What about the 7 Northern type locomotives?

Mr. VAUGHAN: They were purchased from the Montreal Locomotive works.

Mr. HAZEN: Then there were 4,762 box cars. Were they all purchased from them?

Mr. VAUGHAN: Have you the list there, Mr. Cooper?

Mr. COOPER: Yes, sir.

Mr. VAUGHAN: Well, there were some 1,240 of those purchased from Canadian Car, 1,350 from National Steel Car, 250 from the Eastern Car Company. Those are box cars. There were 200 others from Canadian Car and Foundry, 750 hopper from the Eastern Car Company.

Mr. HAZEN: You have 500 down in your report.

Mr. VAUGHAN: There is a difference in that they were deliveries. The figures I have just given were purchases.

Mr. HAZEN: Those are the orders?

Mr. VAUGHAN: Yes, these are the orders.

Mr. WALTON: This is restricted to 1944; actual deliveries would be in the calendar year.

Mr. VAUGHAN: Those cars I mentioned were under the 1943 program. Then under the 1944 program there were 20 Mountain type locomotives, 250 freight cars, National Steel Car; 850 box cars, Canadian Car; 700 box cars, National Steel Car; and 450 for Eastern Car. You will see that the business is pretty well divided between the car companies.

Mr. HAZEN: Was any of this equipment purchased in the United States?

Mr. VAUGHAN: Only for our United States lines.

Mr. HAZEN: Was there any of this equipment that is mentioned for your United States lines; that is Mountain type locomotives and Northern type locomotives?

Mr. WALTON: No.

Mr. VAUGHAN: No. Those engines were all used in Canada and were purchased in Canada and built in Canada.

Mr. NICHOLSON: Where were the diesel locomotives purchased?

Mr. WALTON: They were purchased from the American Locomotive Company for use on the United States lines.

Mr. HAZEN: What equipment was purchased in 1944 for your United States lines, and from whom was it purchased?

Mr. VAUGHAN: We purchased for United States lines 10 diesel locomotives from the American Locomotive Company; 200 automobile cars from the Pressed Steel Car Company; 300 gondola cars from the Pressed Steel Car Company.

Mr. MAYBANK: I wonder if I might ask this question on deferred maintenance reserves. You have got \$34,000,000 and up to \$40,000,000 or in that neighbourhood.

Mr. VAUGHAN: Yes.

Mr. MAYBANK: Arriving at that total or estimate of what would be necessary, did you work on the wage level and commodity price level as they exist or did you try to protect yourself to get what it would be at the time you would be spending the money?

Mr. VAUGHAN: There was a regular formula worked out. Mr. Cooper has it, I think.

Mr. COOPER: We worked it out on a number of bases, but in the final analysis we took the opinion of the technical officers, principally that of Mr. Walton here, as to the amount of deferred maintenance which in his judgment exists on the Canadian National Railways.

Mr. WALTON: And for that purpose we used the wage rates as of to-day. We did not think we could accurately state what they will be when we can get the material and labour for this work.

Mr. MAYBANK: Then your deferred maintenance, if wages rise and material costs rise, will buy less?

Mr. WALTON: The money will not go so far.

Mr. VAUGHAN: That is correct.

Mr. BEAUDOIN: What proportion of American and Canadian coal does the C.N.R. buy?

Mr. VAUGHAN: In normal times I would say from 65 to 70 per cent of our total coal purchases are made in Canada; but during the war, especially during the last year or two, we have not been able to get anything like sufficient coal in Canada to meet our requirements. The result is that we have had to buy American coal and rail it all the way down to Truro and send it out to the west instead of bringing Alberta coal down to the head of the lakes. We have had to rail American coal as far west as the Saskatchewan boundary.

Mr. BEAUDOIN: Was it a matter of decreased production or freight rates?

Mr. VAUGHAN: Decreased production and increased consumption.

Mr. JACKMAN: With regard to Truro, is that just for the eastern traffic, or have you used more American coal for other parts of the country? It seems a long way to an outsider.

Mr. VAUGHAN: Truro is an important divisional point not very far from Halifax; it serves the two territories either east or west of there. I simply mentioned Truro to show how far east we have to haul American coal.

Mr. JACKMAN: You have stock piles too?

Mr. VAUGHAN: Yes, we have American coal stocked at Moncton, Mount Joli and Riviere du Loup, and up into Ontario as far as Fort William, and at Winnipeg. We have piles of American coal all over.

Mr. HAZEN: Prior to the war had coal come from Nova Scotia?

Mr. VAUGHAN: Prior to the war we were using Nova Scotia coal as far west as Toronto.

Mr. HAZEN: Is there any coal used from the Minto mine in New Brunswick?

Mr. VAUGHAN: I believe we have been the largest users of Minto coal, but we have not been getting anything like sufficient coal from the Minto district to meet our orders in recent years. We have been taking every ton of Canadian coal we could get, but it has not come near meeting our requirements in the territory where it was used prior to the war.

Mr. NICHOLSON: Two years ago we had some discussion in the committee regarding the volume of business going to the C.N.R. and the C.P.R., and there was some order requiring the business to be divided on a fifty-fifty basis. Can the president say whether he is satisfied with the share of business he is getting?

Mr. VAUGHAN: Following discussions in this committee and after several conversations with cabinet ministers we got those orders lifted. I think the situation is, perhaps, on a satisfactory basis at the present time. We still do not think we are getting as much business as we should, but the condition is improving.

Mr. NICHOLSON: Would you have any idea whether you are getting 60 per cent of the government business? At that time you argued, I think, for 60 per cent.

Mr. VAUGHAN: It is a difficult thing to say what percentage we are getting at the present time, but I would say that of the troop movements we are getting 60 per cent.

Mr. NICHOLSON: And of the freight business?

Mr. VAUGHAN: The freight business is hard to determine, because a great deal of the freight is billed by the shipper, and we cannot say whether it is government business or other business.

Mr. HAZEN: How does the cost of American coal compare with the cost of Canadian coal?

Mr. VAUGHAN: The cost of American coal at the mine is very much less than the cost of Canadian coal. For instance, the cost of American coal at the mine to-day would be about half the cost of Nova Scotia coal.

Mr. HARKNESS: That is not true of Alberta coal?

Mr. VAUGHAN: No, Alberta coal is very much lower in price than Nova Scotia coal.

Mr. HAZEN: What is the cost delivered at Truro, comparing American coal with Canadian coal?

Mr. VAUGHAN: The cost of delivering American coal at Truro to-day is very great. If we assess the transportation charges down to Truro the cost is very much greater than the cost of producing Canadian coal; but we cannot get Canadian coal. That is the difficulty. Under normal conditions we would never think of taking American coal down there, but we have had to protect our requirements by stocking American coal at a number of places in the maritime provinces.

Mr. JACKMAN: Our maritime coal mines are not producing enough coal for the eastern district?

Mr. VAUGHAN: No, nothing like it.

Mr. WALTON: We obviously would not have hauled that coal over our road if we could have provided it nearby.

Mr. VAUGHAN: We have been taking every ton of coal we could get and have been forced to stock American coal at Truro and at other points.

Mr. JACKMAN: At other times you were able to use Canadian coal as far west as Toronto?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And this was due to the lack of production.

Mr. WALTON: And the usage is so heavy in these times.

Mr. VAUGHAN: The mines in the maritime provinces themselves have been producing less coal. Of course, there has been a tremendous demand for bunker coal and coal for war purposes.

Mr. NICHOLSON: Again raising the question of traffic between the C.P.R. and the C.N.R., as I understand it, any arbitrary division between the two railways on the part of the various government departments was done away with, and the new basis of getting traffic is entirely based on the question of service; is that a fair statement of the case today?

Mr. VAUGHAN: We would like to believe that that is the case. However, we have no complaint to make at the present time.

Mr. SHAW: You said a couple of years ago, did you not, that you would be completely satisfied operating on a competitive basis for government business?

Mr. VAUGHAN: Yes, we made that statement. The point at that time was that the fifty-fifty division be lifted and we would take our chance on getting the business.

Mr. HAZEN: Some years ago there was an Act passed by the dominion government providing for co-operation between the C.N.R. and the C.P.R., was there not?

Mr. VAUGHAN: There was what was known as the Canadian National-Canadian Pacific Act, yes.

Mr. HAZEN: What was the purpose of the Act? Could you tell us what it provided?

Mr. VAUGHAN: It is so long since I read the Act, I do not remember the exact wording of it; but it was designed, I think, to create closer co-operation between the two railways; that was one of the objects.

Mr. HAZEN: Did it have any useful purpose?

Mr. VAUGHAN: I think it had, although the arbitration clause provided for under the Act has not been used. We have tried to reconcile our differences without the necessity of going that far.

Mr. HAZEN: I notice here in the statement you read to the committee that you say, "It is probable that with the war emergency over, traffic will recede from its wartime levels. To what extent it will recede we shall have to wait to find out." I suppose you expect a considerable recession, and you expect you will have a good deal more difficulty in showing us that surplus some years after the war?

Mr. VAUGHAN: The results which the Canadian National Railway will produce or can produce will depend entirely upon the traffic we are able to obtain. We will operate the road just as efficiently and just as economically as we can, but a railroad force cannot be cut down as a factory force can; you have to keep the Railway operating and you have therefore to maintain it; as our traffic declines we watch our expenses very carefully and we reduce our expenses in accordance with the decline in traffic. There is a point beyond which we cannot go and keep the line in a safe condition for operation.

Mr. HAZEN: Do you think it would help matters if there was closer co-operation between the Canadian Pacific and the Canadian National? Are you working toward that end? In other words, are you in touch with the C.P.R. officials and do you work with them with that end in view?

Mr. VAUGHAN: The C.P.R. officials and our officials are in touch with each other almost every day on some matter. We do co-operate with them closely. Like every other concern there are times when we cannot agree. After all, we are keen competitors. I do not suppose there is any other place in the world where there is keener competition than between the C.N.R. and the C.P.R., I do not think that can be avoided so long as the two railways are operating as they are.

Mr. HAZEN: Competition is all very well, but there has to be co-operation, has there not?

Mr. VAUGHAN: Yes; but where we have direct competition there is a point at which co-operation ceases.

Mr. JACKMAN: Referring to the question of depreciation and war projects and amortization, in the little report you gave us you say that \$15,186,000 had been spent for war equipment and you had written off \$3,826,000. Is that writing it off as fast as it is desirable in view of the facts as you see them? Is it not also a fact in the United States they have been allowed to charge such costs of war assets to operations; they have been allowed to write them off? If I recall correctly something in the newspapers, the railroads were

allowed to write off these assets by September 1 of this year, or some such time as that. There was a time fixed during which period all the war assets could be written off, and the consequence is that some railways in the United States are showing a much better working capital position than they anticipated. Are they being more generously treated by the United States government than you are?

Mr. VAUGHAN: Their situation is entirely different from ours. They were permitted—Mr. Cooper is familiar with the Inter-State Commerce Commission rules—I think they were permitted in the case of the purchase of new equipment to write the cost of new equipment off against operating expense in a short period of time.

Mr. COOPER: Yes. Their situation, of course, is entirely related to their income tax position and the regulation as to writing off within a relatively short period of time is really a restriction against taking an undue proportion in the operating expenses for tax deduction. We are not in that position. As Mr. Vaughan has said, we have to deal with an entirely different situation. With relation to the \$15,000,000 and the \$3,500,000, as the statement says, some portion of these wartime facilities will be of no value for commercial purposes at the termination of the war. By this year we shall have written off \$3,500,000 out of \$15,000,000. We shall have written off 100 per cent of the facilities for which we will have no commercial purpose after the termination of the war.

Mr. JACKMAN: You are quite satisfied that of the \$15,000,000 the \$3,000,000 represents the amount which would be of no economic value in the post-war period?

Mr. COOPER: Yes.

Mr. BEAUDOIN: When do you expect to open Jasper Lodge and the lodges at Minaki and Pictou?

Mr. VAUGHAN: They will be opened next summer.

Mr. JACKMAN: May I ask if the Inter-State Commerce Commission and the American regulating authorities have allowed the railways to set up deferred maintenance accounts? I see you have inventory reserve here too.

Mr. COOPER: As far as deferred maintenance is concerned, yes, the Inter-State Commerce Commission do make provision in their regulations for deferred maintenance. That is to say, they permit a railway to set up accounts for deferred maintenance. But the Internal Revenue Department of the United States denied the railways the deduction of the amounts set up for deferred maintenance as deductions for tax purposes. The result was, speaking broadly, that none of the United States railways accrued deferred maintenance, because it did not give them any tax relief. There is no question at all that there is a tremendous amount of deferred maintenance on the United States railways, but it has not been reflected in their accounts.

Mr. JACKMAN: Does the same apply to inventory reserve?

Mr. COOPER: No, sir, as far as inventory reserves are concerned we are somewhat of an exception; there is no provision in the Inter-State Commerce Commission's regulations as to that.

Mr. MAYBANK: Mr. Cooper is the man making most of the answers now and I wonder whether we might not be advised to get him to take up his portion of the report.

Mr. VAUGHAN: Is it customary for Mr. Cooper to read the financial parts of the report?

Mr. MAYBANK: I had one or two questions I thought would arise from the matter which he would detail, and since he is moving in anyway I think this is a good time to ask those questions.

Mr. VAUGHAN: Is it the desire of the committee that we go through this report page by page?

Mr. MAYBANK: In former years we generally took a page and glanced down it and if any questions arose we asked about it and went on from there.

The CHAIRMAN: It is now 1 o'clock. We have permission from the House to sit while the House is sitting. Would it be agreeable if we adjourned until 4 o'clock?

Mr. NICHOLSON: I understand that the T.C.A. discussion is coming up in the House this afternoon and I think the members would want to be there. Members have other obligations too.

Mr. LOCKHART: There are other duties and other obligations that members here have. I wonder if we could have some indication of what is going to be expected of us in the days ahead, so far as this committee is concerned? We ought to have something concrete before us so that we would know how to plan our time. If we cannot get here, we cannot get here; that is all.

Mr. MAYBANK: You ought to be able to finish this thing in six sittings.

Hon. Mr. CHEVRIER: Perhaps I might be allowed to say something on that point. There is no intention, I am sure, of trying to hurry the committee through its work. But with the officers of the Canadian National Railways here I think, if possible, we should sit at least twice a day, say at 11 and 4. If we cannot sit at 4, then let us sit at 8. But if we could sit twice a day, I think we could get through the business reasonably quickly. I know that in the past they have sat as often as three times a day, but I do not think the committee will want to do that at this time. It would be my suggestion—and of course it is subject to the approval of the committee—that we should adjourn and sit again at 4 o'clock, unless there is some objection to that.

Mr. HAZEN: Mr. Nicholson gave a very good objection to that, and that is that the T.C.A. bill comes up in the House this afternoon, and the members of the committee will want to be there.

Mr. LOCKHART: Why not sit this evening?

Hon. Mr. CHEVRIER: Could we sit this evening at 8 o'clock?

Mr. NICHOLSON: Would the discussion be over by 8 o'clock?

Hon. Mr. CHEVRIER: I do not know. That depends on the House.

Mr. HAZEN: Could we sit from 2 to 3?

Mr. MAYBANK: No.

Mr. REID: There are private bills tonight for an hour.

Mr. NICHOLSON: From 8 to 9.

Mr. REID: That would not interest so many.

The CHAIRMAN: Well, if it is agreeable, could we sit at 8 o'clock this evening, and perhaps sit from 8 till 10? There are private bills for an hour, anyway. Is that agreeable to the committee?

Mr. NICHOLSON: If the other discussion is ended, we could go on from 8 to 10.

The CHAIRMAN: I believe the T.C.A. officials will not be available this week. I think they had in mind that, if possible, we might get this C.N.R. report taken care of and then we could perhaps take on the T.C.A. officials next week or when they are available. That is just an idea. Mr. Lockhart mentioned what might be in the offing; so that is just what they have in mind, if it is possible for the committee to act on it.

We will adjourn now until 8 o'clock tonight.

The committee adjourned at 1.05 p.m. to meet again at 8 p.m. this day.

EVENING SESSION

The committee resumed at 8 o'clock p.m.

The CHAIRMAN: Gentlemen, I believe Mr. Vaughan has a statement or two to make in order to clarify some questions that were asked him this morning. If it would be agreeable to the committee; I think some one suggested before we adjourned that we should go on with the report. After Mr. Vaughan reads these statements, would that be agreeable?

Mr. REID: May I ask this question first of all, Mr. Chairman? I am a new member of the committee this year.

The CHAIRMAN: So am I.

Mr. REID: My question is regarding questions more or less of, shall I say, a local nature. Shall we ask them of Mr. Vaughan or shall we wait until some of his officials are here?

Hon. Mr. CHEVRIER: I think perhaps you should ask Mr. Vaughan; and if he cannot give you the information, some of the other officers here could, I believe.

Mr. REID: I just wanted to know.

Hon. Mr. CHEVRIER: There will not be any difficulty about that, Mr. Reid.

Mr. VAUGHAN: Mr. Picard I think asked a question this morning about the replacement of equipment and Mr. Jackman asked some question about pensions. I am going to ask Mr. Cooper to give some information in that connection, in order to clarify the points raised.

Mr. COOPER: On the question asked by Mr. Picard with respect to the provisions which we have made for deferred maintenance of equipment: Of the \$34 millions accrued to December 1944, \$15 millions is with respect to equipment. This \$15 millions will be increased to about \$18 millions by the end of 1945. May I explain that this provision is in respect of deferred maintenance only; that is to say, it represents the cost of repairs which would have been made had labour and material been available.

In addition to this provision we are making provision for the wearing out of the equipment, that is, obsolescence or retirement loss as distinguished from ordinary repairs. We are making provision against retirement loss by setting up depreciation accruals and, as Mr. Vaughan pointed out in his statement to the committee, in the years 1940 to 1945 we will have set aside \$98,427,000 for this purpose.

During the war years, therefore, we have maintained our equipment to the highest standard possible considering labour and material shortages. To the extent repairs have had to be deferred we have set aside \$18 millions so as to be in a position to restore the equipment to first-class condition as soon as conditions permit and we have set aside \$98 millions towards the day the equipment will have to be finally taken out of service and scrapped. This \$98 millions represents 24 per cent of the service value of all our rolling stock.

Then there were some questions in respect of the pension plan. My remarks relate to the present plan which was put upon a contractual basis in 1935. Prior to that date there was a non-contributory plan and there are also two other plans, one the Intercolonial and Prince Edward Island Provident Fund and the other the Grand Trunk Superannuation Fund.

The contractual plan went into effect January 1, 1935. It is a contributory plan, but contributions are not compulsory. The employee may contribute any percentage of his wages up to 10 per cent and the company will match up to 5 per cent. The amount so contributed up to the date of retirement (which is age 65), the company's matching contribution, together with interest accruals, is available to purchase a supplemental annuity. This supplemental annuity is additional to a pension paid entirely at the expense of the company. This

latter pension, which we call a service pension, is payable to employees who had been in service 10 years or more prior to 1935. If an employee is not entitled to a service pension by reason of late entry into the service, or if his service pension is less than \$25, he receives a basic pension of \$25 per month at the expense of the company. Every employee, therefore, receives either a service or a basic pension, plus a supplemental annuity, the latter only if he is a contributor to the fund.

The number of pensions under the 1935 plan at December 31, 1944, was 6,020 and the average pension was \$503. Some of these are on a straight life basis, others on a joint and survivor basis and others for a guaranteed term; and while the average pension may appear small in relation to the total income a retired person would desire to have, it is expected, of course, that the employee himself will have made some provision for the period when his earning capacity has ceased.

Mr. JACKMAN: After the large contribution you made to the pension fund in the year prior to the last—and it was \$19 million, if I recall correctly—did that put all your pension schemes or supplemental schemes on a fair actuarial basis or do you still need a little bolstering up?

Mr. COOPER: It did not touch the old pension plan which was closed at the end of 1934. Any pensions which had been granted under that plan are still being paid, and we take up the pension pay roll currently in our operating expenses.

Mr. JACKMAN: But what about those prior to 1935? Are they self-supporting.

Mr. COOPER: There is no reserve against them.

Mr. JACKMAN: There is no fund at all?

Mr. COOPER: No. We take care of the current pension payments as an operating expense.

Mr. JACKMAN: Do you really need another appropriation such as you had two years ago to put this on an actuarial basis?

Mr. COOPER: No.

Mr. JACKMAN: You do not want it?

Mr. COOPER: No. It is now more than ten years ago. Anybody who was on pension in 1934 could be assumed today to be, say, 75 years of age, and the number is diminishing. Having regard to the diminishing obligation—last year, for example, 1944, the annual pension pay roll was \$770,000, in 1943 it was \$940,000. It will diminish quite rapidly and will not be a serious charge after the next two or three years.

Mr. JACKMAN: Your main fund, with the appropriations you made two years ago, is actuarially sound with the annual appropriations you make now, which merely cover the fair annual premium. You do not have to appropriate money now to bolster it. You know what I mean when I say actuarially sound?

Mr. COOPER: I should like to make it clear that the reserve which was set up in 1943 was the actuarial capital sum necessary to provide for all the pension contracts which had been issued at that time.

Mr. JACKMAN: Yes?

Mr. COOPER: And every year, as we issue additional contracts, we take the capital sum necessary to meet those pension payments over the life expectancy of the new pensioners, and we set that aside to our reserve account; so that we have in reserve and invested in Victory Bonds, an amount—it is now \$25 million—which is calculated to pay all the pensions which have been granted to date under the 1935 contractual plan. Each year as we go along with the new contracts, we estimate what the capital amount is accruing at interest and set it aside.

Mr. MOORE: Mr. Chairman, in connection with the payment of pensions, I have had some complaints from the maintenance of way department who say that if, through ill health, they have to retire before the age of 65, under certain circumstances they lose their pension rights. Do you know anything about that?

Mr. COOPER: That depends. If a man over 60 years of age with 20 years' service must retire on medical grounds, he is entitled to his pension just the same as if he were 65. If, however, he is less than 60 years of age he does not qualify under the rules. But if he was 50 years or more and he had 20 years of service, we give him a gratuity.

Mr. JACKMAN: I am not too sure, Mr. Cooper, that I yet understand this exactly. We have a man of 65, and he leaves the service and applies for his pension. Is there a sufficient fund set up and accruing up to the time of his retirement which will support the pension which he is entitled to?

Mr. COOPER: Not while he is in service. We do not accrue the pensions until the man reaches the retiring age. At that time we set aside sufficient money to meet his pension.

Mr. JACKMAN: Take an individual case. Suppose this man is entitled to a pension of \$500.

Mr. COOPER: Yes?

Mr. JACKMAN: Do you have to set up in the year 1945, at the end of the year, a sum sufficient to amortize that pension over the period?

Mr. COOPER: That is right. A pension of \$500 at age 65 would require a capital sum of about \$4,900. We take \$4,900 and put it into the fund.

Mr. JACKMAN: Out of operating?

Mr. COOPER: Out of operating; except to the extent that he may have contributed.

Mr. BEAUDOIN: Where can we find the items which Mr. Cooper is supposed to give us tonight, Mr. Chairman?

The CHAIRMAN: Page 12, I believe.

Mr. BEAUDOIN: In this report?

The CHAIRMAN: Yes, that is right, Mr. Beaudoin; when the committee is ready to go on.

Mr. JACKMAN: If I may I should just like to ask Mr. Cooper this question: If by good fortune you had a large sum of money which you did not have any particular use for, you could put a good many millions of dollars into this pension fund in order to put it on an actuarially sound basis instead of appropriating each year enough to support that year's crop of pensions. Your system is quite unlike a pension company's system or an insurance company's system.

Mr. COOPER: I think in the case of Canadian National Railways, we have done very well indeed. I think you will find few companies that have a fund invested in government guarantees that is sufficient to meet all pension obligations which have been contracted for as of a particular date.

Mr. JACKMAN: I am not trying to make out a bad comparison. I am just trying to find out how near you are to what we might call the ideal situation and that which should be your objective, or perhaps should be your objective. I do not know enough about it.

Mr. COOPER: You are suggesting that we should have accruing the pension liability with respect to employees still in service, I take it?

Mr. JACKMAN: That is so, yes.

Mr. COOPER: We have not reached the position where we have those many millions of dollars to set aside for that purpose.

Mr. JACKMAN: If you had a fairy godmother who left you \$20 million or \$30 million, it could perhaps very nicely go into that fund to put it on a sound basis, so that you would not have to worry so much about the future.

Mr. COOPER: If somebody would contribute \$30 million, I am sure it would be very gratefully received.

Mr. HAZEN: May I ask Mr. Vaughan if the company is building any ships?

Mr. VAUGHAN: We are not building any ships at the present time.

Mr. HAZEN: I notice in the report to the minister that you state that the production by the company of weapons of war, including ships, showed little diminution from other war years?

Mr. VAUGHAN: I should qualify that. I thought you meant building ships for ourselves.

Mr. HAZEN: I did not know just what that meant.

Mr. VAUGHAN: We still are building at Prince Rupert. We still have two to finish for the Department of Munitions and Supply. They will be finished in the next few months.

Mr. HAZEN: What kind of ships are they?

Mr. VAUGHAN: They are small ships, the coasting type.

Mr. HAZEN: Are they naval ships? I mean are they armed ships?

Mr. VAUGHAN: They are classed as coasting vessels. They are for the carriage of cargo.

Mr. WALTON: Ships of 1,350 tons; coasters, they were called.

Mr. VAUGHAN: I think some of them perhaps were to be used in England for coast service around the various ports in England. They have lost so many of those vessels.

Mr. HAZEN: Where were they built?

Mr. VAUGHAN: In Prince Rupert. They are being built now.

Mr. HAZEN: There are two still to be completed?

Mr. VAUGHAN: Yes.

Mr. HAZEN: How many have you built during the war?

Mr. VAUGHAN: We have built 4 mine sweepers and 10 of the large ten thousand-ton cargo boats, and we are now building the two coasting vessels just referred to.

Mr. HAZEN: Where did you build your cargo boats?

Mr. VAUGHAN: We built them all at Prince Rupert.

Mr. REID: Do you keep the ship yards at Prince Rupert in operation or have you kept them in operation all through the years or has it just been war activities?

Mr. VAUGHAN: The ship yard has been kept available there. We have always done considerable repair work there, and we have operated a large floating dock there. We kept it going all during peace. It had been almost entirely a repair dock up until the time the war came along.

Mr. REID: Do you keep a regular ship building crew of men there all during the peace years and from now on, when there is little probable chance for ship building?

Mr. VAUGHAN: Oh, yes.

Mr. REID: There must be quite a loss there.

Mr. VAUGHAN: Oh, yes, there was a loss in normal times. The plant has been there for a long time. The dry dock was subsidized, the same as all dry

docks are subsidized, for 25 years; and the other dry docks in the country were subsidized for 35 years. We were only subsidized for 25 years. That 25-year period has expired and we are hoping to get a renewal of the subsidy.

Mr. WALTON: Mr. Vaughan, I think there might be some misunderstanding about Mr. Reid's question. If I understood him correctly, the question was whether the full staff of shipbuilders had been kept on in the years in which repair work only was being done.

Mr. VAUGHAN: I am sorry. I misunderstood you. No, that is not so. We only kept a skeleton crew there, so to speak, to take care of such repairs as might have come in from time to time.

Mr. REID: What was that loss with respect to abandoning dock facilities at Seattle, Washington. I see an item of \$626,000?

Mr. VAUGHAN: That was a different matter. The Grand Trunk Pacific owned a dock at Seattle. At one time they sent their vessels down to Seattle from Vancouver and Victoria. But the service was stopped some years ago and that dock had not been used for several years, so it was sold at a substantial sum below what it cost when originally purchased.

Mr. HAZEN: I do not suppose you are making any weapons of war now?

Mr. VAUGHAN: No. We have shut down our war plants.

Mr. HAZEN: How many men were employed in those plants?

Mr. WALTON: In the National Munitions plant at Montreal, which was a Crown company, operated by the Canadian National Railways, the total of employees was about 950, of which about 100 men were key men furnished by the Canadian National, and they returned to our service with the closing up of the munitions shop. They were simply loaned to munitions.

Mr. VAUGHAN: I think we had nearly 1,500 or more employees at Prince Rupert.

Mr. WALTON: Yes. Prince Rupert got up to about 1,700 at the time of the large cargo ships.

Mr. HAZEN: They were making cargo ships?

Mr. WALTON: Yes, and in addition to that, we did considerable work for the Department of National Defence, making various naval devices, and so on, apart from what was being done with munitions in the separate shop.

Mr. JACKMAN: You mentioned that the railway had to pay more for steel, ties, spikes and so on?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: They had to pay more than they had to under the 1940 ceiling price? I suppose it was because the Wartime Prices and Trade Board thought that, because of your more favourable financial situation, an increase in the price to you would not raise the cost of living. How far did they carry that on with regard to supplies that you purchased? Take linens and towels. The government gave a heavy subsidy on cottons. I wonder if they thought that the railways could pay more for it?

Mr. VAUGHAN: The only increase we paid over the ordinary man, or firm, was, I think, on steel and ties. Our other prices were the general prices paid for the particular material concerned.

Mr. JACKMAN: Only those two items?

Mr. VAUGHAN: Steel, ties, and lumber.

Mr. JACKMAN: And fuel?

Mr. VAUGHAN: The price of fuel has been not only increased to us from time to time but to the general public. Then there are other items here; for instance, coal which increased by \$9,914,000. That covers the United States as

well as Canada. Ties were increased \$1,925,000. Lumber and timber, \$1,000,005, Rails, \$900,000, and so on.

Mr. JACKMAN: That is above the basic price?

Mr. VAUGHAN: Those are above the 1939 prices. It is quite likely that some of those prices were general—

Mr. JACKMAN: Were general?

Mr. VAUGHAN: The general selling price. Take for instance, the cost of machinery, stationery, commissariat supplies, uniforms, textlies, rubber goods and things of that kind.

Mr. JACKMAN: How frequently was the railway, the other railway too, singled out to pay higher prices than other customers?

Mr. VAUGHAN: I think only in the case of steel.

Mr. JACKMAN: Members of parliament do not very often have the opportunity of coming close to business, but I think we can say that the Canadian National Railways is as efficiently operated as any private company or as any free enterprise. I wonder if the president would care to say a word or two about the cost of meeting various war orders and regulations which are still in force and as to whether they do or do not interfere with the smooth running of the business? Do they require a great deal of clerical work and worry?

Mr. VAUGHAN: They do, undoubtedly, have caused a great deal of clerical work, but I do not think we can say what the actual increased cost would be. It would apply to other activities as well as to the railways.

Mr. JACKMAN: Regarding yourself as a private industry, what are your worries with respect to war orders and regulations?

Mr. VAUGHAN: Mainly increase in clerical staff.

Mr. JACKMAN: Are there many orders and regulations which seem to you to be just irritation and nuisances that serve no useful purpose so far as your business is concerned?

Mr. VAUGHAN: That is a difficult question to answer. We are in the same boat as everybody else. Many of those orders we consider to be necessary nuisances, brought about as a result of the war.

Mr. JACKMAN: But now that the war is over, how about present conditions?

Mr. VAUGHAN: I suppose these regulations will be lifted as soon as those in control think it is desirable to do so.

Mr. JACKMAN: We were endeavouring, perhaps, to help you to get them released. We would like to know more about them and to get specific cases. I think it is a fair question to ask you just what are some of these irritations, which, in your opinion, could be dispensed with so far as the railways are concerned?

Mr. HARRIS (*Grey-Bruce*): I wonder if we could get on with the report?

Mr. BEAUDOIN: We might ask Mr. Vaughan what are some of the benefits also derived from that policy as well as the detriments, because I understand that the Canadian National Railways is buying not only ties and steel but all sorts of things like nails and so on.

Mr. VAUGHAN: We have benefited by price control on certain commodities.

Hon. Mr. CHEVRIER: I would think that many of the orders of the transport control, for instance, would have been of great assistance to the railway?

Mr. VAUGHAN: Some have been very beneficial.

Mr. BEAUDOIN: And they are still necessary, right now, according to conditions prevailing.

Mr. REID: I noticed a certain increase in 1944 in connection with passenger traffic, and I also noticed that dining and buffet was away less than formerly. I would think that with a greater number of passengers, at least, you would have drawn as much money.

Mr. VAUGHAN: You are looking at page 15. Yes.

Mr. NICHOLSON: I wonder if we might follow the custom you suggested of taking this page by page?

Mr. REID: I am just rushing into this because I am new to the committee.

Mr. VAUGHAN: Probably it would be well to take the balance sheet first on pages 12 and 13; then, if there are any questions in connection with it, we will try to answer them.

Mr. HARKNESS: On page 7, under surplus for the year, you have a loss of \$1,486,000 in connection with the Northern Alberta Railway due to the revenue being lower by \$3,853,000. What is the reason for that? Is that likely to continue?

Mr. VAUGHAN: The Northern Alberta Railway had a very large increase in revenue due to the construction of the Alaskan highway. But that traffic of course, has disappeared and will not return. I do not think that the Northern Alberta can ever hope to have anything like the traffic they had during that period.

Mr. HARKNESS: You anticipate a deficit of something like \$1,500,000 from it?

Mr. VAUGHAN: I believe the Northern Alberta will show a deficit for some time to come. The loss will be divided equally between the Canadian National railway and the Canadian Pacific railway.

Mr. HARKNESS: Entirely due to lack of traffic?

Mr. VAUGHAN: Yes, entirely due to lack of traffic.

Mr. HARKNESS: Would it help the situation if that railway were continued on to the Pacific coast?

Mr. VAUGHAN: It might increase the losses.

Mr. HARKNESS: It would not improve the situation from a financial point of view?

Mr. VAUGHAN: I doubt it.

Mr. JACKMAN: The question addressed to Mr. Vaughan about regulations and orders was not meant to be particularly contentious. I think Mr. Vaughan would like me to treat his report the same as I would treat the report of any other company, even though it be a private one. One frequently reads in the addresses of the presidents of private corporations some reference to the wartime regulations and orders, but such a reference is noticeably absent from this report, and perhaps for a good reason. But we are assembled here to help the railway and at the same time we may be helping general business. So I think it is a fair question to ask Mr. Vaughan to comment on some of the regulations now that the emergency is over, or partly over, and to tell us whether these regulations are in the nature of nuisances and might be speedily withdrawn?

Mr. VAUGHAN: You would not expect me to criticize my proprietors?

Mr. JACKMAN: I think that is where public ownership versus private ownership comes in. I think there is a splendid job being done on this railway, and that the competition of a private company is a healthy factor. But at the same time, I do not think you should for a moment be concerned about being asked questions in connection with the railway that might have business throughout the country.

Hon. Mr. CHEVRIER: We are all anxious to get rid of restrictions as quickly as possible.

Mr. JACKMAN: Yes, but we do not know how these restrictions interfere with the people. It may be that the government or the government ministers may know how they operate against business, but I think we are entitled to a little information from Mr. Vaughan.

Mr. VAUGHAN: I would say that the annoyances to-day are counter-balanced by the benefits. That is about all I would say. We would not like to see price control taken off because then prices might go sky high and we would have inflation.

Mr. JACKMAN: Yes, but are there not some restrictions which you think are bad, and which are nuisances as compared with others which may be of great service to you?

Mr. VAUGHAN: I do not think there are any restrictions at the present time which give us any difficulty other than extra clerical work which is required to carry them. Do you know of any Mr. Walton?

• Mr. WALTON: No. Obviously it takes extra clerical help to take care of these various reports.

Mr. JACKMAN: Is national selective service a bother to you?

Mr. BEAUDOIN: I would suggest that the honourable gentleman is out of order. The members of the Canadian National railways come here to give us information as to the company's activities and to answer questions which are within their field. Right now the honourable gentleman is asking Canadian National officials for their opinion on national selective service regulations and the Wartime Prices and Trade Board regulations. I should say that the committee had better question Mr. Donald Gordon.

Mr. HAZEN: The railway comes under national selective service. I presume you have to go to them when you want employees?

Mr. VAUGHAN: We have had the usual difficulties with national selective service that everybody had, but they have generally disappeared now.

Mr. WALTON: They have been also helpful to us upon occasion.

Mr. JACKMAN: All we are asking for is information in regard to them and we are very glad to get information from the Canadian National railways if they would like the restrictions and that they have found them to be helpful.

Mr. NICHOLSON: I think that is a fair statement.

Mr. VAUGHAN: I said that the annoyances are counterbalanced by the benefits.

Mr. JACKMAN: I was trying to get you to give us a breakdown on some of the annoyances, because after all the continuance of these restrictions will come up in the House of Commons and all members must know whether it is a good thing or not. No one wants inflation and we want the continuance of those orders which are salutary.

The CHAIRMAN: Gentlemen. I do not want to do anything but co-operate with the committee. I feel that this question has been laboured pretty well on both sides. I think Mr. Vaughan has gone perhaps as far as he can go. He has expressed both sides of the story. Perhaps Mr. Jackman is not quite satisfied with the breakdown but it might take a long while to go through all the orders that might affect a railway as large as the Canadian National. As I said before I do not want to interfere with the committee in any way but I think there has been a fair discussion on that. Am I unfair about that, Mr. Jackman?

Mr. JACKMAN: Oh, no, not very unfair, but I should like to see this company and its executives feel just as free as any other company to say what they wish to say as sensible executives. Here they are not wanting to criticize their masters, as Mr. Vaughan said. That is one of the difficulties of public

ownership. If things are not right we want them changed. We want the business to prosper and be serviceable to the people. It may be a bit embarrassing to Mr. Vaughan.

Mr. VAUGHAN: If there is any opinion in your mind that we are afraid to express an opinion on any matter, whether it be right or wrong—

Mr. JACKMAN: You referred to your masters.

Mr. VAUGHAN: I want it to disappear because that is not the case.

Mr. JACKMAN: I did not think it was.

Mr. VAUGHAN: I think the minister will bear me out when I say we do not hesitate at any time to say what we think about any particular thing. On this matter you raised I do not know what more I can say. In order to answer your question we would have to sit down and analyse all these controls and see what they mean to us.

Mr. JACKMAN: I will not labour the question further, Mr. Vaughan. All I want to know is are there some things that come right to mind that really irritate you that you think parliament should give consideration to in order to help business in general and your company in particular? If nothing comes to your mind immediately I would not bother about the individual orders.

Mr. VAUGHAN: I cannot think of anything at the moment. There may be some things that do not come to my attention but they cannot be very serious or they would be brought to my attention.

Mr. MOORE: Possibly if the executives of some private companies were to come out in favour of certain controls they would not meet with very much favour from their respective companies. Therefore I think we ought to accept the president's statement with respect to the Canadian National Railway.

Mr. REID: I wonder if I can ask Mr. Vaughan this question. Has it ever been possible to find out whether freight revenues or passenger revenues pay? You can show your profit and surplus, but has it ever been gone into to find out whether the operating expenses for freight taken with the revenues for freight really show a profit and whether passenger revenues as against passenger expenses show a profit?

Mr. VAUGHAN: That has come up at these meetings in previous years. We have pointed out the difficulties of breaking down particularly the division of expenses between passenger and freight trains. Generally speaking passenger operation is not profitable on any railroad. There may be some particular trains that have a heavy density of traffic between two important cities such as Toronto and Montreal that may make money but generally speaking passenger business on a railroad is not profitable.

Mr. REID: The reason I asked that is I remember arguing a freight rates case before the Board of Transport Commissioners and the statement was made by the railway companies that no one could tell how much it cost to haul a passenger or a ton of freight. I was wondering if they had changed their views or had gone into it since that time.

Mr. VAUGHAN: We can tell pretty well what it costs to haul a ton of freight for a given portion of railroad but when you come to haul a ton of freight three thousand miles it is pretty hard to apportion the cost to any particular part of that railroad. You have got varying grades, and a number of other conditions to contend with, but we have from time to time in these various freight rates inquiries submitted costs of hauling freight.

Mr. WALTON: Then again many of the expenses are common to both passenger and freight, and in separating them you either have to take an arbitrary basis or it gets down to practically a matter of opinion.

Mr. VAUGHAN: For example, you cannot break down the cost of maintaining track as between your passenger business and your freight business. It is impossible to do it.

Mr. REID: I had in the back of my mind an application being made to the board for an increase in passenger fares and an increase in freight rates. I was wondering in my own mind how they could show which had an operating loss and which had a gain.

Mr. VAUGHAN: No application has yet been made nor has one been prepared but if one should be made it would in the ordinary course of events be submitted to the Board of Transport for their consideration. The Board of Transport would hold hearings and listen to everything that the various localities concerned had to say and in turn they would ask the railways to submit costs of operating certain portions of their lines for whatever traffic was involved, and I presume they would come to their conclusions on the basis of the evidence submitted. There is a tribunal to deal with those matters, and we cannot increase a freight rate of any kind without the approval of the Board of Transport.

Mr. REID: I thought I would ask for information. This is the first opportunity I have had to ask the head of a railroad about it. I know the stand taken by the Board of Transport Commissioners. I have had experience in that line. I have been wondering in my own mind if they could really tell what it cost to haul a ton of freight or a passenger?

Mr. VAUGHAN: We can give figures for specific localities of the cost of hauling freight taking into account certain factors but it is very difficult, as I say, to determine the division of cost as between passenger and freight earnings on account of so many expenses being common to both.

The CHAIRMAN: Could we go on with the balance sheet on page 12 and then you can ask any questions you have of any of the gentlemen here as you go along, if that is satisfactory.

CONSOLIDATED BALANCE SHEET

ASSETS

INVESTMENTS:

Road and Equipment Property.	\$ 1,958,892,347	76	
Improvements on Leased Property			
Property	3,034,936	52	
Miscellaneous Physical Property	65,127,197	72	
			\$ 2,027,054,482 00
Sinking Funds:			
System Securities at par..	\$ 542,618	73	
Other Assets at cost.....	279,503	.03	
			822,121 76
Deposits in lieu of Mortgaged Property Sold:			
System Securities at par..	\$ 471,500	00	
Other Assets at cost.....	4,442,675	10	
			4,914,175 10
Deferred Maintenance Fund.....			34,000,000 00
Investments in Affiliated Companies.....			40,710,024 85
Other Investments:			
System Securities at par..	\$ 80,000	00	
Other Assets at cost.....	1,837,994	82	
			1,917,994 82

\$ 2,109,418,798 53

CURRENT ASSETS:

Cash	\$	15,257,088	67
Special Deposits		12,421,737	17
Net Balances Receivable from Agents and Conductors		14,719,121	54
Miscellaneous Accounts Receivable		16,239,003	64
Material and Supplies—Ledger Balances		55,622,709	91
Interest and Dividends Receivable		558,445	86
Rents Receivable		468,027	15
Other Current Assets		9,747,616	29

125,033,750 23

DEFERRED ASSETS:

Working Fund Advances	\$	377,447	09
Insurance Fund:			
System Securities at par..	\$ 6,679,184	06	
Other Assets at cost.....	6,076,933	45	
			12,756,117 51
Pension Contract Fund.....			24,649,000 00
Other Deferred Assets.....			3,176,378 22

40,958,942 82

UNADJUSTED DEBITS:

Rents paid in Advance	\$	171,122	11
Discount on Funded Debt		6,886,208	53
Other Unadjusted Debits		4,043,054	44

11,100,385 08

 \$ 2,286,511,876 66

AT 31st DECEMBER, 1944.

LIABILITIES

STOCKS:

Capital Stocks of Subsidiary Companies held by Public.....	\$	4,669,840 00
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LONG TERM DEBT:

Funded Debt Unmatured:		
Held by Public.....	\$	621,680,603 14
Held in Special Funds.....		7,773,302 79
		<hr/>
		629,453,905 93

DOMINION OF CANADA (Accounts treated as assets in Public Accounts of Canada):

Loans	\$	645,103,871 64
Canadian Government Railways—Working Capital		16,771,980 54

CURRENT LIABILITIES:

Traffic and Car-Service Balances—Credit.....	\$	7,014,709 06	
Audited Accounts and Wages Payable.....		14,153,334 28	
Miscellaneous Accounts Payable.....		5,665,989 76	
Interest Matured Unpaid.....		6,493,574 52	
Unmatured Interest Accrued.....		6,353,598 86	
Unmatured Rents Accrued.....		194,259 59	
Accrued Tax Liability.....		3,106,930 95	
Other Current Liabilities.....		12,612,178 23	
		<hr/>	661,875,852 18

DEFERRED LIABILITIES:

Pension Contract Reserve.....	\$	24,649,000 00	
Other Deferred Liabilities.....		6,405,273 45	
		<hr/>	31,054,273 45

UNADJUSTED CREDITS:

Insurance Reserve	\$	12,756,117 51	
Accrued Depreciation:			
Canadian Lines—Equipment only.....		56,481,794 70	
U.S. Lines—Road and Equipment.....		21,035,703 74	
U.S. Leased Lines.....		81,409 85	
Deferred Maintenance Reserve.....		34,000,000 00	
Other Reserves		11,589,013 74	
Other Unadjusted Credits.....		13,223,904 16	
		<hr/>	149,167,943 70

DOMINION OF CANADA—PROPRIETOR'S EQUITY—

(See Note)

Represented by:—			
1,000,000 shares of no par value capital stock of Canadian National Railway Company.....	\$	18,000,000 00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust		359,080,515 31	
Capital Expenditures by Dominion of Canada on Canadian Government Railways.....		377,614,970 84	
		<hr/>	754,695,486 15

CONTINGENT LIABILITIES:

Major contingent liabilities, as shown on statement attached.

\$ 2,286,511,876 66

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.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1944, and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the System as at the 31st December, 1944, and that the relative Income Account for the year ended the 31st December, 1944, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1945.

Mr. BEAUDOIN: I should like to ask Mr. Cooper what are the special deposits which are mentioned in the section entitled "Current Assets"?

Hon. Mr. CHEVRIER: Page 12.

Mr. BEAUDOIN: Current Assets.

Mr. COOPER: \$12,421,000, Special Deposits?

Mr. COOPER: We have some bond issues which have matured and the holders of some of the bonds have not presented them for payment. The amount necessary to take up those bonds has been placed in a special bank account to be available whenever the holders present their bonds for redemption. That is a part of the account. The other part very largely consists of interest which has matured and is due for payment as of say January 1, 1945. Again we take the cash out of our general funds and we put it into a special bond interest account at the bank. That is what that account consists of.

Mr. BEAUDOIN: What about miscellaneous accounts receivable, \$16,000,000?

Mr. COOPER: The major portion of that item would represent accounts against the government on government business. As you know in the case of passenger traffic all military personnel travel on warrants. It takes us some time to get those warrants in from the stations, check them over, list them up and set a bill against the government, but for the time being we relieve the agents of the outstanding warrants and we hold them in this particular account until our bills against the government are rendered. There is a certain delay in the rendering of bills particularly on government business. That is the principal reason the amount appears to be high.

Mr. NICHOLSON: The second item on this page is improvements on leased property. Could we have some explanation as to what that item covers?

Mr. COOPER: When we make investments or capital expenditures on our own property it is charged to the first item there, but if we have property which is under lease such as the New London Northern Railway or the Northern Pacific Railway, we do not own the property itself but we operate under lease, and any improvements which we make to that leased property are segregated and kept out of our own property investment account.

Mr. REID: Does miscellaneous physical property include hotels?

Mr. COOPER: The major portion of that account represents our investment in our hotels. It would also include other non-railway property owned by the Canadian National Railways.

Mr. JACKMAN: Under deposits in lieu of mortgaged property sold you have other assets at cost, \$4,442,675. That is something you are allowed to substitute under a bond mortgage for something you have sold?

Mr. COOPER: If a mortgaged property is sold occasionally under the terms of the trust deeds the proceeds of the sale must be turned over to the trustees to maintain the security of the outstanding bonds.

Mr. JACKMAN: What type of assets would there be in that \$4,442,675?

Mr. COOPER: They are invested in interest bearing securities.

Mr. JACKMAN: Mostly government bonds probably?

Mr. COOPER: Of the \$4,914,175, \$3,375,000 is Dominion of Canada bonds.

Mr. JACKMAN: As to investments in affiliated companies, \$40,000,000, perhaps you will recall that some years ago among the affiliated companies, if I recall correctly, there were some in which you did not have the entire capital owned by the railway. I think there were a few lines running out of Montreal.

Mr. VAUGHAN: A small minority interest.

Mr. JACKMAN: You were going to clean them up if you could.

Mr. VAUGHAN: We are working on them. I think there have been one or two cleaned up. It is a long legal process in some of these things. We are working at it consistently and we are making some progress although the progress is not as fast as we would like.

Mr. JACKMAN: The fact it is necessary to make improvements of these affiliated companies, not wholly owned, from time to time does not interfere with your bargaining?

Mr. VAUGHAN: No, not at all.

Mr. COOPER: You will find full details of that item set out on page 21, Mr. Jackman.

Mr. JACKMAN: I do not think it is important enough to inquire what those are just now, the ones you are trying to tidy up and get the worthless proprietorship out of the way.

Mr. COOPER: I think the ones we are trying to clean up are included in the first item of the liability side.

Mr. JACKMAN: Capital stock of subsidiary companies held by public?

Mr. COOPER: Yes, and if you will turn to page 22 you will see the particular lines to which it relates. Those are the companies where there are minority shareholders to which this account refers.

Mr. JACKMAN: Canadian Northern Quebec Railway Company; is that a paying line? When I say "paying" I mean as far as stock?

Mr. VAUGHAN: The Canadian Northern Quebec is merged with the rest of our system and has been merged with the Canadian National Railways for many years but there are a few bonds outstanding and we are trying to get those in.

Mr. JACKMAN: This is capital stock, not bonds.

Mr. VAUGHAN: There is some stock outstanding.

Mr. COOPER: The stock is shown on page 22.

Mr. JACKMAN: \$3,849,200, but that stock is worthless really.

Mr. COOPER: In our opinion absolutely worthless.

Mr. VAUGHAN: Yes. We do not propose to pay anything for it.

Mr. JACKMAN: What about those public markets there?

Mr. VAUGHAN: The public market is the Winnipeg stockyards. That is owned jointly by the Canadian Pacific railway and ourselves.

Mr. JACKMAN: I understand that you have some kind of slaughter-house?

Mr. VAUGHAN: We have no slaughter-houses. We have substantial stockyards, but we do not operate slaughter-houses. We have not come to that yet.

Mr. JACKMAN: Which item is that, the stockyards in Montreal? Who owns that?

Mr. COOPER: The stockyard is a fully owned subsidiary of the Canadian National Railways. That is not an affiliated company.

Mr. JACKMAN: Is this the big stockyard in Winnipeg?

Mr. VAUGHAN: Yes, it is. It is a profitable stockyard. It makes a return on the investment.

Mr. JACKMAN: Who owns the rest of it?

Mr. VAUGHAN: The Canadian Pacific Railway and ourselves own it jointly.

Mr. JACKMAN: The Vancouver hotel is doing very well now?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Would you give us a breakdown statement on the hotels owned by the system; something similar to what you have in former years?

Mr. VAUGHAN: We can file that with you if you so desire.

CANADIAN NATIONAL HOTELS

Year 1944

	Revenues	Expenses	Taxes	Net
Charlottetown	\$ 164,603 92	\$ 136,263 87	\$ 5,155 61	\$ 23,184 44
Nova Scotian	826,489 50	583,329 02	19,832 90	223,327 58
Chateau Laurier	2,258,708 67	1,668,000 81	75,192 71	515,515 15
Prince Arthur	237,899 18	195,626 22	5,905 82	36,367 14
Fort Garry	667,058 01	504,112 55	30,331 89	132,613 57
Prince Edward	183,429 52	155,879 67	4,091 65	23,458 20
Macdonald	743,836 14	579,996 57	16,600 30	147,239 27
Bessborough	541,811 90	424,144 36	3,357 60	114,309 94

Mr. JACKMAN: Thank you.

Mr. REID: I would like to see how the Vancouver hotel is doing.

Mr. JACKMAN: That will hardly be possible. It is only half owned by the Canadian National.

Mr. REID: I know that.

Mr. VAUGHAN: The Vancouver hotel itself and the furnishings are entirely owned by the Canadian National Railways. The Vancouver Hotel Company, the operating company, is jointly owned by the Canadian Pacific Railway and ourselves. The Vancouver Hotel Company leases the hotel and furnishings from the Canadian National Railways.

Mr. REID: Have they changed the telephone system? It is the worst in the country.

Mr. VAUGHAN: Is that a fact?

Mr. REID: You have to wait three or four minutes any time you put in a call.

Mr. VAUGHAN: That is probably the fault of the telephone company. We will be glad to look into it.

Mr. REID: No, it is not the fault of the telephone company.

Mr. VAUGHAN: I will certainly look into that.

Mr. REID: That has been going on for the last three or four years that I know of.

Mr. NICHOLSON: Was there some special reason for taking the C.P.R. in on this?

Mr. VAUGHAN: There is a long story behind that, Mr. Nicholson. This hotel of ours remained unfinished for some time, work was stopped on it during the depression. Then an arrangement was made with the Canadian Pacific Railway Company. The hotel was finished, and under the agreement they undertook to close down their own hotel and not to operate it again as a hotel during the period of the agreement, which is for 21 years. The arrangement was intended to be beneficial to both parties.

The CHAIRMAN: Any questions on liabilities here?

Mr. REID: That is on page 12?

The CHAIRMAN: Yes. And now, page 13.

Mr. REID: I notice on page 13 reference is made to a deferred maintenance reserve of \$34,000,000; also there are items there for accrued depreciation. Would you mind explaining what "accrued depreciations" means?

Mr. COOPER: In the case of deferred maintenance the funds are separately invested. We have victory bonds to the amount of \$34,000,000. We are holding those funds because we will need them when the work gets under way; but in the case of accrued depreciation, the funds are not held in a separate fund but are used currently to finance capital expenditures.

Mr. BEAUDOIN: What about the use of your lines by the radio corporation; how much does that bring in the way of revenue per year, how much do you charge per line?

Mr. COOPER: The item in which the revenue is included you will find on page 13—the item of \$6,998,160.62.

Mr. BEAUDOIN: Have you got information on that? Possibly you could give us a breakdown of it at a later date.

Mr. VAUGHAN: That is a three-way contract, between the C.B.C., the C.P.R. and ourselves.

Mr. COOPER: The amount of revenue from broadcasting purposes in 1944 was \$409,583.

Mr. BEAUDOIN: And, how much do you charge per line?

Mr. COOPER: That is something I'll have to look up.

Mr. VAUGHAN: We have not the agreements with us.

The CHAIRMAN: Have you any more questions? Shall we turn over the page?

Mr. NICHOLSON: Other current liabilities, \$12,612,178.23. That is a very large item compared with the other items listed in the breakdown, isn't it?

Mr. COOPER: Again I am pretty sure that the large proportion of that is due to the bonds which matured and which have not been presented for redemption. As you know, in July we called an issue of \$56,000,000 bonds, and at the end of the year there were between \$5,000,000 and \$6,000,000 of those bonds which had not been presented for redemption, although the interest on them stopped as of July 1st. I suppose when the holders did not collect their interest on January 1st they would wake up and turn them in. We have \$5,823,000 of the 5 per cent bonds which we call for redemption on July 1st, 1969; altogether we have 6 million dollars of different issues which have matured and for which the bonds have not been presented. Then there is an accrual against bills which have not been vouchered. For instance, bills have been received at the end of the year for fuel. We would take a debit in our fuel stock account and set up an accrued liability pending receipt of invoices. When we receive the invoices we voucher them and the amount is then transferred to accounts payable; a considerable amount of the \$12,000,000 represents unvouchered bills. There is always a certain carryover.

Mr. LACROIX: On page 13 I notice there is an item of capital expenditures for Canadian Government Railways amounting to \$377,614,971.84. Could you give us some explanation about that?

Mr. COOPER: When the Canadian Government Railways were entrusted to the Canadian National for management, and the revenues and expenditures for those railways were going into our operating accounts we felt that a corresponding investment item should be set up in the property investment account; so that the first item on page 12 of the balance sheet, road and equipment property, includes the ledger value of the Canadian Government Railways at the time they were entrusted to us for operation. The offset to that is this liability to the government. The funds were provided by appropriation of public moneys. The item represents the amount of money which the government of Canada invested in what we call the Canadian Government Railways.

The CHAIRMAN: All right, gentlemen, are there any more questions on page 14?

STANDING COMMITTEE

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st Dec., 1943	Transactions year 1944	Balance at 31st Dec., 1944
CAPITAL STOCK OF CANADIAN NATIONAL RAILWAY COMPANY	\$ 18,000,000 00	\$	\$ 18,000,000 00
CAPITAL STOCK OF THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST			
Initial stated value	\$270,037,437 88	\$	\$270,037,437 88
Surplus earnings	64,719,007 29	23,026,924 35	87,745,931 64
Capital gains	19,105,651 38	.....	19,105,651 38
Capital losses	17,181,633 84	* 626,871 75	17,808,505 59
	<u>\$336,680,462 71</u>	<u>\$ 22,400,052 60</u>	<u>\$359,080,515 31</u>
CAPITAL EXPENDITURES BY DOMINION OF CANADA ON CANADIAN GOVERNMENT RAILWAYS	\$377,614,971 84		
Nominal consideration for transfer of property		\$ 1 00	\$377,614,970 84
	<u>\$732,295,434 55</u>	<u>\$ 22,400,051 60</u>	<u>\$754,695,486 15</u>

* Loss on abandonment of dock facilities at Seattle, Wash.

All right then, page 15, operating revenues and operating expenses:

OPERATING REVENUES

	1944	1943
Freight	\$317,735,454 78	\$320,758,860 87
Maritime Rates Reduction	3,853,273 61	4,140,862 77
Passenger	69,776,256 67	66,891,033 94
Baggage	156,989 88	130,045 98
Sleeping Car	4,564,393 26	4,177,870 17
Parlor and Chair Car	226,215 49	217,126 00
Mail	4,204,761 03	4,047,893 92
Railway Express Agency	632,953 99	630,036 91
Express	17,375,188 97	16,860,746 10
Other Passenger-Train	28,720 17	14,079 88
Milk	429,094 53	432,293 55
Switching	3,294,605 94	3,092,258 36
Water Transfers	190,916 37	137,498 71
Dining and Buffet	4,471,567 77	4,711,769 37
Restaurants	272,862 79	131,986 46
Station, Train and Boat Privileges	582,179 49	432,043 30
Parcel Room	153,319 74	149,151 84
Storage—Freight	75,808 82	97,879 32
Storage—Baggage	97,881 62	80,652 28
Demurrage	1,886,518 72	2,442,762 99
Telegraph Commission (U.S.)	14,281 72	14,096 83
Telegraph—Commercial	6,998,160 62	7,089,378 82
Grain Elevator	539,617 91	530,487 67
Rents of Buildings and Other Property	779,617 34	633,436 54
Miscellaneous	2,179,313 58	2,162,239 27
Joint Facility—Credit	736,613 73	713,175 05
Joint Facility—Debit	109,058 19	103,172 32
	<u>\$441,147,510 35</u>	<u>\$440,615,954 58</u>

OPERATING EXPENSES

MAINTENANCE OF WAY AND STRUCTURES

Superintendence	\$ 4,100,471 88	\$ 3,400,526 42
Roadway Maintenance	8,660,168 89	6,976,895 50
Tunnels and Subways	38,050 80	50,985 29
Bridges, Trestles and Culverts	2,424,967 38	1,838,391 52
Ties	8,294,237 25	6,190,555 28
Rails	4,026,706 50	3,237,902 31
Other Track Material	3,229,879 48	2,774,329 90
Ballast	1,502,041 15	1,437,333 74
Track Laying and Surfacing	18,979,235 81	15,801,141 43
Fences, Snowsheds and Signs	561,071 48	467,317 50
Station and Office Buildings	2,779,798 12	2,201,496 33
Roadway Buildings	310,629 38	288,416 79
Water Stations	561,950 03	488,874 36
Fuel Stations	278,713 86	288,153 91
Shops and Enginehouses	2,077,034 31	451,188 58
Grain Elevators	49,880 56	44,037 08
Wharves and Docks	227,927 51	249,401 82
Telegraph and Telephone Lines	1,074,642 24	970,338 59
Telegraph—Commercial	1,257,556 44	998,103 66
Signals and Interlockers	1,172,196 40	996,918 24
Power Plants	24,669 57	8,023 77
Power Transmission Systems	194,408 10	110,311 74
Miscellaneous Structures	4,824 63	2,884 36
Road Property—Depreciation—U.S. Lines	764,133 41	763,317 87
Road Property—Retirements	1,564,321 77	2,286,928 41
Deferred Maintenance	6,500,000 00	8,150,000 00
Roadway Machines	540,607 28	467,957 41
Dismantling Retired Road Property	90,363 99	111,193 83
Amortization of Defence Projects	1,002,284 68	1,005,600 84
Small Tools and Supplies	884,498 50	777,648 28
Removing Snow, Ice, and Sand	2,829,113 49	3,758,971 39
Public Improvements—Maintenance	370,190 41	293,874 98
Injuries to Persons	370,295 76	515,272 59
Insurance	24,666 53	20,017 20
Stationery and Printing	66,657 97	59,994 41
Other Expenses	39,742 94	37,349 52
Maintaining Joint Tracks, Yards, etc.—Debit	794,153 26	838 314 80
Maintaining Joint Tracks, Yards, etc.—Credit	1,727,321 52	1,570,372 58
Right of Way Expenses	68,484 40	51,366 39
Protective Services	190,650 95	497,466 00
	<hr/>	<hr/>
	\$ 76,503,925 59	\$ 67,308,429 46

Mr. NICHOLSON: In connection with the item on passenger revenues, I see there has been an increase in 1944 as compared with 1943. I wonder if the president could make an additional statement to the one he made this morning regarding their plans for the post war period? There is a good deal of talk in the United States about speeding up services and putting new equipment on the railroads. Realizing that transport is going to be a highly competitive industry, could Mr. Vaughan make some statement about that?

Mr. VAUGHAN: We have had a committee for some time studying the various matters to which you refer: the merits of stream-line trains, Diesel equipment versus steam equipment; and we have been going in a rather exhaustive way into every matter which we think might mean an improvement in service and perhaps a decrease of cost. Of course, improvement in equipment does not always mean a decrease in cost. But we are studying all these matters. We realize that we are going to get keen competition as time goes by from the highways, from water, from the airways; and we are studying ways and means of meeting it.

Mr. NICHOLSON: How far along are you with your plans, and how soon will equipment be available?

Mr. VAUGHAN: We are getting reports from time to time on these matters. We have to study the economy of each situation very carefully, because we

do not want to go haywire and spend a lot of money that is not going to bring us a return. These things have to be very carefully studied. While in the United States streamlined trains between two thickly populated cities may be operated profitably there are not very many places in Canada of that nature, and we might find it difficult to make trains of that kind pay. However, we are determined that we are going to keep this railroad up-to-date and we have a number of things in mind which we are not saying very much about until our plans are more matured.

Mr. NICHOLSON: In the west there is a general feeling that if some more convenient service were available the railways would thereby have a chance of getting a share of the business. There is so much freight handled on most of our western branches that unless we can speed up service by rail the buses are going to get more than their share as soon as bus equipment becomes again available.

Mr. WALTON: It we do not speed up the L.C.L. freight, trucks will get that.

Mr. REID: Can you explain the apparent falling off in revenue from dining and buffet car service—that is shown there on page 15?

Mr. WALTON: I can answer that, Mr. Reid. There is a drop in revenue in 1944 as compared with 1943 in the dining and buffet car revenue; and our records show that it is practically all due to a smaller number of meals being served to the armed forces. There were less of them travelling and being served meals in 1944 as compared to 1943. You see, we did not have as heavy an overseas movement going, and the returning movement had not started. That meant that fewer meals were served to members of the armed forces in 1944 than in 1943.

Mr. EMMERSON: Isn't there an increase in maintenance?

Mr. WALTON: I do not think there is any department you will turn to that does not show increased expenses.

Mr. HAZEN: Speaking of passengers, whom do you issue passes to?

Mr. VAUGHAN: The Clerk of the House issues identification cards to members of parliament.

Mr. HAZEN: Under the Railway Act.

Mr. VAUGHAN: The Board of Transport Commissioners have rules and regulations which prescribe those to whom free transportation may be issued. We can only issue free transportation in accordance with those rules of the Board of Transport Commissioners. If there is any question about whether or not a person would be entitled to free transportation—for instance some celebrity might come to this country and we or some other railroad might want to give him free transportation for some special reason—we would have to ask the Board of Transport Commissioners if they would permit us to issue a pass to that person.

Mr. HAZEN: Do dominion government employees get passes?

Mr. VAUGHAN: No, sir.

Mr. HAZEN: None of them?

Mr. VAUGHAN: Just the Department of Railways.

Mr. EMMERSON: The Department of Transport.

Mr. VAUGHAN: Some of the employees of the Department of Transport do, yes; those who are engaged in railway work.

Mr. EMMERSON: Do you issue passes to the press?

Mr. VAUGHAN: Under certain conditions.

Mr. EMMERSON: Just as the C. P. R. do?

Mr. VAUGHAN: I think Mr. Thompson can tell us something about that.

Mr. WALTER THOMPSON: You are asking if we issue passes to the press?

Mr. EMMERSON: Yes.

Mr. THOMPSON: The terms of the Railway Act, as I remember them, are to the effect that it shall be illegal for any railway to issue free transportation to other than the following: members of the Senate, members of the House of Commons, members of the press. They are specifically included in the Railway Act of Canada. There is certain transportation issued to the Press under strict supervision of the Board of Transport Commissioners; but a statement must be made to the Board of every piece of transportation issued, the reasons for its usage, and it is very carefully checked. It is done with the full authority of the law passed by our Parliament, and is kept down to reasonable limitations both by the press themselves and by the railway companies, and by the Board of Transport Commissioners.

Mr. REID: Is it not a fact that what is called a pass to members of the House of Commons and the Senate is in law a request, or a requisition on the railway companies to transport the members of the House of Commons and the Senate, differentiating it from a pass issued to a railway employee or some one else? I remember two years ago bringing my girl here to continue her education and the officials refused to issue her a berth because they said she was travelling on a pass. I maintain that it was not exactly a pass, because it was a requirement of the law, on a request to the railway, to carry a member of parliament and his family. This, as you know, was done for a very good reason, to keep members of parliament from being handed things.

Mr. VAUGHAN: I do not think a family is included.

Mr. REID: A person under 21, whom you are supporting. Every member and every senator who has any member of his family—

Mr. HAZEN: I do not think it states that in the Act.

Hon. Mr. CHEVRIER: I have the section here. It is section 346. It covers members of the Senate and House of Commons of Canada. I do not think the family are entitled by virtue of the Railway Act.

Mr. HAZEN: Does it not say, "upon production of their card"? It is not called a pass.

Hon. Mr. CHEVRIER: That is right. Do you wish me to read it?

Mr. REID: Yes.

Hon. Mr. CHEVRIER: Very well. Section 346 reads:

Members of the Senate and House of Commons of Canada, with their baggage, and members of the Board and such officers and staff of the Board as the Board may determine, with their baggage and equipment, shall, on production of cards, certifying their membership or right, which shall be furnished them by the Clerk of the Senate or the Clerk of the House of Commons or the Secretary of the Board, as the case may be, be entitled to free transportation on any of the trains of the company; and the company shall also, when required, haul free of charge any car provided for the use of the Board.

Then section 347 goes on to say that, subject to a number of preceding sections, no company shall issue or give any free ticket or free pass, without specific authority.

Mr. EMMERSON: The railway also issues transportation to provincial members.

Mr. HAZEN: Within the province.

Mr. EMMERSON: Within the province, that is true. They are limited in range.

Mr. VAUGHAN: Yes; within their province only.

Mr. SHAW: Are those passes issued to M. L. A.'s merely complimentary passes?

Mr. VAUGHAN: Yes, sir.

The CHAIRMAN: Are there any other questions on operating revenues?

Mr. HAZEN: Mr. Chairman, in Mr. Vaughan's statement to the minister, page 9, he says that the combined revenues of the year-round hotels amounted to \$5,639,000. Could he tell us the combined expenses of the year-round hotels for 1944?

Mr. VAUGHAN: A gentleman over here asked us to file a statement on the earnings and expenses of the hotels and we intend to do that. You will have a statement of that filed.

Mr. NICHOLSON: In connection with these operating revenues, I wonder if Mr. Vaughan could make any statement regarding the sleeping car program? Are we likely to have as been a demand for sleeping car space in the next five years as we have had in the last five? And if so, what plans are being made to take care of it?

Mr. VAUGHAN: I do not think the demand will be as great; and we will be able to put more sleeping cars back onto the regular runs again than we have at the present time. I think there will be plenty of sleeping cars for everybody within six months or a year's time.

Mr. NICHOLSON: I think perhaps during the last four or five years a great many people have been using sleeping cars who previously did not use them, and I imagine the demand will possibly be a good deal keener; and having a trans-continental service, I should imagine that more sleepers would be required than we had. Have you any plans under way in that regard?

Mr. VAUGHAN: We have plans under way for some new sleeping cars. Plans and specifications are in the course of preparation now.

Mr. NICHOLSON: Can you make any statement as to how many?

Mr. VAUGHAN: We have not determined how many yet. There will be quite a few, though. We do not want to order too much equipment until we see how everything balances up when these troop movements are over. There are a large number of sleeping cars that are now being used in troop movements that will be available to the public.

Mr. NICHOLSON: I should think that a company of the size of the Canadian National should be giving a lead in providing employment for the next few years; and the manufacturing of some of this equipment would seem to me to be a legitimate type of undertaking by which to employ materials and man power.

Mr. VAUGHAN: We have a substantial amount of new passenger equipment under consideration which we hope to order at an early date.

Hon. Mr. CHEVRIER: There is some being manufactured now.

Mr. LACROIX: Is it your intention to enter the bus business on a large scale?

Mr. VAUGHAN: We, of course, have some buses now and we are studying routes with a view to determining if it is desirable to put buses on any other services. We do not want to go directly into competition where there are already bus lines giving a satisfactory service; and a good many of the highways are already fairly well provided with buses by well-established companies.

Mr. LACROIX: I see; that means competition for your company.

Hon. Mr. CHEVRIER: Certainly it does.

Mr. HARKNESS: I see under operating revenues, grain elevator, \$539,000; and under operating expenses, \$49,880; and again under miscellaneous, \$287,000. Why is that in two items as far as expenses are concerned?

Mr. VAUGHAN: Mr. Cooper can tell you that, I think.

Mr. HARKNESS: What is the story on those grain elevators?

Mr. COOPER: We have an elevator at Tiffin, one at Portland and one at St. John; but I do not think that I can answer that question without more detail than I have here.

Mr. HARKNESS: I was wondering why those expenses were split into two items, one under straight maintenance of way and structures and the other under miscellaneous.

Mr. COOPER: The item in maintenance would be maintenance of the building itself and the other item would be operating costs; just as in the railway you see under maintenance of way the cost of maintaining the track and the buildings, and over in the transportation account you see what we call the costs of operation, the cost of operating the trains.

Mr. HARKNESS: The total shows a profit of around \$200,000. Is that fairly typical?

Mr. COOPER: I would think that was better than normal. The revenue at St. John was \$34,000. The expenses were \$50,000. So there was a loss there of \$16,000. With the one at Portland, the revenue is \$107,000 and the expenses were \$193,000. There was a loss there of \$86,000. Then at Tiffin—that is at Midland—the revenue is \$397,000; the expenses were \$106,000 and the net profit was \$291,000. The three elevators combined show a profit of \$188,000. That is the revenue as compared with the cost of maintaining and operating these elevators.

Mr. HARKNESS: That includes depreciation, I suppose, of the elevators?

Mr. COOPER: No, sir. We do not take up depreciation on that property.

Mr. REID: Why is it that there are two different items of grain elevators on page 15, under the heading we are discussing now?

Mr. HARKNESS: He has just finished answering that question.

Mr. REID: I am sorry.

Mr. COOPER: The first item under the heading of maintenance is maintenance of structure itself and the second item is the cost of operating the elevator.

The CHAIRMAN: Are there any other questions under operating expenses, gentlemen?

Mr. HARKNESS: Just one other question on these grain elevators. The rates charged, I presume, are those set by the Board of Grain Commissioners or this board that deals with rates and so on?

Mr. VAUGHAN: That is correct.

The CHAIRMAN: Can we turn over to operating expenses, maintenance of equipment, traffic, and transportation?

Some hon. MEMBERS: Yes.

OPERATING EXPENSES (Continued)

	1944	1943
<i>Maintenance of Equipment</i>		
Superintendence	\$ 1,631,670 35	\$ 1,380,610 64
Shop Machinery	1,994,656 93	1,405,443 40
Power Plant Machinery	108,904 48	65,296 35
Machinery—Retirements	89,900 85	280,173 62
Machinery—Depreciation—U.S. Lines	65,993 10	64,968 69
Dismantling Retired Machinery	2,849 50	6,017 31
Steam Locomotives—Repairs	23,100,702 73	20,520,105 61
Other Locomotives—Repairs	300,952 75	187,668 43
Freight-Train Cars—Repairs	16,673,746 56	14,406,357 85
Passenger-Train Cars—Repairs	9,126,776 80	7,960,260 28
Floating Equipment—Repairs	437,205 04	400,698 33
Work Equipment—Repairs	2,172,248 56	1,873,455 01
Express Equipment—Repairs	188,324 36	144,423 02
Miscellaneous Equipment—Repairs	167,614 95	116,630 53
Miscellaneous Equipment—Retirements	6,923 44	2,719 28
Dismantling Retired Equipment	52,492 63	64,536 76
Equipment—Depreciation	19,853,984 95	19,829,613 32
Express Equipment—Depreciation	160,026 91	156,206 50
Injuries to Persons	510,255 63	433,855 00
Insurance	21,570 70	19,028 25
Stationery and Printing	53,460 21	47,004 37
Other Expenses	11,032 95	11,949 24
Joint Maintenance of Equipment—Debit	209,053 73	207,565 49
Joint Maintenance of Equipment—Credit	225,055 36	218,056 55
Deferred Maintenance—Equipment	3,500,000 00	3,000,000 00
	<u>\$ 80,215,292 75</u>	<u>\$ 72,366,530 73</u>
<i>Traffic</i>		
Superintendence	\$ 2,210,788 63	\$ 1,972,998 40
Outside Agencies	2,829,028 45	2,624,847 08
Advertising	331,246 72	381,445 84
Traffic Associations	122,579 63	105,822 89
Stationery and Printing	262,000 71	291,048 74
Other Expenses	233 44	17 52
Industrial Bureau	111,648 49	95,089 70
Colonization, Agriculture and Natural Resources	191,167 45	175,810 04
	<u>\$ 6,058,693 52</u>	<u>\$ 5,647,080 21</u>
<i>Transportation</i>		
Superintendence	\$ 4,009,532 29	\$ 3,510,848 32
Dispatching Trains	2,266,139 69	2,034,611 77
Station Employees	24,540,076 41	21,028,176 95
Weighing, Inspection, and Demurrage Bureaus	108,434 83	90,708 24
Station Supplies and Expenses	1,812,688 60	1,600,008 13
Yardmasters and Yard Clerks	4,713,325 42	4,141,427 14
Yard Conductors and Brakemen	8,493,169 31	7,869,756 38
Yard Switch and Signal Tenders	881,830 24	789,635 34
Yard Enginemen	5,385,722 59	5,145,431 14
Yard Motormen	628,486 59	430,985 09
Yard Switching Fuel	6,643,950 27	6,297,106 30
Yard Switching Power Produced	16,571 72	9,632 05
Yard Switching Power Purchased	98,296 02	101,380 03
Water for Yard Locomotives	209,572 15	198,213 39
Lubricants for Yard Locomotives	80,098 41	80,672 60
Other Supplies for Yard Locomotives	53,522 20	49,464 72
Enginehouse Expenses—Yard	2,075,708 61	1,771,962 44
Yard Supplies and Expenses	183,169 35	166,628 40
Operating Joint Yards and Terminals—Debit	1,771,465 75	1,558,270 73
Operating Joint Yards and Terminals—Credit	2,056,723 75	1,965,670 87
Train Enginemen	15,723,643 52	14,612,370 91
Train Motormen	122,442 39	114,602 84
Train Fuel	36,685,000 61	33,447,645 27
Train Power Produced	12,686 19	17,916 08
Train Power Purchased	44,177 83	58,537 43
Water for Train Locomotives	1,352,320 18	1,279,597 99
Lubricants for Train Locomotives	566,191 83	540,069 96
Other Supplies for Train Locomotives	309,738 45	284,984 01
Carried Forward	<u>\$116,731,237 70</u>	<u>\$105,264,972 78</u>

Enginehouse Expenses—Train	5,949,232 39	5,152,917 65
Trainmen	18,061,650 85	16,250,269 83
Train Supplies and Expenses.....	10,987,421 68	9,839,359 66
Operating Sleeping Cars.....	2,003,564 87	1,762,137 90
Signal and Interlocker Operation.....	582,601 02	519,634 20
Crossing Protection	854,335 45	764,211 32
Drawbridge Operation	132,389 16	121,717 82
Telegraph and Telephone Operation.....	436,578 56	389,983 62
Telegraph—Commercial	5,371,875 16	4,721,131 28
Operating Floating Equipment.....	1,245,491 30	1,152,710 36
Express	9,415,564 85	7,742,672 35
Stationery and Printing.....	698,296 38	650,390 99
Other Expenses	1,244,142 92	1,139,639 79
Operating Joint Tracks and Facilities—Debit.....	833,207 47	743,402 61
Operating Joint Tracks and Facilities—Credit.....	483,333 47	492,321 93
Insurance	14,366 29	11,645 86
Clearing Wrecks	481,578 18	556,223 80
Damage to Property	119,443 07	68,201 67
Damage to Live Stock on Right-of-Way.....	76,521 27	76,953 33
Loss and Damage—Freight.....	1,772,776 52	1,412,664 81
Loss and Damage—Baggage.....	20,115 25	13,682 08
Injuries to Persons.....	1,340,642 16	1,615,246 55
	<u>\$177,889,699 03</u>	<u>\$159,477,448 33</u>

Miscellaneous

Dining and Buffet Service.....	\$ 5,325,339 60	\$ 4,897,656 95
Restaurants	272,580 27	138,501 21
Grain Elevators	287,379 59	305,397 73
Other Miscellaneous Operations.....	37,078 91	38,860 86
	<u>\$ 5,922,378 37</u>	<u>\$ 5,380,416 75</u>

General

Salaries and Expenses of General Officers.....	\$ 502,657 22	\$ 473,179 16
Salaries and Expenses of Clerks and Attendants....	6,590,951 86	5,607,560 78
General Office Supplies and Expenses.....	300,660 92	292,898 58
Law Expenses	392,428 05	339,984 73
Relief Department Expenses.....	27,500 00	27,500 00
Pensions	7,641,801 74	7,083,929 75
Stationery and Printing.....	235,468 17	203,924 51
Valuation Expenses	15,793 89	14,237 01
Other Expenses	211,902 55	222,827 27
General Joint Facilities—Debit.....	49,294 41	40,909 03
General Joint Facilities—Credit.....	11,404 54	11,186 80
	<u>\$ 15,957,054 27</u>	<u>\$ 14,295,764 02</u>

Mr. REID: What do you mean by train power purchased, the two items there on page 16? What is meant by that?

The CHAIRMAN: What is that question?

Mr. REID: What is meant by train power purchased, the two items there.

The CHAIRMAN: That is under transportation, near the bottom of the page.

Mr. WALTON: There are two items. There is train power produced and train power purchased. One is power that we produce ourselves for operation and the other is where the power is purchased. For instance, Montreal has electric locomotives which operate on power purchased from the power commission.

Mr. VAUGHAN: From the Quebec Hydro-Electric.

Mr. WALTON: Yes.

Mr. NICHOLSON: I wonder if any plans have been made to modernize the cabooses on the freight trains? A lot of the railway crews spend a large part of their lifetime in those cabooses, and it seems to me to be a fairly reasonable expenditure to have electricity installed and to make them a little more comfortable.

Mr. VAUGHAN: We are improving our cabooses right along. We have nearly always got some cabooses in the shops with improvements being made to them. We recently put in some special lights.

Mr. WALTON: We are just doing it now.

Mr. NICHOLSON: Are they electric lights?

Mr. VAUGHAN: No.

Mr. NICHOLSON: How expensive would it be to provide electricity in the cabooses? You have got electricity in nearly all the passenger cars now?

Mr. WALTON: It would be a heavy expense. I would not care to name a figure, just what it would cost to equip all cabooses with electric light.

Mr. MAYBANK: I think there is something more important than that. I think that the cabooses should be equipped with green baize tables, and supplied with poker chips and good cards.

Mr. NICHOLSON: A good many of the men, particularly in the west, spend their week-ends in those cabooses. In fact, they spend a lot of their lifetime in them. It seems to me that the railways with their improved finances might help the morale of the train crews considerably by making these cabooses more comfortable.

Mr. VAUGHAN: We have meetings from time to time with the heads of the various orders including the brotherhood of railroad conductors and train men, and they are making presentations to us from time to time in regard to improvements in the cabooses and we are carrying them out as best we can. They have not yet got to the point of asking for electric lights. I do not think that would be practical, because we would have to have charging machines all over the country to recharge the generators, and it would be a tremendous expense. I do not think it would be practical. But I do think that these new lights that we are putting in will be practical and that we have improved cabooses in general.

Mr. NICHOLSON: The cabooses I am thinking of have old-fashioned coal oil lamps. Now, the conductors have certain reports to make out. In the cabooses in the middle of the night, and it is a real fire hazard to have these coal oil lamps.

Mr. VAUGHAN: We are trying out these new lamps now at the request of the train men.

Mr. EMMERSON: I wonder who selected the new colour of the cabooses?

Mr. VAUGHAN: The men like that new colour because they can always tell where the end of their train is. It is really a safety device.

Mr. REID: There is an increase under colonization and agriculture and natural resources of \$190,000. Just what is done under that item?

Mr. VAUGHAN: We have quite a substantial colonization and agricultural department that embraces many activities. They are putting new settlers in the various provinces all the time they are providing labour for lumber camps, and farms. We are constantly bringing settlers from the Old Country—not so many recently. Every month there are several hundred settlers coming in from the Old Country who have to be placed and looked after. Before the war we brought in a number and put them in your province. They were good Dutch and Swiss settlers. We have offices in London and in several of the important places in Canada, and the departments referred to are cooperating all the time with various departments of the provincial governments and of the dominion government. Our men go around trying to improve the quality of stock and the type of produce grown. Generally speaking, we have a very active colonization and agricultural department.

Mr. MUTCH: Have you any representatives of that department in the United States at the present time?

Mr. VAUGHAN: Yes. I think we have one in St. Paul or Minneapolis. Minneapolis, I think it is?

Mr. MUTCH: Minneapolis, yes.

Mr. PICARD: When we were talking about buildings and stations this morning, and about maintenance, I had in mind getting some more details from you. I notice that under stations and office buildings there is an increase of \$500,000

from 1943 to 1944. Do you expect there will be more money available during the coming year, 1945, for maintenance of stations?

Mr. VAUGHAN: We hope there will be more labour and material available to enable us to improve some of our stations in 1946.

Mr. PICARD: Is it a policy of the company that they should light the stations with electric lights?

Mr. VAUGHAN: Where there is electric light available, or where it can be economically done, we do it.

Mr. PICARD: I have a case in mind where the station master had electricity installed in his own apartment. Then there were submissions made by the municipality and the local council and so on to try to get the railway company to extend the electric light, and to pay for it, for the station itself. The station master has got to pay for his own power. It is brought in for his own apartment but by means of a short extension and at very small cost it could be possible to light the station with electricity. Yet the cost is too much for the company.

Mr. VAUGHAN: If you will tell me what the place is, Mr. Picard, we will see what can be done about it.

Mr. PICARD: There are quite a few villages served by that station, and there is an orphanage and an old people's home. Nearly 2,000 people are served in three different communities by that station, yet, in the winter time, when they get off the trains onto the platform which may be slippery, there is very little light, in spite of the fact that a short extension of the power could be made which would light that platform.

Mr. VAUGHAN: That is probably something which has never been recommended to headquarters. We have a superintendent down there who is probably very economical.

Mr. PICARD: I think so. Again, is it not possible to do more in the way of providing sanitary accommodation in stations, water closets, if you like. I have one case in mind which I took up. I got a letter in reply, a wonderful letter. I always get wonderful letters from the chairman, awfully polite letters. They came to the conclusion that it was too expensive to install toilet facilities in the station. Now, I would not like to say that the trains at that point are often late, but due to the movement of troop trains, it happens, sometimes even in peace time, that people have to wait for quite a long time in that station where there are no facilities at all. There is a house next door to the station which has modern facilities installed. The occupant of that house is not a very wealthy man either. But I got an answer from the railway company about the difficulty of providing installations during war time.

Mr. VAUGHAN: We are constantly improving our stations and we are putting in a number of toilet facilities at a number of points. I do not know about these ones you speak of, but if you will give me the name of them we will see what can be done about them.

Mr. PICARD: I have another point. There is another station which it costs the company quite a good deal of money to heat. There are two public rooms, one for women and one for men, and in the centre is the office of the telegraph operator. There is a big stove in one room and a big stove in the other room. The result is that the telegraph operator freezes and the people in the two rooms are too warm. Yet, installed in the back room of his apartment in the station, the station master himself has put in a furnace, at his own expense. The superintendent refuses to approve that the station be heated by that furnace system. I know that war-time conditions are hard, but I would like to know now that we are resuming better times if we may hope to get these things corrected?

Mr. VAUGHAN: If we are told about these things, and informed of the places you are referring to, we will be glad to look into each individual case.

Mr. PICARD: It may be that the superintendents have a budget and that they want to show that they are good operating men and so they do not want to get into too many increased expenditures.

Mr. VAUGHAN: Perhaps they think the people want too many conveniences.

Mr. PICARD: Do you think that would be too many, to have maybe a toilet and electric light?

Mr. NICHOLSON: Before we leave operating expenses, I wonder if the officials of the railway could give us an estimate of the cost of operating a passenger train for 100 miles, for example. I had some correspondence with respect to the extension of service from Yorkton to Flinflon. The transit controller said they wanted to conserve all equipment. What would that cost be per hundred miles?

Mr. VAUGHAN: Well, each individual case has to be dealt with separately. For example there is the matter of variation in the cost of fuel at each point. Then you have got to reckon the cost of hauling that fuel to the coal docks, where the coal is put in the engine. There are so many things which enter into the cost. I do not know whether that particular case has been brought to our attention or not. Has it, Mr. Walton?

Mr. WALTON: No, it has not.

Mr. NICHOLSON: The equipment is tied up in Yorkton from Saturday night to Monday morning, and I understand that the equipment could be used and that the most profitable run would be over the week-end.

Mr. VAUGHAN: There are also schedules which enter into the picture. However, we will look into that case.

Mr. WALTON: Is that a run that was previously on, but which was taken off by order of the transport controller?

Mr. NICHOLSON: It was introduced at the beginning of the war and I understand it has been very profitable. The trouble is that there have been only two trains a week, and there has been quite an agitation to extend the service. The argument was that the equipment would wear out more quickly during the war. I wonder how much more revenue you will have to have per one hundred miles?

Mr. WALTON: I do not think we could give you a satisfactory figure here. I will look into it and see what it is.

Mr. REID: I wonder why the great terminus of the Canadian National railways in British Columbia has been neglected over the years, Port Mann?

Mr. VAUGHAN: I do not think it has been neglected.

Mr. REID: I have received two delegations of men from the shops who have laid a serious matter before me, pointing out that the machinery had been left to become antiquated and that much of the work which was formerly done there had been sent back to Winnipeg. These delegations came to me this year. Two were from the labour unions and they pointed out that the machinery had just left the terminus.

Mr. VAUGHAN: You mean that the machinery has been taken away?

Mr. REID: The work had been taken away due to the fact that a lack of the antiquated machinery or equipment had never been modernized.

Mr. VAUGHAN: I do not think that would be the reason it had been taken away, but rather because it was more economical to do the work at some other point. That would be the real reason why it was taken away.

Mr. REID: He said that the work had been sent out to Winnipeg and brought back again.

Mr. WALTON: Our policy, as far as possible, is to concentrate repair work at certain strategic points. Actually, one disadvantage that we suffer as

compared with the Canadian Pacific is that we operate more repair points than they do, and each additional shop involves that much more overhead that increased our expenditure. Our general policy is, as far as possible, to handle the work at the fewest number of points.

Mr. VAUGHAN: However, we will look into that case at Port Mann now that it has been brought to our attention. The officials of our line are being urged all the time to operate as economically as possible and they are always trying to find ways and means of saving a dollar. We could not succeed, if we did not do that. We will look into that and let you know about it.

Mr. HAZEN: In connection with dangerous underpasses, where the highway goes under the railway tracks, has the railway any responsibility to correct that situation, or does it come under the Department of Transport, or is it a matter purely for the municipalities?

Mr. VAUGHAN: Wherever there is a complaint in a matter of that kind it usually comes before the Board of Transport. They have an organization for investigating complaints of that nature. If they think the railway is in any way responsible they will take it up with the railway. I do not know what particular place you have in mind.

Mr. HAZEN: The one I have in mind is at Fairvale, some two or three miles from Rothsay, in King's county, New Brunswick, where the road goes under the railway tracks and there is a bad turn. Of course, the railway track was built there before cars were ever invented. It is a very dangerous spot.

Mr. VAUGHAN: In that case the railway would be senior and there would be no obligation on the part of the railway. It would be on the part of the province, the highway department.

Mr. MAYBANK: Something of that sort is in my mind. This just illustrates how one question brings on another. I do not think it would have struck me at this moment if it had not been for that. Mr. Mutch and I are both interested in this. It is not the part of Winnipeg which he represents but on the other hand I am his most distinguished voter as I always vote for him. I live there. You will know it, Mr. Walton. It is at the boundary of the city of Winnipeg on the highway leading down to Emerson called the Pembina Highway. It was about 1930 when you built the subway there and the permanent abutments are up for receiving track but for reasons which I understand were temporary, and obviously they were intended that way, you put the tracks on temporary trestles. Now the permanent abutments are still there without the track. What picture can you give us of the probable future of that situation? When are you going to do something about the yards and that sort of thing in connection with it?

Mr. WALTON: There was a plan for yard revision and extension in Winnipeg. It looked to us at the time that the Pembina Highway subway was built that it would be proceeded with but we have gone through the war with all the traffic we have had and have not needed it, and I question whether we will now.

Mr. MUTCH: Is it not correct to say you have not needed it because of the beginning which was made?

Mr. WALTON: That situation has been very much relieved by the present set-up compared with what it was before that.

Mr. MUTCH: Your original intention was to wipe out Portage Junction and withdraw the yards within that area.

Mr. WALTON: That is right.

Mr. MAYBANK: It looks rather odd to have permanent abutments for tracks standing up there and nothing on top of them.

Mr. MUTCH: That is the principal entrance into Manitoba for tourists, and there is not only that. I should like to suggest that in its present condition we have had a long series of accidents under the present situation which is not as dangerous as it was. There is a dividing pillar built a long way back but even so under normal traffic conditions in its present condition it is a menace.

Mr. WALTON: Are there any reflectors or any warning?

Mr. MUTCH: They have built one of these cement islands about one hundred yards from the central pier but people still go around it and hit it occasionally.

Mr. WALTON: As far as the railway requirements are concerned there is no immediate need for us to do anything different. If there is a bad highway condition that we created perhaps we could do something about it, either a better warning arrangement or something else.

Mr. MUTCH: To be perfectly fair actually what you have done has made a wholly impossible highway situation passable but it is not finished business. It looks like a memorial to the pre-1935 election, as a matter of fact.

Mr. EMMERSON: I wanted to ask a question of Mr. Walton bearing on his reply to Mr. Reid as to the reducing of points of repair. For instance, in 1944 you moved around fifteen of the larger type of locomotives to Montreal for heavy overhaul rather than do them in Moncton shops. Was it due to the fact that since your reorganization there two or three years ago your unit cost has gone up?

Mr. WALTON: No. We would leave those engines at Moncton and repair them there if we were in a position to handle them but we are handling all the work at Moncton that we can handle and we required the engines so we spread the work around among some of the other shops. That is a temporary condition. I would think when business drops to a certain extent, as it possibly will compared with wartime levels, Moncton will keep up with the work of repairing engines on the territory that centres on Moncton, but we just have not been able to keep up with the repairs with the high usage that has been made of the locomotives for some months.

Mr. VAUGHAN: We have had to transfer many additional locomotives to the Atlantic region. You remember we put up a big new erecting shop at Moncton since the war started. That plant is working to capacity and as Mr. Walton says this is simply a temporary measure because they are behind at Moncton with their engine repairs at the present time. They have had so many engines to look after.

Mr. WALTON: If we could get additional men and they could be worked in then we would put them on at Moncton.

Mr. EMMERSON: Is it a case that you cannot get additional men or that they cannot get the work out?

Mr. WALTON: Oh no, we can get the work out.

Mr. VAUGHAN: It is largely a matter of manpower.

Mr. PICARD: Have you any definite rules in your company governing the employment of new men, train men, engine men, yard men, and so on? How is it done?

Mr. VAUGHAN: There are specific rules and conditions of employment laid down. They are the same all over the system.

Mr. PICARD: For instance, I have in mind a case where a veteran came back from the war after three years with the South Saskatchewan regiment. He is a local Quebec resident who was in the west when he enlisted. He tried to get employment with the company and was told there was no job for him although he was competent. He was examined and they said, "Yes, he is

satisfactory", but they had no job for him. Three weeks later they employed three other men who were veterans, too, but they had applied afterwards. He inquired about it and they said they had no definite rules and that they did not have any place when this man applied but there were some places when the three men applied. I said. "You should have a waiting list and have the men of the district on call according to their date of application. If they are competent they should be called according to the date they applied."

Mr. VAUGHAN: That is the general rule which is followed. It may be the men who were taken on first had been in our employ previously.

Mr. PICARD: No. If they had been there would be no complaint but they were entirely new to the company. The only answer I got was when this other chap applied there was no job available but when they applied there was. I said, "That is childishness. The civil service or any other company have a waiting list, and if a man applies and is judged competent he is called when his turn comes." I was told, "We have no definite set of rules."

Mr. VAUGHAN: I do not know that we have a list of that kind. We have so many men applying for employment all over the system. If a man comes in today and we have not got a job for him we may take his name and record it. The man who is on the job when the vacancy is there is the man who gets the job as a rule.

Mr. WALTON: Very often we find that these men do not get in touch with us. They apply and then in a few days if men are wanted they are not immediately available.

Mr. PICARD: In that particular case the man had just been discharged and was still under the care of the Veterans Affairs Department. He left his name and address with them. He lived near Levis where he was applying for the job. He could have taken the C.N.R. train and it would have taken him only twenty minutes to get there, and yet he was by-passed.

Mr. WALTON: If that is the way it was I think it was mishandled, but ordinarily we try to give preference to the men in the order of their applications.

Mr. BELZILE: Do they not have to file their names with Selective Service in their community first of all?

Mr. WALTON: Yes, but that does not present any difficulty. They are either available or they are not.

Mr. BELZILE: Suppose a man did not file his name with Selective Service. What would happened.

Mr. WALTON: When I speak of him being available that includes complying with the requirements.

Mr. PICARD: Before he applies to the company he has to get a permit from Selective Service to look for employment.

Mr. WALTON: I am assuming from what you say that that had been done.

Mr. PICARD: Yes. When the man went to them he told them he was a veteran with three years overseas service. They said, "We do not need you now." Three weeks later they took on three more men when this other man was only twenty minutes away. I asked them about it and I was told, "We have no waiting list."

Mr. WALTON: We do try to give preference to cases such as you have mentioned. Maybe we missed it in this case.

Mr. PICARD: My only point is I would like to make sure there are lists established. I do not mean for those who are not veterans but those who are should be handled in the order of application.

Mr. REID: I come back to a question on page 17. I come back again to the dining and buffet service. I note that their operating expenses are well over

\$5,000,000, and if you take the revenue it means that the dining and buffet service lost last year \$854,768. That is quite a loss; if it is correct that would work out at about 20 cents a meal.

Mr. WALTON: That is probably the experience of most roads on the continent.

Mr. VAUGHAN: I do not think there is a railroad on the continent that does not lose money in its dining car service. It is a fact that the more meals we serve the greater our losses are.

Mr. REID: That is remarkable.

Mr. VAUGHAN: That is the situation on the dining cars.

Mr. MAYBANK: You do not charge everything either, do you? Are they not favoured in the accounting?

Mr. REID: What did the government pay for the meals of soldiers who were travelling? Did they pay the regular rates?

Mr. WALTON: It approximates the regular rate.

Mr. VAUGHAN: It is a little lower, not very much.

Mr. REID: Probably 75 cents or \$1.

Mr. NICHOLSON: The American lines are streamlining the service. They are not using table-cloths and are serving meals on the plate. Does that cut down the cost?

Mr. WALTON: It is bound to.

Mr. VAUGHAN: Wherever service is curtailed and labour is saved expense is reduced.

Mr. NICHOLSON: Have you followed that practice on any of the Canadian National diners?

Mr. WALTON: We have on a few runs. We have not been able to get linen and supplies of that kind in full quantity. We have tried to keep up the service wherever we can.

Mr. REID: How does it compare with the regular dining room service? I mean as against cost and popularity?

Mr. WALTON: How does what compare?

Mr. REID: This new eating system such as the United States has in some trains.

Mr. WALTON: I do not think it is quite as popular but it was partly a forced condition during the war. When we started with it on two or three of these runs there was difficulty in getting linen for serviettes and table-cloths, and so on. That is why that was resorted to but it is not as good a service.

Mr. NICHOLSON: It does not cut down costs to an appreciable percentage?

Mr. WALTON: It cuts down laundry costs, and so on, but the primary reason for it was the shortage of materials.

Mr. MUTCH: Is it not a fact that these cars of the type you mentioned did permit you to feed more people in a given time?

Mr. WALTON: Well, I am not sure whether you and Mr. Nicholson are talking about the same type of car. We have some cars on which we used paper serviettes and so on. On a number of troop movements we had especially arranged cars which would serve a large number at a time. I do not know whether that is the type of car about which you are speaking.

Mr. MUTCH: Are you using many of these cars now that feed 40 people at a time?

Mr. WALTON: We are using some of those on these troop movements because they facilitate serving, putting a much larger number of people through at meal time.

Mr. MUTCH: That is the type of car about which I am speaking.

Mr. VAUGHAN: The actual cost of serving the meals is not very much different.

Mr. WALTON: The men get their meals much more quickly, and we can serve more of them, but the quality of the food is the same.

Mr. MAYBANK: Would it be permissible to turn to page 18 and ask a question? I want to ask about the new lines constructed. I see you spent \$1,638,000 on that. Where were they?

Mr. VAUGHAN: The principal item there is for the construction of the new line from Eastern Junction to Bout de L'Ile, on the island of Montreal.

Mr. HARRIS (*Grey-Bruce*): If I could ask you to move on to the next page, I would like to ask what savings have been made in 1944 as compared with 1943 in bond issues.

Mr. COOPER: At page 4 almost at the bottom of the page there you see, interest on funded debt: in 1943 it was \$30,998,000, and in 1944 it was \$28,135,000.

The CHAIRMAN: Any other questions there, gentlemen?

Mr. REID: On page 18, "retirement of Seattle dock property, \$626,871,75", I see that on page 18 there you have that listed as an expenditure.

Mr. VAUGHAN: That is right, we sold the dock for a good deal less than it cost us, Mr. Reid.

Mr. REID: Yes, I was not referring to the cost but what you received, \$626,000.

Mr. COOPER: No, sir; that is not correct.

Mr. REID: That is the answer I got back on page 14, I think.

Mr. COOPER: What happened was that we had an investment of \$737,000, the sale price was \$110,000, involving a write-off of \$626,000.

Mr. PICARD: What have you been able to do about the C.N.R. bonds held in Great Britain?

Mr. COOPER: I think that you will find that on page 20, under the heading of, Dominion of Canada—Loans. We received from the government to repatriate outstanding debenture stock \$107,943,691; and for other railway securities, \$282,633,000; that is approximately \$390,000,000. The par value of the securities which we retired was some \$20,000,000 in excess of that. This \$390 millions is the cost of repatriating the securities, and there was a gain of something like \$20,000,000 on the transaction.

Mr. PICARD: For the company?

Mr. COOPER: Yes.

Mr. PICARD: Is there still a large amount of the bonds held in Britain?

Mr. COOPER: No.

Mr. PICARD: Of bonds?

Mr. COOPER: Not very much.

Mr. PICARD: I mean by private interest or otherwise.

Mr. COOPER: At the end of 1944 there was \$28,000,000 of sterling securities out of a total of \$629,000,000, but I do not think that is all held by U.K. residents. Any securities owned by U.K. residents were vested and repatriated.

Mr. PICARD: You mean the bonds are still held in Britain?

Mr. COOPER: They are almost all sterling securities.

Mr. PICARD: I refer to both sterling and dollars.

Mr. COOPER: Yes, but there are still some sterling securities the holders of which were not U.K. residents. There is about \$28,000,000 of sterling securities outstanding. I do not think they are held by U.K. residents.

Mr. PICARD: Could you give us the amount of C.N.R. bonds, or Grand Trunk bonds held in Britain at the time of the outbreak of the war?

Mr. VAUGHAN: You will see in the report that about 400 million dollars have been vested by the British government and transferred to Canada. That \$28,000,000 worth to which Mr. Cooper refers were held principally at different points in the world and the British government had no jurisdiction to vest them. Anything that was in Great Britain was vested and has been transferred to Canada.

Mr. PICARD: All those that were under British jurisdiction have been repatriated?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Are there any questions about pages 20 or 21—investments in affiliated companies?

PROPERTY INVESTMENT ACCOUNT

EXPENDITURES YEAR 1944

Road:			
New Lines Constructed.....	\$	1,638,133	36
Line Diversions		20,177	68
Montreal Terminal Development.....		25,371	85
Rails and Fastenings.....		519,762	70
Tie Plates and Rail Anchors.....		921,767	88
Ballast		203,505	63
Ditching, Drainage and Sewers.....		56,088	11
Large Freight Terminals.....		161,863	50
Large Passenger Terminals.....		65,517	75
Yard Tracks and Sidings.....		318,752	11
Roadway Machines		376,437	09
Bridges, Trestles and Culverts.....		329,606	60
Stations and Station Facilities.....		505,939	14
Shops, Enginehouses and Machinery.....		319,553	59
Water Supplies		132,771	49
Fuel Stations		49,474	40
Docks and Wharves.....		169,298	74
Grain Elevators		477,667	38
Signals and Interlockers.....		129,883	03
Telegraphs—Railway		111,081	10
Telegraphs—Commercial		568,515	69
Assessments for Public Improvements.....		35,673	03
Land		513,610	95
General Additions and Betterments.....		299,384	56
			<u>\$ 5,688,683 22</u>
Equipment:			
Equipment Purchased or Built.....	\$32,359,097	88	
Equipment Retirements	1,131,649	53	
General Betterments to Equipment.....	81,921	68	
Equipment Conversions	142,640	60	
Express and Miscellaneous Equipment.....	99,505	06	
			<u>31,102,391 13</u>
Hotels			14,746 72
Separately Operated Properties.....			713,249 75
			<u>\$36,063,077 88</u>
Net Additions and Betterments during 1944.....			
			<u>\$1,991,618,275 87</u>
Ledger Balance 1st January, 1944.....			
Net Additions and Betterments during the year.....	\$36,063,077	88	
Retirement of Seattle Dock Property.....	626,871	75	
			<u>35,436,206 13</u>
Ledger Balance at 31st December, 1944.....			<u>\$2,027,054,482 00</u>

FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1944	Interest Accrued 1944
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock.....	G.T.R.....	1875 to 1883	Perpetual.....	\$ 1,502,719.60	\$ 74,645.75
5% G.W. Perp. Debr. Stock and Bonds	G.T.R.....	1858 to 1876	Perpetual.....	967,053.33	49,535.13
4% Perpetual Debenture Stock.....	G.T.R.....	1883 to 1918	Perpetual.....	6,183,620.73	256,905.31
4% Nor. Rly. Perpetual Debr. Stock..	G.T.R.....	July 31, 1884	Perpetual.....	27,457.73	1,525.02
3% 1st Mortgage Bonds.....	G.T.P.....	July 1, 1905	Jan. 1, 1962	26,465,130.00	793,953.80
4% Sterling Bonds.....	G.T.P.....	July 1, 1914	Jan. 1, 1962	7,999,074.00	319,962.96
3% 1st Mortgage Debenture Stock.....	Can. Nor.....	July 29, 1903	July 10, 1953	1,169,460.00	35,219.09
3% 1st Mortgage Debenture Stock.....	Can. Nor.....	Mar. 1910	July 20, 1958	5,641,326.15	197,215.70
3% Sinking Fund Debenture Bonds.....	Can. Nor.....	July 1, 1921	July 1, 1946	23,754,000.00	1,544,010.00
3% 1st Mortgage Debenture Stock.....	C.N.A.....	Mar. 22, 1911	May 4, 1961	551,505.27	19,302.63
3% 1st Mortgage Debenture Stock.....	C.N.O.....	Dec. 8, 1911	May 19, 1961	3,735,478.14	139,562.84
5% 30 Year Guarantee Bonds.....	Can. Nat.....	Feb. 1, 1924	Feb. 1, 1954	50,000,000.00	2,500,000.00
4% 30 Year Guarantee Gold Bonds.....	Can. Nat.....	July 1, 1927	July 1, 1957	64,136,000.00	2,886,120.00
5% 40 Year Guarantee Gold Bonds.....	Can. Nat.....	Oct. 1, 1929	Oct. 1, 1969	57,728,500.00	2,886,425.00
5% 40 Year Guarantee Gold Bonds.....	Can. Nat.....	Feb. 1, 1930	Feb. 1, 1970	17,338,000.00	866,900.00
4% 25 Year Guarantee Gold Bonds.....	Can. Nat.....	June 15, 1930	June 15, 1955	48,496,000.00	2,303,811.92
4% 25 Year Guarantee Gold Bonds.....	Can. Nat.....	Feb. 1, 1931	Feb. 1, 1956	67,368,000.00	3,031,560.00
4% 20 Year Guarantee Gold Bonds.....	Can. Nat.....	Sept. 1, 1931	Sept. 1, 1951	48,022,000.00	2,160,990.00
3% 16 Year Guarantee Bonds.....	Can. Nat.....	Dec. 15, 1934	Dec. 15, 1950	20,500,000.00	615,000.00
3% 17 Year Guarantee Bonds.....	Can. Nat.....	Feb. 15, 1936	Feb. 15, 1953	25,000,000.00	750,000.00
3% 15 Year Guarantee Bonds.....	Can. Nat.....	Feb. 1, 1937	Feb. 1, 1952	20,000,000.00	600,000.00
3% 13 Year Guarantee Bonds.....	Can. Nat.....	Dec. 15, 1937	Dec. 15, 1950	30,000,000.00	900,000.00
2% 7 Year Guarantee Bonds.....	Can. Nat.....	Jan. 15, 1939	Jan. 15, 1946	15,000,000.00	337,500.00
3% 20 Year Guarantee Bonds.....	Can. Nat.....	Jan. 15, 1939	Jan. 15, 1959	35,000,000.00	1,050,000.00
Total Issues Guaranteed by Dominion of Canada.....				\$ 576,585,326.95	\$ 24,320,145.30
GUARANTEED BY PROVINCE OF NEW BRUNSWICK:					
4% 1st Mortgage Debenture Stock.....	St. J. & Q..	May 14, 1912	June 1, 1962	\$ 622,657.40	\$ 25,899.33
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st Mortgage Debenture Stock.....	C.N.P.....	Nov. 16, 1911	Apr. 2, 1950	916,914.07	63,193.08
4% Terminal Debenture Stock.....	C.N.P.....	1913 and 1914	Apr. 2, 1950	1,162,583.40	52,406.36
Total Issues Guaranteed by Provincial Governments.....				\$ 2,702,154.87	\$ 114,498.77
EQUIPMENT TRUST ISSUES:					
4% Series "L".....	Can. Nat.....	June 1, 1930	Ser. 1, 6, '45	\$ 1,050,000.00	\$ 66,937.50
2% "O".....	Can. Nat.....	Aug. 1, 1937	Ser. 1, 8, '47	4,290,000.00	128,104.17
2% "P".....	Can. Nat.....	Sept. 15, 1938	Ser. 15, 9, '53	4,600,000.00	136,239.58
2% "Q".....	Can. Nat.....	July 1, 1939	Ser. 1, 7, '49	3,250,000.00	89,375.00
2% "G.T.W.".....	G.T.W.....	June 1, 1941	Ser. 1, 6, '51	3,697,000.00	101,925.00
Total Equipment Trust Issues.....				\$ 16,887,000.00	\$ 522,581.25
OTHER ISSUES:					
4% Canada Atlantic 1st Mtge. Bonds..	G.T.R.....	Jan. 1, 1905	Jan. 1, 1955	9,953,280.00	398,304.18
4% 1st Mortgage Bonds.....	Pem. Sou...	Sept. 1, 1906	Sept. 1, 1956	150,000.00	6,000.00
4% 2nd Mtge. Bonds, Prairie "A".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	3,575,016.00	143,362.17
4% 2nd Mtge. Bonds, Mountain "B".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	3,155,598.00	126,610.53
4% 1st Mtge. Bonds, "Lake Superior".....	G.T.P.....	Apr. 1, 1905	Apr. 1, 1955	2,152,494.00	86,205.20
4% Perpetual Cons. Debenture Stock.....	Can. Nor.....	1903 to 1912	Perpetual.....	4,134,082.47	164,119.32
4% Perpetual Cons. Debenture Stock.....	C.N.O.....	June 21, 1909	Perpetual.....	896,912.06	36,111.73
4% Perpetual Cons. Debenture Stock.....	C.N.Q.....	Oct. 1906	Perpetual.....	466,518.66	18,478.47
4% 1st Mtge. Perp. Debenture Stock.....	Q. & L. St. J.	June 1, 1912	Perpetual.....	314,299.07	12,536.13
4% 1st Mortgage Bonds.....	G.T.W.....	Nov. 30, 1900	July 1, 1950	6,527,336.00	261,851.84
4% 1st Mortgage Series "A" Bonds.....	G.T.W.....	Jan. 1, 1930	Jan. 1, 1980	400,000.00	18,000.00
4% Indebtedness of S.S. & C. Co.....	C.V.R.....	Aug. 27, 1858	Optional.....	155,865.25	6,234.61
4% 1st Mortgage Gold Bonds.....	M. & P. L.	Oct. 1, 1900	Oct. 1, 1950	200,000.00	8,000.00
5% Indebtedness to Province of N.B.....	Can. Nat.....	Sept. 3, 1929	Various.....	1,198,022.60	59,901.13
Interest on Securities retired in 1944.....					1,832,907.73
Total Other Issues.....				\$ 33,279,424.11	\$ 3,178,713.04
Total Debt held by Public (including therein \$7,773,302.79 par value held in Special Funds and Accounts) as per Balance Sheet.....				\$ 629,453,905.93	\$ 28,135,938.36

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

STANDING COMMITTEE

DOMINION OF CANADA—LOANS

(Treated as Assets in Public Accounts of Canada)

	Principal Outstanding at Dec. 31, 1944	Interest Accrued 1944
3½% Advances, Refunding Act, 1938.....	\$ 37,951,676 26	\$ 1,878,130 93
2% Advances, Refunding Act, 1938.....	24,689,392 53	493,787 86
2½% Advances, Refunding Act, 1938.....	52,200,636 92	978,390 70
2¼% Advances, Refunding Act, 1944 (U.S. Funds) ..	56,684,000 00	718,256 16
3½% Advances for Repatriation of G.T.R. Debenture Stock	107,943,691 28	3,765,291 34
3½% Advances for Repatriation of other Railway Securities	282,633,133 31	9,871,233 15
3% Purchase of Railway Equipment, 1936 (Re- payable 1938-1950)	3,103,038 52	97,616 43
3½% Purchase of Railway Equipment, 1940 (Re- payable 1941-1955)	10,911,651 50	392,180 80
3½% Purchase of Railway Equipment, 1941 (Re- payable 1943-1957)	17,974,245 82	676,695 31
2½% Purchase of Railway Equipment, 1943 (Re- payable 1945-1959)	23,425,000 17	469,069 92
Purchase of Railway Equipment, 1944 (Re- payable 1945-1959)	13,680,405 62	95,468 44
3½% Temporary Loan for Working Capital.....	13,906,999 71	486,744 98
Interest on Loans repaid in 1944.....	.....	10,835 55
	<u>\$645,103,871 64</u>	<u>\$19,933,701 57</u>

INVESTMENTS IN AFFILIATED COMPANIES

Stocks:

Company	Total		Owned by Can. Nat. System	
	Par Value Outstanding		Par Value	Book Value
The Belt Railway Company of Chicago..	\$ 3,120,000 00		\$ 240,000 00	\$ 240,000 00
Canadian Government Merchant Marine, Limited	800 00		800 00	800 00
Central Vermont Transportation Com- pany	200,000 00		50,000 00	20,000 00
Chicago & Western Indiana Railroad Company	5,000,000 00		1,000,000 00	1,000,000 00
The Detroit & Toledo Shore Line Rail- road Company	3,000,000 00		1,500,000 00	1,500,000 00
Detroit Terminal Railroad Company....	2,000,000 00		1,000,000 00	1,000,000 00
Northern Alberta Railways Company... (representing amount paid up, i.e. 10%)	625,000 00		312,500 00	312,500 00
The Ontario Car Ferry Company (Limited)	500,000 00		250,000 00	179,007 53
The Public Markets, Limited.....	1,150,000 00		575,000 00	575,000 00
Railway Express Agency, Incorporated (no par value).....	1,000 shares		6 shares	600 00
The Toronto Terminals Railways Com- pany	500,000 00		250,000 00	250,000 00
The Toledo Terminal Railroad Company	4,000,000 00		387,200 00	387,200 00
Trans-Canada Air Lines.....	4,600,000 00		4,600,000 00	4,600,000 00
(representing amount paid up, i.e. 92%)				
Vancouver Hotel Company Limited....	150,000 00		75,000 00	75,000 00
				<u>\$ 10,140,107 53</u>

BONDS:

Northern Alberta Railways Co. 1st Mort- gage Bonds	\$ 30,730,000 00	\$ 15,365,000 00	\$ 15,365,000 00
The Toronto Terminals Railways Co. 1st Mortgage Bonds.....	25,610,000 00	12,805,000 00	12,805,000 00
			<u>\$ 28,170,000 00</u>

ADVANCES:

Chicago & Western Indiana Railroad Company.....	\$ 2,165,525 59
The Railroad Credit Corporation.....	84,175 98
Railway Express Agency, Incorporated.....	135,855 62
Vancouver Hotel Company Limited.....	14,360 13
	<u>\$ 2,399,917 32</u>
	<u>\$ 40,710,024 85</u>

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

The Canadian National Railway Company owns \$5,000,000 of the Capital Stock of the Air Lines on which total call to 31st December, 1944, has been \$4,600,000.

NORTHERN ALBERTA RAILWAYS COMPANY:

The Canadian National Railway Company owns \$3,125,000 of the Capital Stock of the Railways Company on which total call to date has been 10%.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of \$3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of \$5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9.68%.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1944, are:—

Issued for "common" property.....	\$39,973,019 39
Issued for "exclusive" property.....	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any four other tenant companies. The bonds are First and Refunding Mortgage 4½% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1944, is \$18,740,000.00

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

Mr. NICHOLSON: On page 19; is there anything on these perpetual 5 per cent bonds, are they being retired or repatriated?

Mr. MAYBANK: What page are you on now?

Mr. NICHOLSON: At the top of page 19, 5 per cent perpetual debenture stock, G.T.R., 1875-1883. Is anything being done about reducing the interest rate on those?

Mr. COOPER: No, sir. That is the remainder of an issue which was vested. The amount which is now outstanding is the amount held by other than U.K. interests, and short of repudiation we cannot say anything about it.

The CHAIRMAN: Is that O.K., Mr. Nicholson?

Mr. NICHOLSON: Yes.

The CHAIRMAN: Can we go to page 21 again?

Mr. REID: What about public markets limited?

Mr. VAUGHAN: Public markets?

Mr. REID: Yes.

Mr. VAUGHAN: That is the Winnipeg stock yards.

Mr. MAYBANK: That is a fifty-fifty business?

Mr. VAUGHAN: Yes, owned jointly with the Canadian Pacific Railway.

Mr. REID: What about that \$75,000 investment in the Vancouver Hotel Company?

Mr. VAUGHAN: That was really for working capital I think in the Vancouver Hotel Company.

Mr. COOPER: Yes.

Mr. VAUGHAN: Each company put up so much as working capital for the operating company.

The CHAIRMAN: Are there any other questions on 21? If not, we will go to page 22, Companies Comprising the Canadian National Railway System. Are there any questions on that?

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company.....	\$ 18,000,000 00
2	The Canadian National Railways Securities Trust.....	359,080,515 31
		<u>\$377,080,515 31</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	\$ 6,302,340 00	\$ 146,240 00
4	The Bay of Quinte Railway Company....	24	1,395,000 00	
5	The Bessemer and Barry's Bay Railway Company	24	125,000 00	
6	*Brooksby Realty Company	30	2,000 00	
7	*Canada Atlantic Transit Company.....	1	219,000 00	
8	*Canada Atlantic Transit Company of U.S.	38	250,000 00	
9	The Canadian Express Company.....	1	1,768,800 00	
10	Canadian National Electric Railways....	24	1,750,000 00	
11	Canadian National Express Company....	25	1,000,000 00	
12	Canadian National Land Settlement Association	1		
13	*Canadian National Railways (France)..	1	2,007,400 00	
14	*Canadian National Realities, Limited....	24	40,000 00	
15	Canadian National Rolling Stock Limited	1	50,000 00	
16	*Canadian National Steamship Company, Limited	47	15,000 00	
17	Canadian National Telegraph Company..	24	500,000 00	
18	*Canadian National Transportation, Limited	1	500 00	
19	The Canadian Northern Alberta Railway Company	24	3,000,000 00	
20	Canadian Northern Manitoba Railway Company	24	250,000 00	
21	The Canadian Northern Ontario Railway Company	24	10,000,000 00	
22	Canadian Northern Pacific Railway Company	24	25,000,000 00	
23	The Canadian Northern Quebec Railway Company	24	9,550,000 00	3,849,200 00
24	The Canadian Northern Railway Company	1	18,000,000 00	
25	The Canadian Northern Railway Express Company, Limited	24	1,000,000 00	
26	Canadian Northern Steamships, Limited..	24	2,000,000 00	
27	Canadian Northern System Terminals (Limited)	24	2,000,000 00	
28	Canadian Northern Western Railway Company	24	2,000,000 00	
29	Cannar Oils Limited	1	100 00	
30	*The Centmore Corporation	32	176,400 00	
31	The Central Ontario Railway	24	3,331,000 00	
32	Central Vermont Railway, Inc.....	1	10,000,000 00	
33	Central Vermont Terminal, Inc.	32	5,000 00	
34	*Central Vermont Transit Corporation....	30	5,000 00	
35	*Central Vermont Warehouse, Inc.....	30	5,000 00	
36	The Champlain and St. Lawrence Railroad Company	1	50,000 00	
37	*Consolidated Land Corporation	50	64,000 00	
38	Continental Realty & Holding Company	14	90,000 00	
39	*The Dalhousie Navigation Company, Limited	24	50,000 00	
40	*Duluth and Virginia Realty Company...	38	45,000 00	
41	Duluth, Rainy Lake & Winnipeg Railway Company	43	2,000,000 00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—(Con.)

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
42	Duluth, Winnipeg and Pacific Railroad Company	43	100,000 00	
43	Duluth, Winnipeg and Pacific Railway Company	24	3,100,000 00	
44	*Grand Trunk-Milwaukee Car Ferry Company	50	200,000 00	
45	The Grand Trunk Pacific Branch Lines Company	47	200,000 00	
46	*The Grand Trunk Pacific Development Company, Limited	47	3,000,000 00	
47	The Grand Trunk Pacific Railway Company	1	24,940,200 00	
48	The Grand Trunk Pacific Saskatchewan Railway Company	47	20,000 00	
49	*Grand Trunk Pacific Terminal Elevator Company (Limited)	47	501,000 00	
50	Grand Trunk Western Railroad Company (Common)	1	20,000,000 00	
50	Grand Trunk Western Railroad Company (Preferred)	1	25,000,000 00	
51	The Great North Western Telegraph Company of Canada (including \$331,500 held in escrow)	17	373,625 00	6,925 00
52	The Halifax and South Western Railway Company	24	1,000,000 00	
53	*Industrial Land Company	50	1,000 00	
54	International Bridge Company	1	1,500,000 00	
55	The James Bay and Eastern Railway Company	24	125,000 00	
	Carried Forward		\$184,107,365 00	\$ 4,002,365 00

Mr. MUTCH: Is there any change in it?

The CHAIRMAN: Pages 22 and 23 are just the same.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—(Con.)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—(Con.)

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
	Brought Forward		\$184,107,365 00	\$ 4,002,365 00
56	The Lake Superior Terminals Company Limited	24	500,000 00	4,002,365 00
57	The Maganetawan River Railway Company	1	30,000 00	
58	Manitoba Northern Railway Company...	1	500,000 00	
59	The Marmora Railway and Mining Company	24	128,600 00	
60	The Minnesota and Manitoba Railroad Company	24	400,000 00	
61	The Minnesota and Ontario Bridge Company	24	100,000 00	
62	Montreal and Province Line Railway Company	30	1,000,000 00	
63	*Montreal and Southern Counties Railway Company	1	500,000 00	165,600 00
64	The Montreal and Vermont Junction Railway Company.....	32	197,300 00	
65	*Montreal Fruit & Produce Terminal Company, Limited.....	1	500 00	
66	*The Montreal Stock Yards Company....	1	350,000 00	
67	*The Montreal Warehousing Company....	1	236,000 00	12,240 00
68	Mount Royal Tunnel and Terminal Company, Limited.....	24	5,000,000 00	
69	Muskegon Railway and Navigation Company	50	161,293 00	
70	*National Terminals of Canada, Limited..	1	2,500 00	
71	National Transcontinental Railway Branch Lines Company.....	1	500 00	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM—(Con.)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—(Con.)

Company Number	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
72	*The Niagara, St. Catharines and Toronto Railway Company.....	24	925,000 00	
73	*The Niagara, St. Catharines and Toronto Navigation Company (Limited).....	72	100,000 00	
74	*The Oshawa Railway Company.....	1	40,000 00	
75	The Ottawa Terminals Railway Company	1	250,000 00	
76	The Pembroke Southern Railway Company	1	107,800 00	
77	*Prince George, Limited.....	1	10,000 00	
78	*Prince Rupert, Limited.....	1	10,000 00	
79	The Quebec and Lake St. John Railway Company	24	4,508,300 00	489,160 00
80	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	24	201,000 00	
81	*Rail & River Coal Company.....	1	2,000,000 00	
82	St. Boniface Western Land Company....	24	250,000 00	
83	The St. Charles and Huron River Railway Company.....	24	1,000 00	
84	St. Clair Tunnel Company.....	1	700,000 00	
85	The Stanstead, Shefford and Chambly Railroad Company.....	30	608,333 33	
86	*The Thousand Islands Railway Company	1	60,000 00	
87	†Trans-Canada Air Lines.....	1	4,600,000 00	
88	The United States and Canada Railroad Company.....	1	219,400 00	475 00
89	Vermont and Province Line Railroad Company	1	200,000 00	
90	The Winnipeg Land Company Limited..	24	100,000 00	
			<u>\$208,104,891 33</u>	<u>\$ 4,669,840 00</u>

The Income Accounts of Companies indicated () are included in the System Income Account as "Separately Operated Properties".

†Treated as an Affiliated Company.

The CHAIRMAN: Page 24, Railway Equipment;

RAILWAY EQUIPMENT

	December 31, 1943	Additions During Year	Retirements During Year	Conversions During Year	December 31, 1944
				Added Retired	
LOCOMOTIVES:					
Passenger—Freight	2,075	27	11	92	1,999
Switching	434		1	92	525
Electric	24				24
Oil Electric	27	10			37
Total	<u>2,560</u>	<u>37</u>	<u>12</u>	<u>92</u> <u>92</u>	<u>2,585</u>
FREIGHT EQUIPMENT:					
Box Cars	64,514	4,962	137	4 177	69,166
Flat Cars	5,247	200	26	6	5,415
Stock Cars	3,067		13		3,054
Coal Cars	14,739	1,050	75		15,714
Tank Cars	147				147
Refrigerator Cars	3,173	54	15		3,212
Caboose Cars	1,682		12		1,670
Other Cars in Freight Service	10				10
Total	<u>92,579</u>	<u>6,266</u>	<u>278</u>	<u>4</u> <u>183</u>	<u>98,388</u>

	December 31, 1943	Additions During Year	Retirements During Year	Conversions During Year	December 31, 1944
PASSENGER EQUIPMENT:					
Coach Cars	1,210		7	1	1,202
Combination Cars	273		1		272
Dining Cars	93	1		2	96
Colonist Cars	191				190
Parlor Cars	58			11	47
Cafe Cars	28				28
Sleeping Cars	302				302
Tourist Cars	47			1	46
Baggage and Express Cars	1,058		7	3	1,051
Postal Cars	49				49
Unit Cars	44			1	43
Other Cars in Passenger Service	56			11	67
Total	3,409	1	15	16	3,393
WORK EQUIPMENT:					
Business Cars	61				61
Other Cars in Work Service	7,272	41	141	181	7,353
Total	7,333	41	141	181	7,414
FLOATING EQUIPMENT:					
Car Ferries	9				9
Barges	5				5
Tugs	4				4
Work	4		1		3

Statistics of Rail-Line Operations, page 25.

STATISTICS OF RAIL-LINE OPERATIONS

	1944	1943
TRAIN MILES:		
Freight Service	45,206,361	44,871,187
Passenger Service	24,216,998	23,819,952
Total	69,423,359	68,691,139
Work Service	1,552,221	1,865,186
Total	70,975,580	70,556,325
LOCOMOTIVE MILES:		
Freight Service	48,153,317	48,389,729
Passenger Service	24,034,555	23,734,555
Train Switching—Freight	3,636,807	3,622,691
—Passenger	101,881	109,124
Yard Switching—Freight	15,196,852	15,708,505
—Passenger	1,432,847	1,401,288
Total	92,556,259	92,965,892
Work Service	2,123,840	2,231,166
Total	94,680,099	95,287,058
CAR MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,202,177,715	1,191,596,101
Empty Freight cars	555,756,559	515,077,717
Passenger Coach and Combination Cars	7,703,467	4,873,984
Sleeping, Parlor and Observation Cars	525,769	648,991
Dining Cars	44,575	67,471
Other Cars	7,604,153	8,384,319
Caboose	44,138,113	43,896,849
Total	1,817,950,351	1,767,545,432

CAR MILES—PASSENGER SERVICE:

Loaded Freight Cars	216,373	380,209
Empty Freight Cars	112,685	186,130
Passenger Coach and Combination Cars	89,431,191	87,575,672
Sleeping Parlor and Observation Cars	58,703,137	55,837,555
Dining Cars	11,200,033	10,536,990
Other Cars	65,925,827	61,866,682
Motor Unit Cars	1,042,610	1,035,229
Caboose	1,350,367	1,477,859
Total	227,982,223	218,896,326
Car-Miles—Total	2,045,932,574	1,986,441,758
Work Service	3,045,122	3,279,290
Total	2,048,977,696	1,989,721,048
AVERAGE MILEAGE OF ROAD OPERATED	23,496.03	23,494.31

FREIGHT TRAFFIC:

Tons carried—Revenue freight	80,851,179	80,426,781
Tons carried one mile—Revenue freight	36,015,898,732	36,326,990,666
Freight revenue	\$321,588,728	\$324,899,724
Revenue per ton	\$3-97754	\$4-03970
Revenue per ton mile	\$0-00893	\$0-00894
Miles per revenue ton	445-46	451-68
Ton-miles—Revenue freight per mile of road	1,526,753	1,540,070
Ton-miles—All freight per mile of road	1,641,004	1,651,318
Gross ton-miles of cars, contents and cabooses	79,728,903,320	78,902,107,402
Net ton-miles of freight (Revenue and non-revenue)	38,557,084,137	38,796,570,833
Train-hours in freight road service	2,894,098	3,005,447

PASSENGER TRAFFIC:

Passengers carried	35,928,212	34,500,731
Passengers carried one mile	3,696,546,316	3,618,808,393
Passenger revenue	\$69,776,256	\$66,891,034
Revenue per passenger	\$1-94210	\$1-93883
Miles per revenue passenger	102-89	104-89
Revenue per passenger mile	\$0-01888	\$0-01848
Passenger-miles per mile of road	157,326	154,029

NET RAILWAY OPERATING INCOME:

Gross operating per mile of road	\$18,775 41	\$18,754 16
Gross Railway operating charges per mile of road	\$15,893 02	\$15,279 53
Net railway operating income per mile of road	\$2,882 39	\$3,474 63

OPERATED MILEAGE, 31st DECEMBER, 1944

OPERATED ROAD MILEAGE

Territory	Owned	Leased	Trackage	Total
Atlantic Region	2,986.76	6.41	82.95	3,076.12
Central Region	7,123.96	353.13	27.85	7,504.94
Western Region	11,091.16	378.22	64.07	11,533.45
Grand Trunk Western Lines.....	956.26	9.50	59.75	1,025.51
Central Vermont Lines.....	237.90	125.18	58.73	421.81
Total First Main Track.....	22,396.04	872.44	293.35	23,561.83
Lines in Canada.....	20,986.43	565.43	170.48	21,722.36
Lines in United States.....	1,409.59	307.01	122.87	1,839.47

OPERATED MILEAGE ALL TRACKS

First Main Track.....	22,396.04	872.44	293.35	23,561.83
Second Main Track.....	1,218.55	13.70	85.42	1,317.67
Third Main Track.....	26.66	—	3.49	30.15
Fourth and Other Main Tracks....	10.81	—	5.09	15.90
Spurs, Sidings and Yard Tracks....	5,774.45	308.11	1,112.75	7,195.31
Total All Tracks.....	29,426.51	1,194.25	1,500.10	32,120.86

EMPLOYEES AND THEIR COMPENSATION

	*Average Number of Employees	*Total Payroll	% Inc. over Employees	Previous Year Payroll
1939.....	78,129	\$122,354,101		
1940.....	82,831	132,584,063	6.02	8.36
1941.....	89,536	153,654,368	8.09	15.89
1942.....	94,592	177,042,773	5.65	15.22
1943.....	101,126	195,555,045	6.91	10.46
1944.....	102,764	222,649,839	1.62	13.86

*Includes railway, express and telegraph employees. Excludes hotel and subsidiary company employees.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed		Operating revenues were disbursed	
	1944 - %	1943 - %	1944 - %	1943 - %
Labour	46.78	41.16	56.93	55.89
Fuel	9.82	9.02	11.95	12.25
Other Expenses	25.58	23.46	31.12	31.86
Total Operating Expenses..	82.18	73.64	100.	100.
Available for Taxes and Other Accounts	17.82	26.36		
Total	100.	100.	100.	100.
Maintenance of Way Accounts..	17.34	15.28	21.10	20.74
Maintenance of Equipment Accs	18.19	16.42	22.13	22.30
Traffic Accounts	1.37	1.28	1.67	1.74
Transportation Accounts.....	40.32	36.19	49.07	49.15
Miscellaneous Accounts.....	1.34	1.22	1.63	1.66
General Accounts	3.62	3.25	4.40	4.41
Total Operating Expenses..	82.18	73.64	100.	100.

Mr. HARRIS (*Grey-Bruce*): About page 24, in Mr. Vaughan's report he spoke about furnishing some locomotives for the Northern Alberta Railway.

Mr. VAUGHAN: No, that is what we call the northern type of locomotive; as applied to a particular wheel arrangement of the locomotive.

Mr. HARRIS (*Grey-Bruce*): I did not understand it that way. I understood that you were breaking down the purchases of locomotives and the uses to which they had been put and that you said some had been purchased for the Northern Alberta Railway.

Mr. VAUGHAN: No, sir; we did not purchase any for them.

Mr. REID: You have actually fewer locomotives than in 1943?

Mr. VAUGHAN: Yes.

Mr. REID: I notice that your freight locomotives in 1943 totalled 2,075 and in 1944 the figure is 1,999.

Mr. WALTON: But you will notice that the total is a little greater, it was 2,560 in 1943 and for 1944 it is 2,585.

Mr. MUTCH: Did you send any locomotives to Australia in 1944?

Mr. WALTON: No.

Mr. VAUGHAN: We have locomotives becoming obsolete and worn out from time to time which are retired.

The CHAIRMAN: Any more questions as to that page?

Mr. NICHOLSON: In connection with the item of postal cars, have you any information as to the number the Canadian Pacific Railway have, and what volume of trans-continental mail you are handling; do you know how this number of postal cars compares with the Canadian Pacific?

Mr. VAUGHAN: I could not say offhand.

The CHAIRMAN: Then, on page 26, Operated Mileage, Employees, and Disbursement of Total Operating Revenues and Expenses;

Mr. NICHOLSON: In connection with regions, have you any information as to which regions are most profitable to your company?

Mr. VAUGHAN: Our central region is the largest earner both in gross and net. In recent years the western region has come second.

Mr. NICHOLSON: Have you a breakdown showing that?

The CHAIRMAN: We have these figures. I think you can furnish them, Mr. Cooper.

Mr. COOPER: Yes, we have them.

Mr. PICARD: When we have the figures like that, can we have a breakdown showing, for instance, Montreal to Halifax, Montreal to Toronto?

Mr. VAUGHAN: We would not have this broken down to that extent. We have the earnings and expense breakdown by regions, but not by districts or divisions.

Mr. PICARD: Not according to the lines as they were formerly, before they were incorporated into the C.N.R.?

Mr. VAUGHAN: No, sir; we do not keep that now.

Mr. NICHOLSON: Could we have a breakdown according to regions, for the record?

Mr. COOPER: I think it would be more convenient if we could put that in to-morrow.

The CHAIRMAN: Is that satisfactory, gentlemen?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Then all we have left is page 26, Operated Mileage, Employees and their Compensation, Disbursement of Total Operating Revenues and Expenses—are there any questions there, gentlemen?

Mr. MAYBANK: You hardly need to read any of it, it is a purely narrative section there at the end.

The CHAIRMAN: I do not think so. I think page 26 really ends the balance sheet, and if there are no further questions we are ready for a motion to adopt the report.

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

Mr. REID: I have just one little item, it is really a very minor detail. I notice here that you show on your map practically all the terminals of the road, but you do not put in a little place like Port Mann; I was wondering why you did not put in our terminal at New Westminster.

The CHAIRMAN: You should make some personal representations there, Mr. Reid.

Mr. MUTCH: And, this is a three color map, pretty expensive to make.

Mr. VAUGHAN: We will put Port Mann on the next one.

The CHAIRMAN: The adoption of the report has been moved by Mr. Maybank; is there a seconder?

Mr. BEAUDOIN: I will be pleased to second the motion.

The CHAIRMAN: Seconded by Mr. Beaudoin; what is your pleasure, gentlemen?

Some Hon. MEMBERS: Carried.

(Carried)

The CHAIRMAN: Now, gentlemen, it is 10 o'clock. Can we adjourn until 4 o'clock to-morrow afternoon? I know the boys on one side of the House have a caucus in the morning. I wonder if that would be agreeable.

Mr. REID: It is private members' day.

The CHAIRMAN: Will that be O.K., 4 o'clock? If that is O.K. I would just like to mention here before we go that the railway budget is to be brought in to-morrow. There is also the Canadian National-West Indies Steamship report, the Securities Trust report; and then the report of your auditors, and the estimates of the minister. And then, if we can take care of these reports, arrangements will have to be made with the T.C.A. people, if it is agreeable to the committee, to come next week some time. We should be able to go through the railway budget and these others, I think, fairly rapidly and leave the T.C.A. for another week. Does that sound reasonable and satisfactory to the committee?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: If we can sit to-morrow afternoon at 4 o'clock, and then on Thursday, I think these reports can be cleaned up, that would leave only the T.C.A. for next week. Is that agreeable, gentlemen?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: Then we will meet at 4 o'clock to-morrow afternoon, gentlemen.

The committee adjourned at 10:10 o'clock p.m. to meet again to-morrow, October 24th, at 4 o'clock p.m.

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SESSION 1945
HOUSE OF COMMONS

STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2



WEDNESDAY, OCTOBER 24, 1945

WITNESSES:

- Mr. R. C. Vaughan, Chairman of Board of Directors and President,
Canadian National Railways.
- Mr. N. B. Walton, C.B.E., Executive Vice-President, Operation and
Construction Department, Canadian National Railways.
- Mr. T. H. Cooper, Comptroller, Canadian National Railways and T.C.A.

MINUTES OF PROCEEDINGS

ROOM 429,

WEDNESDAY, 24 October, 1945.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 4 o'clock p.m. Mr. Murray Clark, Chairman, presided.

Members present: Messrs. Chevrier, Clark, Coyle, Beaudoin, Belzile, Bourget, Harris (*Grey-Bruce*), Hazen, Jackman, Maybank, Moore, Mutch, Nicholson, Picard, Reid, Shaw.

In attendance: Mr. R. C. Vaughan, Chairman and President; Mr. N. B. Walton, C.B.E., Executive Vice-President; Mr. T. H. Cooper, Comptroller; Mr. W. S. Thompson, Director of Public Relations of the Canadian National Railways. Mr. C. P. Edwards, O.B.E., Deputy Minister of Transport and Mr. F. M. MacIennan, Secretary, The Canadian National Railways Securities Trust.

The Committee considered the Canadian National Railways Budget for the year 1945 and on motion of Mr. Beaudoin the said Budget was adopted unanimously.

The Committee then considered the Annual Report of Canadian National (West Indies) Steamships, Limited, for the Calendar year 1944; also the Budget of this Company for 1945. On motion of Mr. Picard both the Annual Report for 1944 and the Budget for 1945 were adopted unanimously.

Messrs. Vaughan, Walton and Cooper were questioned.

At 6.20 o'clock p.m., the Committee adjourned to meet again at 11 o'clock p.m. Thursday, 25th October, 1945.

ANTOINE CHASSÉ,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS,
October 24, 1945.

The Standing Committee on Railways and Shipping met this day at 4 o'clock p.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, there is just one thing I would like to mention before we start. It is a little difficult sometimes when a couple are talking for the reporters to get all of what is said, and I hope we can be just a little careful about that to-day. They talked to me last night about it, so if we could be just a little careful about that it will give them a little better chance.

Now, the report was adopted last night, and the next suggested order of procedure is the Canadian National Railway budget which has been distributed to each one of the members of the committee here. I believe that is the procedure generally adopted after a report, and if there are any explanations or questions in connection with it, perhaps that is the next order of business, if that meets with the approval of the committee.

Mr. JACKMAN: Mr. Chairman, considerable progress was made yesterday evening. Unfortunately I had to be in the House; as you know, the T.C.A. bill was up in the House. I cannot help but register a certain amount of complaint that it was necessary to hold a sitting of this committee contemporaneously with that of a relative committee in the House of Commons itself. It is impossible to be in two places at one time, as you well know. There are a number of questions which I had in mind to ask about the report before it was adopted. It is immaterial to me whether I ask them now or whether I leave them until we come to the adoption of the report of the auditors, when they can again be raised.

Hon. Mr. CHEVRIER: Might I suggest that it be done then. I think if we get on with the budget now you can ask your questions when Mr. Matthews is on the stand, unless you have some serious objections.

Mr. JACKMAN: Some of these they will not be able to answer.

The CHAIRMAN: I think all the officials will be here.

Mr. JACKMAN: It is immaterial to me as long as eventually I get the answers.

Hon. Mr. CHEVRIER: I think you will get your answers.

The CHAIRMAN: If that is O.K., these officials will all be here, and if there are any questions which the officers are unable to answer the other officials of the road will be at your disposal. Is that satisfactory?

Mr. JACKMAN: Yes; except that I am here now, and I may not be here another time.

The CHAIRMAN: Perhaps we can arrange it so that you can be here.

Mr. JACKMAN: All right.

The CHAIRMAN: Gentlemen, you all have a copy of the Canadian National budget for 1945, the present year, which is now pretty well completed. Have you any questions on it?

Mr. JACKMAN: Let's go over it item by item. We have not had a chance to see what it looks like.

The CHAIRMAN: Would that be O.K.?

Mr. HAZEN: Have you any more copies of it?

The CHAIRMAN: Yes, there are plenty. Would it be helpful to have Mr. Vaughan or Mr. Cooper or some of these men explain this; just take the budget and explain it page by page? Would that be helpful?

Mr. JACKMAN: Let them take it item by item.

The CHAIRMAN: If that is the pleasure of the committee.

Mr. VAUGHAN: You might go ahead, Mr. Cooper.

Mr. COOPER: You wanted a summary of the operating and capital budget; the operating budget for 1945 shows that we expect to have cash surplus of \$25,000,000.

Mr. JACKMAN: Might I just ask a question, not relative to the budget but in connection with your cash surplus which you turn over to the government; that I believe is synonymous with real profit after your bond interest; this cash surplus is synonymous to the real profit of the railway after bond interest?

Mr. VAUGHAN: Yes, it is.

Mr. JACKMAN: Does the government give you a reduction or cancellation in your debt to the government as a result of the payment of the surpluses?

Mr. COOPER: Yes.

Mr. JACKMAN: In the way of cancellation of bonds or outstanding debts?

Mr. COOPER: In the way of cancellation of debt.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: What item would that be on the balance sheet? What is the amount of the item which is reduced year by year when you do turn in the cash surplus? Is it in the liabilities?

Mr. COOPER: On the liability side of the balance sheet you will see, under Dominion of Canada, loans amounting to \$645,103,871.64.

Mr. JACKMAN: \$645,000,000, is that the item?

Mr. COOPER: That is the item. It would be reduced by the payment by the railway to the government of the cash surplus we earn.

Mr. JACKMAN: All right. Thank you very much.

Mr. COOPER: On the second page—

Mr. REID: Might I ask, Mr. Chairman, are we to go through it page by page? Are we to wait until a page is completed before we ask a question?

Mr. COOPER: I was not skipping it; I was merely going on to say that on the second page are the details making up the \$25,000,000. If we are to consider this \$25,000,000 of operating surplus it seems to me that we should turn to page 2 for the time being, and then come back to page 1. The total railway operating revenues budgeted for 1945 are \$433,000,000, as compared to \$441,000,000 in 1944. The operating expenses are expected to be \$354,800,000; leaving net operating revenues of \$78,200,000; other income charges—net, \$6,909,000; leaving a net available for interest of \$71,291,000. The interest charges: interest due the public on long term debt, \$26,035,000, interest payable to the government \$20,256,000—leaving a cash surplus of \$25,000,000.

And now, coming back to page 1 and going on with the capital section of the budget, the total capital budget is shown as \$33,406,000, that is comprised of the four or five items shown—additions and betterments are estimated to amount to \$15,008,000 (and the details of that item appear on page 3 of this pamphlet); the next item, acquisition of securities, amount to \$1,015,000 (details of that item also appear on page 3); retirement of maturing capital obligations, etc., amount to \$10,777,000 (details of that item are given on

page 4). Against these expenditures we estimate we shall have available from reserves for depreciation, \$18,000,000, leaving for our general capital budget a net requirement of \$8,800,000.

In addition to the general budget, under our equipment program we have budgeted expenditures amounting to \$24,606,000, making a total capital budget of \$33,406,000. In addition to the operating and capital budget we then show possible requirement of Trans-Canada air lines, \$400,000; which is all that remained on the authority granted by the Trans-Canada Act of 1937.

Mr. JACKMAN: Where would you get the \$35,000,000 Mr. Howe spoke about in the House?

Mr. COOPER: Well, of course, this is our 1945 budget, and we were not concerned with legislation which has been introduced subsequently to the preparations of the budget.

Mr. HAZEN: Where do you show the shares of Trans-Canada that you hold?

Mr. COOPER: On the asset side of the balance sheet in the item, investments in affiliated companies, \$40,710,024.85. The details of that item are given on page 21 of the printed report, and you will see our investment in Trans-Canada Air Lines as being \$4,600,000.

Mr. HAZEN: Thank you very much.

Mr. REID: May I ask Mr. Vaughan some questions? I notice the budget in 1944 is estimated at \$421,700,000, and the actual revenue was \$441,147,000.

Mr. VAUGHAN: Yes, sir.

Mr. REID: And for 1945 you are estimating a revenue of \$433,000,000. Do you expect you will be able to realize that amount, or do you anticipate that there will be a reduction in the actual net revenue position, as compared to what you received in 1944?

Mr. VAUGHAN: There is a falling off in traffic, but I think we will closely approach the figures given here, which will represent a reduction of approximately \$8,000,000 in the gross earnings below 1944.

Mr. REID: Would you mind explaining the note there at the bottom of page 2; "The 1945 Budget includes \$1,937,500 for Contribution to Deficit of I.C.R. & P.E.I. Provident Fund."?

Mr. COOPER: The Intercolonial and Prince Edward Island Provident Fund is a superannuation fund which applies to employees of the Canadian government railways. It was closed to new members in 1929, and from that date any employees of the Canadian National Railways, whether they were on the Canadian government railways or not, were admitted to membership in the Canadian National pension plan. The Intercolonial and P.E.I. fund is bankrupt, very much so; and the railway is required each year to contribute sufficient to meet payment of pensions under that plan. We made payments in 1944 amounting to \$1,850,860 and the estimated amount for 1945 is \$1,937,500. Since the fund became insolvent in 1924, the Canadian National Railways have had to provide \$20,625,000, to permit payments under that plan to be made to the Canadian government employees.

Mr. REID: Would that not be irrespective of any payments made by the men themselves to the fund?

Mr. COOPER: The total pension payroll would be in excess of this. This would be the amount necessary to implement the amount contributed by the members themselves. This is the cost to the railway in 1945, of keeping these pensions going.

Mr. HAZEN: You say this scheme closed in 1929?

Mr. COOPER: To new employees. After that date new employees coming to work on C.N. lines became members of the Canadian National pension fund instead of the I.C.R. & P.E.I. Provident Fund.

Mr. HAZEN: And, can you tell us whether this cost is increasing or decreasing?

Mr. COOPER: It is increasing and will continue to increase for some years.

Mr. JACKMAN: It just struck me, inasmuch as you have been holding on to some of your old employees to help out in the emergency, that in the next year or toward the end of this year, you may release a good many men who are becoming 65 years of age, or who have reached that age within the last three or four years. Might you not find your pension system being faced with quite a bill in setting up funds for these people; suppose you have 5,000 men—that may be a very large item?

Mr. COOPER: That figure is excessive, Mr. Jackman. As I remember it the number of employees who were retained in the service after the age of 65 was around 630. At the present time the number of employees in that category is 462. We expect that they will substantially all go on pension before the end of this year. It will undoubtedly have quite an impact on the pension fund. However, we have foreseen that to some extent; in 1943 I took up \$750,000 and in 1944 I took up another \$500,000, and in 1945 we have been putting something away to equalize somewhat the cost in 1945 with what it would be under normal retirement conditions. In other words, we expect to take care of these retirements in 1945 out of our 1945 operating expenses.

Mr. JACKMAN: It will not seriously overload the 1945 or 1946 operating expenses? If you had \$5,000 to put up for each pensioner with about 630 eligible it would run about \$3,000,000. That is quite a sum.

Mr. COOPER: As I said, in 1943 the charge for pension contracts issued in that year was in the neighbourhood of \$2,000,000. I have the figure here if you need it. In addition we set aside \$750,000.

Mr. JACKMAN: You have made provision for it?

Mr. COOPER: Yes.

Mr. VAUGHAN: We foresaw this and Mr. Cooper and I went into it some time ago and arranged to set aside funds to provide for this very thing you are speaking of.

Mr. JACKMAN: May I just suggest, Mr. Chairman, inasmuch as apparently it is the recommendation of this committee that parliament acts on when it grants the capital expense budget we should, I think, in fairness to ourselves as well as in justice to the responsibility which is put upon us look into the various classifications where the money is going to be spent. Otherwise we are in a very sorry position if the House asks us, "why did you pass this budget, what is it for", and we do not know anything about it except a round sum. I wonder if we could have a word of explanation about the various items.

Mr. HARRIS (Grey-Bruce): You mean the items on page 3.

Hon. Mr. CHEVRIER: There is no objection to that.

Mr. VAUGHAN: There is a very large budget prepared, Mr. Jackman, which details each individual item. That is a sample of it.

Mr. REID: We want to get out of here before Christmas.

Mr. JACKMAN: I do not want the whole budget.

Mr. VAUGHAN: If you would like to see this, go over it, and ask any questions you are entirely welcome to do so, but each individual item is detailed here. Where the money is to go is set out very carefully and clearly.

Mr. JACKMAN: Here is total additions and betterments less retirements, \$15,008,000. We have got a general breakdown which I think is quite sufficient

for our purpose but we have a responsibility to the House and I think we should ask a general question as to the explanation why you want \$1,331,350 for the Atlantic region as against \$678,478 spent last year. I think we should have a bit of information on these matters because if we do not know about it it is a little bit difficult to assume any responsibility whatsoever.

Mr. BEAUDOIN: May I ask if this particular document could be distributed if copies could be made available?

Mr. JACKMAN: We do not want that.

Mr. VAUGHAN: One reason we do not have them distributed is because there is a lot of detailed information in the budget which we do not think it desirable to make public. There is probably no objection to the members of this committee having it, but I am afraid if we made that document a public document we would be getting requests from everybody all over the country saying, "You are doing this here. Why are you not doing this there?" It might be very embarrassing.

Mr. MUTCH: I am quite sure that it is not the intention of the committee to ask for any thing as exhaustive as that. We can ask about any specific item if there is any doubt, and that should be sufficient.

Mr. NICHOLSON: How about the Montreal terminal construction? Are we near the end of that?

Mr. VAUGHAN: Yes. Mr. Cooper can give you the figures here.

Mr. COOPER: Montreal terminal construction happens to be a specific item detailed on page 3. We show it there as \$100,000.

Mr. NICHOLSON: Will this appear again next year?

Mr. COOPER: I think it should disappear. I think Montreal terminal construction is ended and that any ordinary improvements which are made to that station should go into the ordinary budget in the future.

Mr. JACKMAN: There was some reference to the new line or revamping of the old line to make traffic possible in Montreal, was there not?

Mr. VAUGHAN: That is the Bout de L'Isle line. That line is finished and now in operation.

Mr. JACKMAN: There is no more expense involved there?

Mr. VAUGHAN: No.

Mr. JACKMAN: The general question is why is there \$15,008,000 in the budget this year as against \$6,383,398 last year? I presume you need all these things but would you say a word about the individual items? Would you like to have spent more on certain things?

Mr. VAUGHAN: You will notice that we did not spend anything like our budget in 1944. If you compare the \$15,000,000 in 1945 with the budget of \$17,000,000 in 1944 we really have a smaller budget. I think the same condition will obtain this year, that we probably will not be able to spend all the money we have in our budget on account of the labour and material situation, but our budget is really much less than it was in 1944. We would have spent more in 1944 had labour and material been available but they were not available. So we spent but a small proportion of our budget.

Mr. JACKMAN: Take the \$6,009,624 budgeted for the central region. What are some of the major items in that?

Mr. VAUGHAN: Mr. Cooper will have it here. He will give it to you.

Mr. COOPER: If I call the headings out, Mr. Jackman, would that be sufficient?

Mr. JACKMAN: I want to know generally what it is about.

Mr. COOPER: There is the Bout de L'Isle line, \$130,000. I am speaking of the 1945 budget now. Line diversions, \$49,312; new rails and fastenings \$105,548; relaying with part worn rail or second hand rail, \$88,668.

Mr. JACKMAN: The road bed is getting rather badly in need of repair in certain sections?

Mr. COOPER: Repairs do not come in the capital budget.

Mr. JACKMAN: I should not use the term "repairs" but "replacements". Put it that way.

Mr. COOPER: If we were replacing steel rail of the same weight there would be no charge to investment account.

Mr. BEAUDOIN: It would come under maintenance.

Mr. VAUGHAN: Operating charge, yes. If we take out a 100-pound rail and put in a 130-pound rail the difference in cost would be a capital charge but where we replace in kind there is no capital charge.

Mr. JACKMAN: Which brings me to the point that it would be too bad if the committee went home without that memorandum on the depreciation because I think it would be interesting to us. You might give it to us when it is convenient so that we will have the background.

Mr. MAYBANK: I understand it was to be distributed at some stage.

Mr. JACKMAN: It was suggested by Mr. Vaughan in his opening remarks. I think Mr. Vaughan and Mr. Cooper will know what I am after. You are asking the people of Canada for \$6,000,000 to be spent in the central region. I do not want to know what \$25,000 is going for particularly but I do want to know what the major items are.

Mr. VAUGHAN: I think Mr. Cooper might continue.

Mr. JACKMAN: And what is the need or interpretation of them?

Mr. COOPER: I do not think the amounts matter very much unless you want them. As to tie plates we propose to apply 2,808,335 new tie plates, washed screened gravel ballast, widening cuts and fills, ditching, tile and other tracks, yard tracks and public business sidings, passing tracks, private and wooden box and other drainage, roadways and paving, right of way fences, other tracks, yard tracks and public business sidings, passing tracks, private and public business sidings, roadway machines and roadway small tools, new steel bridges or replacement with concrete or steel bridges, culverts, new timber bridges and trestles or replacement of existing timber bridges and trestles in kind.

Mr. JACKMAN: It is mostly a compilation of small items spread throughout the whole system rather than any major item costing \$1,000,000 or \$2,000,000?

Mr. COOPER: Yes. If I were to give you one of these headings with the detail it might be indicative of the budget as a whole.

Mr. JACKMAN: If it is not too detailed.

Mr. COOPER: Here is one, replacing timber bridges and trestles with culverts and fill. Alderdale subdivision, one bridge at mileage 108.63. Sudbury terminals, one trestle approach at mileage 6, Copper Cliff section. Sudbury subdivision, one bridge at mileage 90.76, construct rock tunnel and fill. On the Rouyn subdivision four bridges at mileages 19.3, 19.9, 20.9 and 28.4. Oba subdivision, two bridges at 62.8 and 142.4. Beachburg subdivision, one bridge at mileage 134.9. The total amount of those works is estimated at \$48,460. That is the way the budget is made up.

Mr. HAZEN: Mr. Cooper, you estimate that additions and betterments, Atlantic region, will be \$1,331,350 in your budget for 1945. Will you give us the breakdown of those figures?

Mr. COOPER: I want to be frank about this thing. This budget was prepared at the beginning of the year and it has been revised during the year. We did not feel we should go to the trouble of reprinting it. As against the original budget for the Atlantic region of \$1,331,350 we made reduction of \$172,000. The reductions are not impressed on the original budget, and if you do not mind me giving the original budget it would be a convenience. I could go over it secondly and give you all the items that have been cut out. Atlantic region, new rails and fastenings, \$686,037. Relaying with part worn or second-hand rail, main and branch lines, \$151,999. Relaying with part worn or second-hand rail, passing and yard tracks, \$48,932. Tie plates, \$143,236. Rail anchors, \$89,020. Rock and washed screened gravel ballast, \$1,429,390.

Mr. HAZEN: Did you say \$1,429,390?

Mr. COOPER: Yes, \$1,429,390.

Mr. HAZEN: I thought the total amount was \$1,331,000.

Mr. COOPER: I am sorry. I am giving you the total expenditures. Some portion of that is charged to operating. I had better go back and give you the capital portion. I will begin again.

Mr. HAZEN: We want to get it straight.

Mr. COOPER: New rails and fastenings, \$41,917. That is the capital portion only. Relaying with part worn or second hand rail on main and branch lines, \$35,884; relaying with part worn or second hand rail (passing and yard tracks and business sidings), \$13,931; tie plates, \$28,020; rail anchors, \$77,920; rock and washed screened gravel ballast, \$253,530; slag ballast, \$20,400; widening cuts and fills, \$25,000; rip-rap, \$50,000; tile and wooden box and other drainage, \$25,500; right-of-way fence and cattle guards, including planting of trees and hedges in lieu of right-of-way fencing, \$10,565; other tracks, yard tracks and public business sidings, \$36,640; passing tracks, \$6,420; private and business sidings, \$35,000; roadway machines and roadway small tools, \$83,390; roadway miscellaneous, \$3,300; new steel bridges or replacement with concrete or steel bridges, \$47,105; replacement of steel bridges with timber bridges or trestles, \$54; culverts—new or the replacement thereof, \$3,500; new timber bridges and trestles or the replacement of existing timber bridges and trestles in kind, \$37,190; replacing timber bridges and trestles with culverts and fill, \$14,069; miscellaneous improvements to bridges, such as metalikoting, waterproofing, replacement of masonry by concrete, guard rails and sidewalks, etc., on bridges, \$67,181; protection of grade and highway crossings, \$10,000; other stations and shelters—new and replacements, \$2,430; other stations and shelters—betterments to \$6,000; freight sheds—betterments to, \$2,900; section dwellings and bunkhouses—new and replacements, \$21,584; platforms, \$2,673; miscellaneous buildings, new and replacements, \$35,400; express facilities on railway property, \$10,981; water supplies, \$18,023; fuel stations—including betterments thereto, \$6,600; turntables, \$23,040; ashpits, \$4,150; other enginehouses and machine shops—new and replacements, \$12,500; other enginehouses and machine shops—betterments to, \$9,750.

Mr. NICHOLSON: If I might interrupt just here, it seems to me that it will take quite a long time to get up to \$1,900,000.

Mr. COOPER: There are another couple of pages.

The CHAIRMAN: That is just a general description. Is that satisfactory?

Mr. HAZEN: No, it is not altogether satisfactory, I should like to have the particulars. I do not care if Mr. Cooper reads them or not. If he could put them down on the record, that would be satisfactory.

Mr. MAYBANK: That might be a suggestion, Mr. Chairman; put it on the record subsequently, as an appendix.

Mr. JACKMAN: He has got half of it on now. Why not let him carry on?

Mr. MAYBANK: Would it not be undesirable to put down in too great detail the exact information on expenditures, for the reasons Mr. Vaughan mentioned a little while ago? Might it not be a case, as Mr. Hazen has a great special interest, a memorandum could be sent to him? He could then use his discretion as to giving the advice out further. It is understandable that he would have a special interest in this area, and yet I do not think you would want all those dollars and cents details on the record for both competitors and others.

Mr. VAUGHAN: We could give Mr. Hazen just the figures that Mr. Cooper has given.

Mr. MAYBANK: I think that would be better.

Mr. HAZEN: I do not want to do anything that would embarrass the railway.

Mr. VAUGHAN: Those items are divided. There is a certain proportion chargeable to capital, but I suppose the larger proportion is chargeable to maintenance.

Mr. COOPER: I was corrected. The first figures I gave were total expenditures, but I went back and reversed myself and gave only the capital expenditures.

Mr. WALTON: But on nearly all of those items there is some proportion of maintenance expense; in many of them it is the larger portion.

Mr. BOURGET: One of the main items was ballast in every region.

Mr. HAZEN: It will be perfectly satisfactory if Mr. Cooper will give me those figures of the capital expenditures for the Atlantic region. I was going to ask this question. Are those divided up in any way? Do those expenditures show how much, if anything, is going to be spent in Prince Edward Island, for instance?

Mr. VAUGHAN: There would be an item there.

Mr. JACKMAN: \$10,000.

Mr. VAUGHAN: They can be picked out.

Mr. HAZEN: Well, I do not want them lumped together.

Mr. VAUGHAN: There are several items for P.E.I. They can be picked out.

Mr. HAZEN: What I had in mind was this. If you had them available, I was going to ask for the items for Prince Edward Island, Nova Scotia and New Brunswick, if it would not be too difficult.

Mr. REID: While you are at Prince Edward Island, I wonder if you would mention about that \$713,000?

Mr. HAZEN: Let us get this straightened out first. Would that be convenient to you to do that?

Mr. COOPER: If I might make a suggestion, I should like to show you this book and let you tell me exactly what you want.

Mr. HAZEN: I have said what I wanted.

Mr. MAYBANK: You are chatting together.

Mr. HAZEN: I have said what I wanted.

Mr. COOPER: We can mark what would be Prince Edward Island items.

Mr. HAZEN: Can you mark which will be Nova Scotia and New Brunswick as well?

Mr. WALTON: I think pretty generally. There are some items which are more or less general, such as ballast items and that sort of thing. I think, with reasonable accuracy, they can be assigned to the territories in which the work would be done.

Mr. VAUGHAN: I think we can give you what you want, Mr. Hazen.

Mr. HAZEN: There is one other question. Is any of this money that is being spent, going to be spent for double tracking?

Mr. VAUGHAN: No, sir.

The CHAIRMAN: Is that cleared up?

Mr. HAZEN: Yes, sir.

Mr. MAYBANK: You are not waiting, of course, for any vote of approval for those expenditures. You must by now, the year being largely gone, have done a great deal of this, as I say.

Mr. VAUGHAN: Yes. We had to go ahead with it.

Mr. MAYBANK: Yes.

Mr. VAUGHAN: We had no meeting in the spring to approve our budget. We could not tie up the railroad. We had to go ahead.

Mr. MAYBANK: You went right ahead with these capital expenditures.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Taking the money out of your own pocket in the meantime, Mr. Vaughan? Where did you get the money?

Mr. VAUGHAN: You will see that our total expenditures were very much below the budget, as I have said.

Mr. JACKMAN: Where did you get the money?

Mr. COOPER: As far as the general budget is concerned, we have provided all the capital expenditures out of our depreciation reserves for 1945.

Mr. JACKMAN: That just raises a rather peculiar or perhaps awkward legal question. You must get authority, I suppose, by an order in council or something. Do you do that, or do you just have to carry on without it and take a chance of getting your acts validated at a subsequent date? What is the legal position?

Mr. VAUGHAN: Well, the position was this. The matter was talked over with the minister; and it was decided that, inasmuch as our budget had not been approved, we would have to go ahead, and tentative authority was received to proceed with our work pending the deliberations of this committee.

Mr. JACKMAN: If this committee took a contrary view, it would not be very effective for 1944. However, you had to do the work, I presume, and trust that it would be approved.

Mr. VAUGHAN: Yes.

Mr. MAYBANK: Otherwise they would have to go ahead and unbuild the bridges.

Mr. JACKMAN: That would not help the problem. May I say this, though. Colonel McLure, one of the members from Prince Edward Island, has raised the question of lack of a second ferry. Does that come under the C.N.R. or is that the government?

HON. Mr. CHEVRIER: That is a matter of the estimates. That will be one of the three estimates that will be dealt with after these reports are approved.

Mr. JACKMAN: Are the estimates dealt with in this committee?

HON. Mr. CHEVRIER: Yes. That is vote 421, Prince Edward Island car ferry deficit.

Mr. JACKMAN: That is dealt with in this committee?

HON. Mr. CHEVRIER: Yes. That is right.

Mr. JACKMAN: Also Colonel McLure in the House at one time mentioned the very heavy cost of trucking farm produce from the Island to the mainland, I think with particular reference to the charge on the ferry across. It was a

very heavy charge for some 50 miles between two points, much heavier than the ordinary trucking charges on the ordinary mainland. Are the rates on the ferry high, and does the C. N. R. set them?

Mr. VAUGHAN: We do not think the rates are unusually high. Of course, everything that goes over on the ferry is in direct competition with the railway. We think we are generous in allowing the trucks to go on the ferry at all.

Mr. HAZEN: What do you charge to take a truck across?

Mr. VAUGHAN: I have not the rates here. Has anybody got them?

Mr. WALTON: I do not think we have.

Mr. VAUGHAN: We can obtain them for you very easily, but we have not got them here at the moment.

Mr. HAZEN: What about this expenditure of \$10,000? What is that for? I am speaking about the amount you budget for P.E.I. car ferry and terminals. What is that money expended for?

Mr. COOPER: It is just a general contingency fund of \$10,000 to take care of items which are not foreseen when the detailed budget is made up.

Mr. HAZEN: Last year you spent \$48,700. No, that is not quite accurate. You budgeted for \$48,700 and actually spent \$54,639.

Mr. COOPER: Yes. Do you want the details of that, Mr. Hazen?

Mr. HAZEN: No, thank you. If I do, I will ask for them.

Mr. COOPER: We will have to get that.

Mr. JACKMAN: Of course, while trucking from the island to the mainland is in competition with the railway, nevertheless it is a public carrier. One has to recognize that trucking is an alternative form of transportation?

Mr. VAUGHAN: I agree with that.

Mr. JACKMAN: What is the basis of the complaint of these truckers from the island to the mainland? Is the trucking rate the trouble?

Mr. VAUGHAN: I think the only complaint I know of is the rate that is charged for trucks on the ferry. We have had complaints from time to time in respect of that; but we have not had any recent complaints that I know of, although no doubt other officers of the railway company receive such complaints. I think what we had better do is to get the rates. I do not know what they are.

Hon. Mr. CHEVRIER: I have them here, Mr. McLennan has just obtained them. They are as follows: trucks, one way on the ferry, \$6; return \$12.

Mr. HARRIS (Grey-Bruce) What distance is the ferry?

Mr. JACKMAN: Eight miles.

Hon. Mr. CHEVRIER: Nine, I think.

Mr. REID: Is that for loaded trucks?

Mr. VAUGHAN: Loaded trucks, yes; loaded or unloaded.

Hon. Mr. CHEVRIER: Passenger cars, \$2 one way; \$3 return.

Mr. MUTCH: Does that include any kind of trucks—1 ton, 2 ton, and so on?

Mr. VAUGHAN: There is a limitation, I think; up to 5 tons, I think, the rate is the same.

Mr. JACKMAN: Could you give us any idea of the comparison between transporting 5 tons in a truck as against transporting 5 tons of farm produce in bulk on the ferry?

Mr. WALTON: We do not handle bulk on the ferry.

Mr. JACKMAN: There is some bulk classification.

Mr. VAUGHAN: We do not handle any bulk on the ferry. Everything we handle on the ferry is in cars. We do not handle any bulk at all.

Mr. JACKMAN: Well, you know what I am after. How much does it cost to transport 5 tons of potatoes on a car as against 5 tons on a truck?

Mr. VAUGHAN: There are many things that enter into that. I think it would depend upon the destination of the potatoes and the haul the railway was going to get on them, and over what distance the expense would be spread.

Mr. JACKMAN: Take a fifty-mile truck-haul.

Mr. VAUGHAN: You are aware, of course, of the controversy that goes on all the time between the cost of moving goods in trucks and moving them in railway cars. I think all the bodies that have studied the situation have concluded pretty well that trucks cannot economically operate except for high-class goods in competition with the railways if all the factors, of course, are taken into account, beyond approximately fifty miles. During the war the transport controller placed a restriction of fifty miles on the operation of trucks. That will always be a matter of controversy. The truck people naturally have their own side of the case, and I would not want to start an argument here against the trucks unless they have an opportunity to defend themselves.

Mr. JACKMAN: After all, the people of the Island are entitled to ship according to the method most convenient for them, and if the rate on the ferry is excessive for trucks as against cars it is, in a sense, unfair competition in view of the situation of the Island, the Confederation Pact and all the other peculiarities attached to P.E.I.

Mr. MUTCH: It is a highly controversial opinion.

Mr. JACKMAN: I am asking for his facts, not opinions. What is the rate for a fifty-mile haul from some point on the Island to some point on the mainland, first, via truck, and, secondly, via the railway?

Mr. VAUGHAN: I think it would be almost impossible to give that.

Mr. REID: There were many opinions before the transport board over long years, and it has never been possible to tell in regard to railway traffic how much it costs to haul a ton or a half ton any distance. They were never able to substantiate any charge.

Mr. JACKMAN: I mean the charge.

Mr. VAUGHAN: Perhaps I misunderstood you. As I understand you, you want the rate that the railway would charge on a specific commodity, say from Charlottetown to some point fifty miles distant on the mainland?

Mr. JACKMAN: That is right.

Mr. VAUGHAN: All I could give you in opposition to that would be the rate we charge a truck on the ferry, because we do not operate the trucks.

Mr. JACKMAN: That might be adequate, if you can give me that information.

Mr. VAUGHAN: We will get that.

Hon. Mr. CHEVRIER: You could not go more than nine miles. You do not know what the rates of the trucks are beyond fifty miles.

Mr. JACKMAN: The difficulty, apparently, on the Island is that the rate across the water is so high that it makes trucking extremely expensive to the people of the Island. That is the question Mr. McLure raised. Now, may I ask you this: How do you build up your budget from year to year of capital expenditures? Do you do it from the head office?

Mr. VAUGHAN: Our budget is prepared very carefully. It starts on with the divisions. It is gone over by the divisional superintendents and the divisional engineers and other officers. Then it goes up to the district office, that is the general superintendent and the district engineer. They comb it over and eliminate anything they think can possibly be done without. It then goes to the

regional vice-president and general manager and the chief engineer of the region. And it is gone over by them and certain eliminations are made. Then it comes to Montreal where it will go first to Mr. Walton and then to our department of research. We have a budget department which happens to be under Mr. Fairweather who is vice-president of a number of departments. Every individual item is gone over by him. We bring to Montreal the vice-presidents and the chief engineers and they have to justify to him and to Mr. Walton and to myself that every item in that budget is required in the interests of the railway. So it is not a haphazard thing; it is gone into very carefully.

Mr. JACKMAN: And your board of directors pass on it after that?

Mr. VAUGHAN: It is eventually submitted to the board of directors and approved by them and then it comes on here for final approval.

Mr. JACKMAN: I do not suppose you are able to do as many industrial concerns do where, say, an expenditure of \$100,000 is asked for—you cannot, because of the nature of the railway business, say whether that \$100,000 will return a certain percentage of profit at the end of the year? Your business does not permit you to estimate in that way, does it?

Mr. VAUGHAN: Our officers submitting these budgets are required to say on the individual AFE's the savings which will result from the expenditures.

Mr. JACKMAN: Of course, where you are replacing a wooden bridge with a steel bridge, that is a matter of necessity?

Mr. VAUGHAN: That is a matter of necessity. There are some things in which there is no saving; it is a matter of necessity, as you say; but where there is anything new required it has to be justified on the basis of economics.

Mr. REID: I wonder if I could get an answer to my question with regard to the Prince Edward Island ferry, because I am interested in this item of \$713,000 for the government share of operating account. I would like to know if the ferry is paying and who operates it.

Hon. Mr. CHEVRIER: It is not paying. That is a matter that will come up by separate vote after these reports have been dealt with.

Mr. REID: Here is a vote of \$713,000.

Mr. VAUGHAN: I think, Mr. Chairman, that Mr. Cooper might explain how the accounts of the Prince Edward Island car ferry are handled as between the government and ourselves.

Mr. COOPER: I think there is a mistake about the \$713,000. If I am looking at the same figure that is related to subsidiary companies.

Mr. REID: The amount I have is government share of operating account, P.E.I., car ferry and terminals, \$564,200, page 2 of the budget.

Mr. COOPER: The Prince Edward Island car ferry is operated as a part of the system in the first place, but we are operating it on behalf of the government, and it is understood that the government will meet the difference between the cost of operation and the revenue. That difference is provided by way of a separate vote in the House. We operate the ferry. We take the costs of doing so and credit against those costs the revenue which we apportion to the ferry operations and we render our bill against the Department of Transport for the deficit.

The CHAIRMAN: As I understand it, that is the estimate the minister is going to bring down.

Hon. Mr. CHEVRIER: The 1945 net deficit for the operation is \$713,000, which we pay over to the Canadian National Railways.

Mr. HARRIS (Grey-Bruce): Did I understand you to say that up to this time this year you have drawn on depreciation and reserve in order to pay this capital expenditure account?

Mr. COOPER: Speaking of the items in what we call the general capital budget—that is irrespective of the new equipment vote—all the items of capital expenditure which we show on page 1: additions and betterments; acquisition of securities; retirement of maturing capital obligations—those expenditures to the end of September have been met out of our own resources.

Mr. HARRIS: Will that continue for the remaining three months of this year?

Mr. COOPER: It is possible we shall not finally balance out at the end of the year; but my own view is that we shall not require the full amount of the \$8,800,000. You understand that we have to ask for a vote sufficient to complete a job. Now it may be that by December 31 the job has not been completed and the money has not all been spent. As a rule the amount of the budget is underspent. You notice in 1944, for example, while we asked for \$10,549,000 on the general capital budget account we actually had a credit at the end of the year of \$2,776,000.

Mr. REID: Why would the interest charge be less for 1945? I notice it is \$45,000,000; operating revenues are \$8,000,000 less, and operating expenses are \$12,000,000 less, and then it is made up by a drop in interest charges. For instance, the interest due to the public on long term debt, on page 2, is \$28,000,000 odd, and you estimate \$26,035,000 for this year. The next is interest on dominion government loans, \$20,000,000 odd, and the total interest charges are a little less than \$2,000,000 less than actually paid in 1944.

Mr. COOPER: Yes. The explanation of that, perhaps, can be given best by way of an example. In July of 1944 we called for redemption on issue of \$56,000,000 of 5 per cent bonds. We secured the funds from the government at—I have forgotten the rate—around 3 per cent or $2\frac{1}{2}$ per cent—so you see on the refunding operation we save an interest charge of approximately 2 per cent, or $2\frac{1}{2}$ per cent, depending on the coupon rate and what we can borrow money for from the government.

Mr. JACKMAN: What was done with those British-held Canadian National securities purchased by our government and taken over before we got onto mutual aid? Does the government hold them or have they turned them back to the railway?

Mr. COOPER: The railway gave the government a note for the amount necessary to enable the railway to take up those securities. The securities themselves are held by the Minister of Finance as collateral behind our note.

Mr. VAUGHAN: We pay $3\frac{1}{2}$ per cent interest on them.

Mr. JACKMAN: The government charge you $3\frac{1}{2}$ per cent on the standing interest, that large item on the balance sheet, \$661,000,000?

Mr. COOPER: No, the rates are set out on page 20, but on the repatriation items the interest rate was $3\frac{1}{2}$ per cent on an amount of approximately \$390,000,000.

Mr. JACKMAN: Are there still more Canadian National bonds held overseas in Great Britain?

Mr. VAUGHAN: I think that was referred to yesterday and it was pointed out that there were about \$28,000,000 of those bonds which had not been vested because, apparently, they were held in other countries and it was not within the authority of the British government to vest them. But outside of those they have all been vested.

Mr. JACKMAN: Are some of those bonds, to your knowledge, held in France or Holland or other European countries?

Mr. COOPER: Certainly, and some of them are held in Ireland.

Mr. JACKMAN: Do you know offhand about how many bonds are held over there?

Mr. COOPER: No, I cannot answer that. Possibly our treasury department might be able to get those figures for you approximately, but as far as I am concerned, I cannot answer your question.

Mr. MUTCH: It would be under \$28,000,000 in any event.

Mr. COOPER: The total of sterling securities held by other than U.K. residents amounts to \$28,000,000.

Mr. PICARD: Is there any amount still held in the United Kingdom which has not been repatriated?

Hon. Mr. CHEVRIER: He has just stated that.

Mr. COOPER: No, sir, not Canadian National Railways securities.

Mr. PICARD: That is what I had understood.

Mr. MUTCH: We went into this exhaustively last night. If we keep going over and over it again, we will never get anywhere.

Mr. REID: Are the western additions and betterments a lengthy program?

Mr. VAUGHAN: I do not get that?

Mr. REID: Are the additions to western regions a very lengthy program, I see it amounts to \$2,900,000.

Mr. VAUGHAN: There is quite a substantial list of them. I do not know whether you want to hear them or not.

Mr. REID: Are there any in British Columbia?

Mr. VAUGHAN: Yes, there will be some in British Columbia.

Mr. REID: Do they include a new station for New Westminster?

Hon. Mr. CHEVRIER: Perhaps the 1946 budget will have that.

Mr. VAUGHAN: Are you referring to the Great Northern railway station?

Mr. REID: Yes.

Mr. VAUGHAN: That would not be in our budget.

Mr. NICHOLSON: On page 3 there is an item for the payment in 1944 of \$25,000 for the Admiral Beatty hotel in Saint John; there does not appear to be any corresponding budget in 1945. Could you give us some explanation about that item?

Mr. VAUGHAN: What item is that?

Mr. NICHOLSON: On page 3 the Admiral Beatty hotel in Saint John, New Brunswick.

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: There is an item of \$25,000 for 1944.

Mr. VAUGHAN: There is a reason for that. I think you better speak about that, Mr. Cooper.

Mr. COOPER: During the year the securities of that company matured. There are three issues; first mortgage, second mortgage and third mortgage bonds. We owned one-third of the second mortgage bonds, the Canadian Pacific railway owned a third and the United Hotels owned a third; the United Hotels would not agree to the general scheme of refinancing, so the Canadian Pacific railway and the Canadian National railway took up their one-third interest; that is to say, we took up \$25,000, and the C.P.R. took up the same amount. We considered that the re-financing arrangement was a good one, and actually in 1944 we received back on the principal of those bonds \$15,500—we received a substantial benefit.

Mr. NICHOLSON: What arrangement have you for the management of this hotel?

Mr. VAUGHAN: The Canadian Pacific railway and ourselves have representatives on the board of the hotel, and the management is appointed with their approval.

The CHAIRMAN: Are there any questions on page 3? Then we come to page 4:

Mr. REID: Page 4, what is the item of 5½ per cent Province of New Brunswick debentures? I notice that in 1945 you are providing a payment of \$818,000 for these.

Mr. VAUGHAN: That is one of the debenture payments coming due.

Mr. REID: Why was there no payment on that last year?

Mr. VAUGHAN: Mr. Cooper has that. He will give it to you.

Mr. COOPER: \$818,000—those were debentures issued by the province of New Brunswick to construct the St. John and Quebec railway. The Canadian National Railway company purchased the railway in 1929, and the purchase price was \$6,000,000; as part of the purchase price we assumed the St. John and Quebec debentures, some \$2,700,000 of them; and the balance of the purchase price was by the Canadian National agreeing to retire these New Brunswick debentures as they fell due. In 1945, \$818,000 of New Brunswick debentures fell due for retirement on February 16th. The debentures carried an interest rate of 5·5 per cent, so that it was really to our advantage to get rid of them.

Mr. REID: Another question I would like to ask relates to the indebtedness to the State of Michigan *re* the widening of Woodward Avenue, Detroit; do you pay any extra premium on account of exchange, and if so what extra premium did you pay for the year? Did you pay it in United States funds?

Mr. COOPER: The story regarding that is a long one. A number of years ago the State of Michigan wanted to build a highway which paralleled our railway running out of Detroit in the direction of Pointiac. The proposed highway ran right along side the Grand Trunk Western railway and it was decided in order to have more room, to move our line over and build the highway on the railway right-of-way. An agreement was made that the State would decide in order to have more room, to move our line over and build the highway on it. The entire cost of that was assumed by the State of Michigan with the understanding that we would repay the cost over a period of fifteen years. This is 1/15 of the cost of that expenditure.

Mr. REID: Did you get any credit for the abandoned right-of-way?

Mr. COOPER: I do not believe we did. On the other hand, we have not paid any interest on this outstanding item. The whole thing was very involved. It wrapped itself around the taxation of our railway in that territory. It also involved a threat by the state to expropriate the railway if the railway did not reach a satisfactory agreement. The conditions of that agreement are in the records of this committee. It was gone into very thoroughly at the time and while we were forced into it, from the railway point of view, it was considered to be a satisfactory agreement.

Mr. REID: Were these payments made in United States funds, and if so, why?

Mr. VAUGHAN: We collect enough funds in the United States from the movement of freight and passengers on our United States lines to pay for these expenditures.

Mr. REID: Taking all your commitments in the United States, are your revenues over there sufficient to meet all the expenditures, or do you have to meet payments in United States funds?

Mr. VAUGHAN: We have a number of Canadian National securities, bonds outstanding, which are three-way bonds; some payable in Canada, some payable

in Great Britain and some payable in the United States, at the option of the holder. We have to pay quite a substantial premium on these if the holders elect to be paid in United States funds.

Mr. REID: I wonder if it is possible for us to get an idea of the extra money you pay out on account of the premium on exchange? I am not quite clear on that.

Mr. VAUGHAN: We may be able to give that to you.

Mr. COOPER: During 1944 the net cost of U.S. exchange for the Canadian National Railways was \$2,212,000.

Mr. REID: As one who has long been advocating removal of the 10 per cent, I was rather interested in finding out what it costs you. I know that it is costing the country a great deal of money.

Mr. COOPER: The reason, of course, in our case is that so many of our securities are payable in United States funds. In the railway operations alone, apart from the payment of interest, I do not think we have to pay any substantial amount for United States exchange. We make a profit on sterling.

Mr. VAUGHAN: These securities are coming due from time to time. Some are callable, and as soon as the callable period arrives we take them up and get rid of that liability.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: Are you still buying rolling stock from money supplied by the government who are charging 3·5 per cent?

Mr. VAUGHAN: I think the last equipment loan we arranged with the government was 2·5 per cent; if I remember correctly, 2 5/8. Most of them were at 3·5 per cent, but in the last equipment issue we represented to the government that we thought the interest rate was too high as most of the large railways in the United States were getting money for equipment at 1·75 and 1·7/8, and at that time they reduced our rate to 2 5/8 on that particular issue.

Mr. NICHOLSON: What is the lowest rate you pay?

Mr. VAUGHAN: 2 5/8.

Mr. NICHOLSON: I saw one item here of 2 per cent.

Hon. Mr. CHEVRIER: On what page?

Mr. NICHOLSON: On page 20.

Mr. COOPER: That has nothing to do with equipment, that was to take up some securities.

Mr. JACKMAN: If the money market were free and open could you get your money more cheaply in the open market than you are now able to get it from the government on these equipment items?

Mr. VAUGHAN: On some of the items we might have done that. We are making representations from time to time where we think the interest charge is too high, and the finance department have been generous I think in adjusting them.

Mr. JACKMAN: Have they reduced it to 2 5/8 on the last equipment issue?

Mr. VAUGHAN: We got 2 5/8 on the basis of the representation we made to them because that was about the average rate of borrowings and we felt that they should not charge us more than that.

Mr. JACKMAN: Could you not get 2 5/8 if the market were open to you?

Mr. VAUGHAN: If we had gone into the open market we might have got 2 5/8 or better, depending on the term.

Mr. JACKMAN: Yes. What is the rate in the United States for similar equipment used over there and which would be properly chargeable in U.S. dollars against the equipment certificates? The rate is below 2 5/8, is it not, on high class equipment certificates?

Mr. VAUGHAN: We have some old equipment issues outstanding. The rate of interest shown on them. The reason is that these equipment issues have been handled with the government since the war started.

Mr. JACKMAN: In the United States; oh, yes. You have a lot of rolling stock in the United States?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: And you can borrow from the American public on that rolling stock?

Mr. VAUGHAN: We might have done that, but after consultation with the Department of Finance it was considered undesirable in view of their various transactions in the States that we should get into competition with the Canadian government in the borrowing of money.

Mr. JACKMAN: I am just trying to find out whether or not the government is disadvantaging the railway by reason of its parental care and solicitude. Surely the C.P.R. must be able to borrow on its American lines over there for its equipment at lower than 2½.

Mr. VAUGHAN: They were not apparently able to do very much about it because their lines over there have been in receivership; however, since they have come out of receivership the picture may be different.

Mr. JACKMAN: I am talking about equipment, rolling stock. You will recall that we raised this item last year and as a result of representations that were made at that time, which were to the effect that the government should be able to give you money for the purchase of equipment of rolling stock at less than 8.5 per cent, that that charge was too high, it was apparently brought down; it seems to have had some effect. Our representation at that time was that they were charging too much.

Hon. Mr. CHEVRIER: Perhaps I should say that the Canadian National Railways are continually making representations to the government in that respect, and the government has already in refinancing, as Mr. Cooper set out a moment ago, reduced the rate from 3½ to 2½ per cent.

Mr. JACKMAN: That is on the new issue. You have got some old issues which perhaps could be paid for and refinanced and you might strengthen the hand of the railway.

Mr. VAUGHAN: We have a number of these matters under consideration now with the Department of Finance, and I think we are going to be able to make some progress with them.

Mr. JACKMAN: May I just ask in that connection on the open account with the Dominion government on the liability side of the balance sheet, \$661,000,000, what is the situation with regard to the interest paid to the government on that? It is the third item on the liability side of the balance sheet. What is the situation in regard to interest on that? Is there any interest paid to the government?

Mr. COOPER: We have paid interest right along.

Mr. JACKMAN: How much?

Mr. COOPER: At the rates shown on page 20, and the total amount in 1944 was \$19,933,000. Both the rates and the amount paid are shown in detail on page 20.

The CHAIRMAN: Is that satisfactory?

Mr. JACKMAN: That has reference to the \$661,000,000 item, not to the long term debt of \$629,000,000 to the public?

Mr. COOPER: The \$629,000,000 is the debt held by the public. The interest on that is shown just above, also in detail.

The CHAIRMAN: Can we pass on to page 5? Are there any more questions on page 4?

Mr. HAZEN: I was going to ask a question on page 3. It is a minor matter, but the subsidiary companies' budget is \$281,097. I notice in the report you have on page 21 investments in affiliated companies and on page 23 companies comprising the Canadian National Railway system. What are subsidiary companies. What do those words mean?

Mr. COOPER: Subsidiary companies to us means companies which we control by stock ownership.

Mr. HAZEN: Those would be the companies shown on pages 22 and 23 of the report?

Mr. COOPER: Yes.

Mr. HAZEN: May I ask another question about this? I am puzzled about this matter. On pages 22 and 23 of the report you show the names of the companies and then you have "owned by company number". Then you have the figure 1 under No. 3. I am looking at No. 3, Atlantic and St. Lawrence Railroad Company. You have the figure "1"; 1 what?

Mr. COOPER: Just a little higher up you will find that Company No. 1 is the Canadian National Railway Company, right at the top of the page. This means that the stock of the Atlantic and St. Lawrence Railroad Company is owned by the Canadian National Railway Company.

Mr. HAZEN: What does 24 mean? Where do we find that?

Mr. COOPER: Twenty-four is shown to be the Canadian Northern Railway Company so that the stock of the Bay of Quinte Railway is owned by the Canadian Northern Railway and the stock of the Canadian Northern Railway is owned by No. 1, the Canadian National Railway Company.

Mr. JACKMAN: I think it should be referred to the C.C.F. as to interlocking companies.

Mr. PICARD: I have an item I want to inquire about. How do you proceed as to your purchases of rails, ties, and so on? Rails have been discussed and also the price of steel last night or in the afternoon, but what about ties? Do you ask for tenders or do you just buy them on the market?

Mr. VAUGHAN: In normal times a price is usually set for each district which we feel is a fair price. That is the price paid to all in the particular district.

Mr. PICARD: How do you proceed with the distribution of that? Do they tender?

Mr. VAUGHAN: A man who wants a tie contract usually writes in and tells our tie department he will have so many ties available and if we need the ties we would take the ties at the price set in that particular locality.

Mr. PICARD: For instance, in one district would it be the superintendent of the district or would it be the head purchasing office?

Mr. VAUGHAN: The price of ties and the purchase of ties are all arranged in the office of our general tie and timber agent in Montreal.

Mr. PICARD: And he would contact the local people or have them communicate with himself. Any one particular man in one district would not know in advance how much you want. You do not go on the market and say, "We need so many ties"?

Mr. VAUGHAN: No.

Mr. PICARD: You just allow people to ask you if you need any and then you distribute it according to the district?

Mr. VAUGHAN: We know what ties we are going to need in each district each year. Our general tie and timber agent in the fall of each year, beginning about the end of August or early in September, begins to negotiate for these ties.

Mr. PICARD: What I was trying to find out was do you advertise for them?

Mr. VAUGHAN: No.

Mr. PICARD: Do you go on the market?

Mr. VAUGHAN: At one time we did advertise for ties but we got so many replies and many of them were from people who had never been in the tie business and would not know a tie when they saw it so we discontinued advertising. We got tenders from bakers, bartenders, saloon keepers, and many others so we said, "That is not good enough."

Mr. PICARD: Do you buy from companies?

Mr. VAUGHAN: We only buy from companies that are legitimately in that particular business.

Mr. PICARD: At the price fixed by you; you set the price?

Mr. VAUGHAN: At the price fixed which is the same for all.

Mr. PICARD: But the decision rests with the main office in Montreal as to which one you deal with as between one, two or ten people?

Mr. VAUGHAN: That is correct.

Mr. BEAUDOIN: Besides that do they not have to go through the creosoting process?

Mr. VAUGHAN: Not all of them. A large proportion of our ties today are being creosoted and they have to go to the treating plants.

Mr. BEAUDOIN: So you purchase your ties in the neighborhood of the location of that treating plant?

Mr. VAUGHAN: If the ties have to go to a treating plant to be treated we would naturally buy the ties from a point that would give us the least haul to the treating plant. We buy them as economically as we can having regard to all the factors that enter into the cost.

Mr. PICARD: I mean that the trade has to go after you. You do not ask for tenders. You do not go on the market. They go after you and you decide whether you will take this one or the other one?

Mr. VAUGHAN: That is correct. The same people supply us usually with ties from year to year. Occasionally there is a new man comes along, and if he is legitimately in the tie business he would be given a contract but in years gone by we have weeded out the poor contractors. Time and again we have found that a man who would tender for 100,000 or 200,000 ties would not give us any ties at all.

Mr. BEAUDOIN: Mr. Chairman, if the committee is through with page 4 I have a question on page 5. It is on a matter to be found at the bottom of that page where it says "To be transferred to proposed 1946 program". Then the next item is the 1945 program proposed. Is there not a mistake there about 1946? Should it not read "To be transferred to proposed 1945 program?" That is on page 5 at the bottom of the page.

Mr. PICARD: Of the budget?

Mr. BEAUDOIN: Yes. I understand it is the budget we are discussing now.

Mr. VAUGHAN: No, I think that is correct.

Hon. Mr. CHEVRIER: That has to be paid for in 1946. Is that not it?

Mr. VAUGHAN: The equipment would not be delivered until 1946 and would be paid for in 1946.

Mr. BEAUDOIN: Under the next item, 1945 program proposed, you have box cars, 1,500, and then you have box cars, 50-ton, 1,000 on order, 3,000. What is the explanation of that? Is that a different type of box car?

Mr. VAUGHAN: The only difference is in so far as carrying capacity is concerned.

Mr. BEAUDOIN: The 1,000 on order to which you refer there are of the same type as the ones mentioned above?

Mr. WALTON: The explanation of that 3,000 you are looking at is that there is a contemplated order of 3,000 of which orders have actually been placed for 1,000. The 3,000 just shows the complete order but only 1,000 of the 3,000 have yet actually been placed.

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

Mr. JACKMAN: I think we ought to go over these items, Mr. Chairman. What do they all mean?

Mr. BEAUDOIN: Mr. Chairman, if we are through with our questions I would move the adoption of the budget.

Mr. JACKMAN: Let us have a look at this. What is the story on this page, Mr. Vaughan? It has to do with new equipment under dominion government hire purchase agreements. What does it all mean, Mr. Vaughan?

Mr. VAUGHAN: To what are you referring, Mr. Jackman?

Mr. JACKMAN: This is page 5. That is your rolling stock you want to buy and for which you want to get your appropriation in the budget. You want \$24,000,000 altogether; is that correct?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: The first item here is \$1,452,000. What does that item represent?

Hon. Mr. CHEVRIER: That is for orders for equipment in 1943 which were delivered and paid for in 1945.

Mr. JACKMAN: And 1944?

Hon. Mr. CHEVRIER: Is the same thing, and 1945 is the same thing. It is the same way all the way down.

Mr. VAUGHAN: We had certain budgets approved for specific quantities of equipment but we were unable to place the equipment because there was no space available for it in the car builders' plants due to the fact they were working on war materials so these equipment appropriations have been overlapping from year to year depending upon when we could get delivery of the equipment.

Mr. JACKMAN: And the details are below; is that it?

Hon. Mr. CHEVRIER: That is right.

Mr. JACKMAN: And box cars are the main item?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: You have revised your passenger accommodation provisions. First class coaches are down from 50 originally to 30. Why is that?

Mr. VAUGHAN: We revised it downward because at that particular time there was no possibility of getting the higher quantities but we were told there might possibly be an opportunity of having some space allocated to the plants for the smaller quantities. As it stands we have not been able to get any space allocated as yet for any passenger equipment at the car building plants.

Mr. JACKMAN: What is the relative cost between a box car and a first class passenger car?

Mr. VAUGHAN: A box car to-day would cost about \$4,000, roughly speaking. A new first class passenger car would cost to-day approximately \$80,000 each plus sales tax. That is a modern car.

Mr. JACKMAN: Did you not have some reference in your printed remarks as to the need for bringing up to first class condition your passenger accommodation? I thought I recalled something.

Mr. VAUGHAN: I think we referred to that under the item of deferred maintenance. We mentioned there was considerable work to be done on our passenger equipment which would be taken care of out of the amounts set aside for that purpose.

Mr. JACKMAN: There is no doubt that many of the crack American lines have equipment which I think it can be fairly said is a good deal more streamlined, and up-to-date and comfortable than anything we have on either of the railroads in Canada. Do you expect we will have to go in for major expenditures along that line very shortly, and is it desirable?

Mr. VAUGHAN: This equipment which we propose to build will be first class equipment in every respect. It will not be of the ultra-streamlined character such as you will find on some of the railroads in the United States. As a matter of fact, Canadian car builders at the present time are not equipped to build cars of that type in their shops. Some of them are endeavouring to make arrangements in that connection, but considerable capital expenditure is required on their part before they could build cars of the ultra-streamlined type. But these cars we have in mind to buy are just as comfortable as any cars that are built in the United States of the streamlined type.

Mr. NICHOLSON: How do they compare with your present first-class cars?

Mr. VAUGHAN: You have seen our latest type of first-class car, I presume. They would be somewhat of an improvement on that type of car.

Mr. NICHOLSON: I think the C.P.R. have a little more modern, first-class car than you have, have they not?

Mr. VAUGHAN: I do not think so. I do not agree with you.

Mr. NICHOLSON: Between here and Montreal, on the main line, was what I referred to.

Mr. MUTCH: Where do they keep them?

Mr. VAUGHAN: Generally speaking, we have just as many, and probably more, well-equipped first-class cars, as they have.

Mr. MUTCH: And you occasionally clean them.

Mr. JACKMAN: Sir Henry Thornton might have taken a different view.

Mr. MOORE: How much of this equipment mentioned at the bottom of page 5 is being made in Canadian National shops? Have you any idea of that?

Mr. WALTON: Just refrigerator cars.

Mr. VAUGHAN: The only new cars we manufacture in our own shops are refrigerator cars. All the other equipment will be made in commercial shops.

Mr. JACKMAN: May I ask a question about those American cars which are very different in design, with these bedroom affairs that they have and all the rest of it. Is it just competition which is forcing the pace there or are they more economical inasmuch as they accommodate more passengers with comfort?

Mr. VAUGHAN: A little of both, I think. First of all, there was the competition of buses on the highways with the railroads. Then one or two railroads started building streamlined trains and the other railroads thought they had to follow suit. There have been a lot of statistics prepared which we have gone over carefully, as to the cost of operating these trains. Most of the streamlined trains show satisfactory results. But, on the other hand, we do not know the business that these streamlined trains have taken away from their other trains. We have given a lot of study to this matter and we are still studying it. We have a committee studying the matter of diesel equipment versus steam equipment, and streamlined trains versus standard types of trains, and we have

not yet concluded what is the right thing to do in the interest of all concerned. We want to give the people in Canada the best possible service; and what they want most, I presume, is a comfortable ride on a good modern train.

Mr. JACKMAN: Yes, until they see there is something better.

Mr. VAUGHAN: We realize we have to keep abreast of the times.

Mr. JACKMAN: We are slipping a bit at the moment, are we not, because of war necessity, perhaps?

Mr. VAUGHAN: I beg your pardon?

Mr. JACKMAN: Are we not slipping a bit at the moment? For instance, when you see the New York Central train come into the Union Station at Toronto, it is a pretty smart thing in comparison with anything on either of the Canadian lines.

Mr. VAUGHAN: The New York Central has some very nice trains. But I do not think you would find them more comfortable trains to travel in, than our important trains.

Mr. JACKMAN: It has much nicer colours.

Mr. VAUGHAN: It is decorated in probably a more extreme way than our cars are. But, as I say, I think we will have something very nice for the travelling public when we get this new equipment built.

Mr. MUTCH: Are you considering expansion of the room cars; I mean in the number of room cars?

Mr. VAUGHAN: Yes, we are.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. HAZEN: What do you mean by hire-purchase agreements?

Hon. Mr. CHEVRIER: They are conditional sales agreements; they are the same as conditional sales agreements.

Mr. JACKMAN: It is the instalment principle.

Mr. HAZEN: Between the government and the railway?

Hon. Mr. CHEVRIER: Yes.

Mr. HAZEN: If it is a conditional sales agreement, where is the title? Who are the parties to it? Who is the vendor and who is the purchaser?

Mr. VAUGHAN: The ultimate purchaser is the Canadian National Railways.

Mr. HAZEN: Are there two parties to the agreement?

Mr. VAUGHAN: Yes. We have properly executed agreements with the government. There are usually serial payments which are paid off so much each year to the government. It is a standard hire-purchase agreement very similar to the standard equipment trusts which are in effect all over the North American continent. The only difference is that our arrangement is in effect with the government.

Mr. HAZEN: In other words, the government buys the equipment and sells it to you under an agreement of this kind?

Mr. VAUGHAN: Exactly.

Mr. PICARD: In that program of replacements, following up Mr. Jackman's idea, did I understand you to say that you intend to bring in new types of trains or do you intend to carry on with the old types? Is it just the new ones that you are going to have built, new passenger cars or pullman cars or whatever it is?

Mr. VAUGHAN: The equipment in this budget here is of an improved type on our present standard equipment. There is none of the ultra streamlined equipment in here.

Mr. PICARD: We were talking about comfort on the American lines. Is it because of the undercarriage on the new cars on the American lines that they run more smoothly?

Mr. VAUGHAN: I do not think so. We have the most modern trucks on our cars, and we believe our cars ride just as well as their cars do over there, even their newest types of cars.

Mr. PICARD: How do you account for the fact that the New York-Washington, for instance, would run much more smoothly than other trains? Would that be on account of the road bed being of cement blocks, or what is the reason for that?

Mr. VAUGHAN: It depends upon what railroad you are referring to, and what part of the railway you are travelling on. We think we have a road from Montreal to Chicago which is as good as that of any railroad on the continent, almost.

Mr. PICARD: I do not object to Montreal-Chicago. I am referring to the lines in Canada here, because the Montreal-Chicago line, after all, is one where you have only from Toronto to Detroit in Canada. The balance is in the United States, so there you have more competition, and your road bed is very much better although the equipment is the same. That might confirm my idea that maybe the road bed or the fact that they have some certain other features accounts for it.

Mr. VAUGHAN: The road bed undoubtedly has much to do with the comfort of a trip.

Mr. PICARD: That might account oftentimes for the smoother running of some of the trains?

Mr. VAUGHAN: Yes.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. JACKMAN: Mr. Vaughan, would you just say a word about labour relations.—I know we touched on it very briefly here.—And also on the rate structure, in view of the rising costs which the railways have to meet, including increased wage costs. What are your ideas on that now?

Mr. VAUGHAN: The newspapers some time ago had quite a bit to say about the railways having applied or were going to apply for an increase in freight rates. The railways have not, up to the present time, applied for any increase in freight rates, nor have they prepared a case as yet. We did not feel that it was in the interest of the economy of the country to apply for an increase in freight rates so long as we could pay our way. I cannot say what will happen in the future. If the railways cannot pay their way, then there certainly should be adjustment in the rates to enable them to pay their way.

Mr. JACKMAN: You are all right for the time being?

Mr. VAUGHAN: Yes.

Mr. REID: I hope the rates are adjusted out in British Columbia, because we are sure paying for it out there.

Mr. JACKMAN: Your labour relations are satisfactory, you say. You have a certain number of appeals?

Mr. VAUGHAN: Our labour relations are satisfactory. In fact, we have the best of labour relations with our men. Naturally, they are asking for increased wages from time to time, and they are matters of negotiation.

Mr. JACKMAN: How is your office staff? Let us take those between \$2,000, roughly and \$3,000 or \$4,000, who have not received the cost-of-living bonus. Have you had permission at all to give them any kind of increase during the last four or five years?

Mr. VAUGHAN: I think we had permission from the Salary Control Board to give our men receiving under \$400 a month an increase?

Mr. WALTON: Under \$400.

Mr. VAUGHAN: Yes, to our men under \$400 a month, those who had not received the cost-of-living bonus and other increases, we were authorized by the Salary Control Board to give up to \$40 per month increase.

Mr. JACKMAN: Up to \$40?

Mr. VAUGHAN: Up to \$40 per month increase.

Mr. JACKMAN: That would be, in percentage, about 10 per cent?

Mr. VAUGHAN: Around there.

Mr. JACKMAN: And that class of help is reasonably content then at the present time?

Mr. VAUGHAN: I think so.

Mr. JACKMAN: Does your system have regular pay increases according to the number of years served as the Civil Service does, for instance, until they get to a certain maximum?

Mr. VAUGHAN: No, sir. We have no system under which our men are increased annually a certain amount. We pay them what we think the position they occupy is worth.

Mr. JACKMAN: And every man is on his own feet, as it were?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: I suppose that a good many of the men, particularly those in the junior executive class on the road, must have been entitled, had there not been any regulations to the contrary, to a good deal more than a 10 per cent increase in the last four or five years?

Mr. VAUGHAN: The rates of pay of our men were frozen, and we were unable to do anything for them. But we did subsequently get this authority from the Salary Control Board to give those who had not participated in the other increases this \$40 a month which I spoke about. As far as the men above \$400 a month are concerned, we have an application before the War Labour Board now for an increase for them. They are the only ones who have not participated in any increase, except in the case of promotion.

Mr. JACKMAN: That is, the ones above \$4,000?

Mr. VAUGHAN: Above \$400 a month.

Mr. WALTON: You spoke about the War Labour Board, which was not quite correct.

Mr. VAUGHAN: I said "War Labour Board". I am wrong there. I should have said "Salary Control".

Mr. JACKMAN: Take the case of a clerk who was getting \$2,000 a year five years ago, a man of 25 or so, and who would normally expect, I presume, in an organization where he is doing a good job, perhaps an exceptional job, that he would after five years be getting \$3,000 or \$3,200 a year. He is not getting that, and you find there is no dissatisfaction from that?

Mr. VAUGHAN: No doubt some of our men, a number of our men, feel they should get higher salaries than they are paid at the present time. The depression, of course, set everybody back. There were very few promotions or increases in salary during the depression period. Then, of course, when the war came along, their salaries were frozen and we could not do anything for them unless they had a change in position. Men who have had a change in position have been paid the rate that went with that position.

Mr. JACKMAN: So some men really, on account of the depression and the inability of the railway to treat them as generously as they might like to treat them, have in effect been frozen for a good many years, apart from the vary small 10 per cent increase, perhaps?

Mr. VAUGHAN: There are officers in our system occupying the same position as they occupied many years ago, whom I am sorry to say we have been unable to give any increase to. We could not afford it for a long time; and now, when we can afford it, we are unable to do it.

Mr. JACKMAN: Suppose a man does get into a \$2,000 a year position with the railway, or a \$2,500 position, and stays in that position. Is it the practice of the railway to occasionally give him a small advance in recognition of his greater ability?

Mr. VAUGHAN: We would do that if he was a particularly good man. But the positions on our line are pretty well rated. We have a maximum fixed for a certain position; and when a man gets up to that rate, he cannot expect very much more for that particular position.

Mr. JACKMAN: There is no union among your white-collar workers?

Mr. VAUGHAN: Some of our men are in what is known as the Canadian Brotherhood of Railroad Employees. A number of our men are in that organization. Others are not in any organization.

Mr. JACKMAN: There is a union open to the men, no matter how high up they climb on the executive ladder, is there?

Mr. VAUGHAN: A union?

Mr. JACKMAN: Yes.

Mr. VAUGHAN: No, sir.

Mr. JACKMAN: You said that there are some offices who do belong to this brotherhood.

Mr. VAUGHAN: Well, take for instance, our audit offices. Are they in the brotherhood Mr. Cooper?

Mr. COOPER: Not the revenue officers. The revenue office is organized, but it is represented by a group of the men themselves. But our Toronto Regional Disbursements Office is organized under the C. B. of R. E., and the Moncton office is also organized but the Winnipeg office is not.

Mr. JACKMAN: Do you take any university men at all into your organization?

Mr. VAUGHAN: We have some university men, and I think we should take in more university men. It is difficult to do that unless we get them immediately they leave college, because the question of seniority is involved. A great many of our engineering officers, of course, are university men.

Mr. JACKMAN: But it has not been the practice of the railroads, either here or in the United States, I suppose, in the years gone by, to do more than promote the senior men coming up from the ranks, which is perhaps a very good system. But there are certain benefits which might flow from the introduction of a certain number of university men into certain-fields of operation.

Mr. VAUGHAN: I think the time is coming when we should take in some young university men each year and move them around to different positions and see if we can make executives out of them.

Mr. JACKMAN: It has not gone on extensively at all in past?

Mr. VAUGHAN: No, sir.

The CHAIRMAN: Well, gentlemen, is that all for the budget? I think the motion is in order, and I believe Mr. Beaudoin has moved the adoption of the budget. Will any one second that?

Mr. BELZILE: I will second that.

Motion agreed to.

Mr. BEAUDOIN: What will be the next item that this committee will deal with?

The CHAIRMAN: Canadian National (West Indies) Steamships, Limited report. If we could take up this report I think that would be in order with the approval of the committee. You have copies of that report with you, I believe.

Mr. REID: I have one or two questions I would like to ask Mr. Vaughan and Mr. Cooper regarding the Canadian National (West Indies) Steamships, Limited.

Mr. VAUGHAN: Might I suggest first that I read this short report at the beginning and then questions can be asked afterwards. I may say that our report for 1944 was a short one. The boats were operating under the direction of the navy, or shipping board, and it was considered undesirable at that time to give details of their movements. I will read the report.

On behalf of the Board of Directors of Canadian National (West Indies) Steamships, Limited, I beg to submit the Annual Report of that Company for the Calendar year 1944.

The Balance Sheet as at December 31st, 1944, and the Income Account for the year 1944 are appended hereto.

Summarized, the operating results for the year as compared with the results for the previous year were as follows:

	1944	1943	Increase	
Operating Revenues	\$5,378,058.55	\$4,492,188.94	\$ 885,869.61	19.72%
Operating Expenses	3,403,725.74	3,188,578.72	215,147.02	6.75%
Operating Profit	<u>\$1,974,332.81</u>	<u>\$1,303,610.22</u>	<u>\$ 670,722.59</u>	

From the operating profit for 1944 there has been paid \$521,700 for bond interest and exchange and \$181,246.06 for interest on Government Notes and Advances, leaving an income surplus for the year of \$1,271,386.75, which has been paid to the Government in reduction of interest arrears and capital advances to the Company.

The Directors desire to pay sincere tribute to the loyalty and efficiency displayed by the officers and employees of the Company during another year of wartime operation.

The CHAIRMAN: Are there any questions?

Mr. REID: My first question deals with liabilities: "25 Year 5% Dominion of Canada Gold Bonds due in 1955, \$9,400,000"; and on the assets side, total assets for the vessels, plant and equipment, office furniture and fixtures, \$5,615,097.78. My question is: I presume if you have liabilities of over \$9,000,000 that the money was spent more or less on vessels, plant and equipment and furniture and so on, and I am asking why the assets, the real physical working operation of the steamships only amount to a little over \$5,500,000 compared with a loan of \$9,400,000?

Mr. VAUGHAN: Some of the vessels have been lost. You notice certain other items in the assets. I think Mr. Cooper can answer you better.

Mr. REID: I realize that inventories of stores and supplies etc. bring the figure up to \$15,000,000, but I am speaking of those other items, vessels, plant and equipment, office furniture and fixtures.

Mr. VAUGHAN: You can see that we have an insurance and replacement fund, \$7,267,865.29.

Hon. Mr. CHEVRIER: That really should be added to the \$5,589,000; those were vessels lost at sea. That would give you almost \$13,000,000 for vessels.

Mr. REID: Why was the depreciation less in 1944 than in 1943?

Mr. VAUGHAN: That would be because there were fewer boats, I presume.

Mr. COOPER: Yes.

Mr. REID: Regarding subsidies, why do the subsidies change each year? You received \$177,200 and \$137,772 in 1945. That is the subsidy given by the government. Why was it less?

Mr. VAUGHAN: The subsidies are not paid by the Canadian government; the subsidies are paid by a number of islands in the West Indies. We have been unable to perform some of the services for which those subsidies were paid. We have been unable to have our vessels call at those islands at certain times and, therefore, the full subsidy was not payable and it was adjusted.

Mr. REID: How many vessels have you?

Mr. VAUGHAN: In the Canadian National (West Indies) service there are the Lady Nelson, Lady Rodney, Cathcart, Cavalier, Connector, Chomdey and Colborne. The Lady Nelson is a hospital ship and the Lady Rodney is a troop ship. In 1944 we were operating a number of Park Steamship Company boats for the government. Altogether, we were operating about twenty-four vessels in 1944.

Mr. REID: I suppose the passenger revenues are only a small item?

Mr. VAUGHAN: There was practically no passenger revenue at all in the last few years.

Mr. NICHOLSON: How soon do you expect to have the passenger service resumed?

Mr. VAUGHAN: Three of the Lady boats out of five were sunk by enemy action; the other two were requisitioned by the government. One is a hospital ship and the other one is a troop ship. We do not expect to get those boats back until, perhaps, next mid-summer—may be sooner than that—and it will take three or four months approximately to put those boats in condition to carry passengers.

Mr. MUTCH: Is the Lady Rodney still running troops?

Mr. VAUGHAN: Yes.

Mr. REID: There seems to be a wrong item in here, that item of over \$500,000. That seems to be a lot of money outstanding for those three items when one considers the revenue from freight?

Mr. COOPER: It is a large item, but nevertheless there is nothing wrong with it.

Mr. REID: I am not saying there is. Is that from one year's operation due the company?

Mr. COOPER: That is the amount outstanding at the end of the year.

Mr. VAUGHAN: There would be a considerable amount of that due from the Canadian government for the rental of those two boats which they have requisitioned. There is always a considerable amount outstanding. That would be the principal amount outstanding.

Mr. NICHOLSON: The Canadian government is sure pay, but somewhat slow, I suppose.

Mr. VAUGHAN: Sometimes.

Mr. JACKMAN: You seem to carry about a 75 per cent increase in gross and net profits. Are you likely to continue that very favourable trend?

Mr. VAUGHAN: No, sir, I do not think we will. We have certain agency profits which may disappear. We have been operating boats for the ministry of war transport and we have been operating a number of foreign boats—Danish, Finnish and French—but most of them have been handed back to those countries, and I do not think our position for next year—that is for 1946—will be as good as for 1945.

Mr. JACKMAN: Will any change in Empire tariffs have an effect on the Canada-West Indies arrangement?

Mr. VAUGHAN: It might.

Mr. JACKMAN: What are you expecting to happen generally in the Canadian National (West Indies) Steamships, Limited?

Mr. VAUGHAN: I would like to be able to tell you, Mr. Jackman, but that is beyond me. I do not know.

Hon. Mr. CHEVRIER: Perhaps I should say something on that. I think the whole future depends upon what will be done with the trade agreement with the West Indies. The trade agreement existing at the moment will terminate six months after hostilities cease. Whether the agreement will be renewed or not, I do not know. If it is renewed, that brings up the question of freight and passenger traffic on those lines; if it is not renewed I do not know what will happen.

Mr. HAZEN: When does it terminate, six months after the declaration by the government?

Hon. Mr. CHEVRIER: I cannot answer that; I do not know what the agreement says; but I do not think it is six months after the declaration. I would think it is six months.

Mr. HAZEN: After the termination?

Hon. Mr. CHEVRIER: Yes.

Mr. VAUGHAN: The agreement itself, Mr. Minister, could be cancelled on six months' notice. It expired some time ago, but I think as you say it has been carried on in the meantime.

Hon. Mr. CHEVRIER: Neither of the parties has given notice.

Mr. VAUGHAN: No.

Mr. JACKMAN: During the years this line has been running with a subsidy, it received subsidies under the agreement. Is it still necessary for it to have a government subsidy, or is the traffic now such that it can operate economically?

Mr. VAUGHAN: We have not had any assistance from the government for some time. We have had, as the statement shows, some profit the last few years. In the early stages there were losses sustained. You may probably recall that when the Canada-West Indies trade agreement was entered into, Canada undertook to provide certain specific services; the number of boats to be in these services, ports of call, frequencies of service, are all set out in the agreement. At that time the Dominion of Canada advertised for tenders for the operation of these services. I think they only got one reply which was for the eastern service, and the company tendering wanted something like \$500,000 to \$600,000 per annum subsidy to perform the service. They received no tender for the western service because I presume the subsidy they would have to ask for that service would be so large they would not be able to get it. It is fair to say, though, that a subsidy of at least a million dollars a year would have had to be paid for both services. The Dominion of Canada then decided that the Canadian National-West Indies Steamships would undertake this service, which we did, although we did not get the subsidy which the commercial lines asked for, and had we been given such a subsidy there never at any time would have been a deficit shown.

Mr. JACKMAN: Is the service worth continuing on an economic basis?

Mr. VAUGHAN: I think it is, yes. The service is very valuable to Canada. All the Caribbean countries want this service continued.

Mr. JACKMAN: What about the co-operation of the various countries concerned?

Mr. VAUGHAN: The subsidies they give are of course a mere bagatelle. I think there was a meeting of the Caribbean boards of trade some time ago and they petitioned the Canadian government for a renewal of the Canadian-West Indies trade agreement, and for a continuance of these services. The people down there are very well pleased with the services. I believe whether the Canada-West Indies trade agreement is renewed or not that these services in a limited way should continue, otherwise the export trade of Canada will suffer very materially. Canada has been the main source of supply for the West Indies all during the war, and these boats have performed that service.

Mr. JACKMAN: So the way things stand now the service has paid for itself and in addition provides an outlet for Canadian products?

Mr. VAUGHAN: In recent years.

Mr. JACKMAN: Would that apply just for the last year?

Mr. VAUGHAN: No, I think for the last four or five.

Mr. HAZEN: When did we commence to carry on the business of the Canadian National (West Indies) Steamships?

Mr. VAUGHAN: My recollection is, about 1929; is that right?

Mr. COOPER: 1929, yes, sir.

The CHAIRMAN: Gentlemen, could we adopt the balance sheet? Is that asking too much?

Mr. JACKMAN: Well, Mr. Vaughan, we are not at all concerned about letting the government clean up that \$8,000,000 which has accumulated during the years; that does not seem to worry anyone. It is not very happy in the balance sheet.

Mr. VAUGHAN: No, We are not happy having it in the balance sheet. We did get an adjustment of the interest the government were charging us on that, which up to a year ago was 5 per cent, but eventually they reduced it to 3.5 per cent. We feel that the operating deficits should not have been carried in the balance sheet, that it should have been taken care of from year to year.

Mr. HAZEN: You lost about \$500,000 average since the company commenced to operate?

Mr. VAUGHAN: Hardly that much.

Mr. HAZEN: Well, what is it then?

Hon. Mr. CHEVRIER: There has been a substantial profit since 1940. A loss was shown prior to that.

Mr. VAUGHAN: The debits are shown there from 1929 to 1934; amounting to \$5,039,000 for those years.

Mr. HAZEN: The deficit is \$8,070,000, is it not?

Mr. VAUGHAN: Yes.

Mr. HAZEN: And if you divide that by 16, would you not get about \$500,000?

Mr. VAUGHAN: Yes, I presume it is about that.

Mr. HAZEN: You have been losing on an average half a million dollars a year on the operations?

Mr. VAUGHAN: Even at that it is not costing half what the government would have had to pay in subsidies to commercial lines based on the tenders put in by them.

Mr. HAZEN: Subsidies for what?

Mr. VAUGHAN: For the operation of the service. Nobody would have undertaken the service without a subsidy. As I say, the dominion government called for tenders, and they only got one tender. That company asked for \$500,000 for the eastern service only, and they would not quote at all on the western service which is Nassau, Jamaica and British Honduras. The government would have had to pay a higher subsidy for the western service so it is fair to say, I believe, that the subsidy asked by commercial services for the two would have been at least \$1,000,000. So taking into account these losses they are much less than the government would have had to pay if commercial companies had been operating the service.

Hon. Mr. CHEVRIER: The government did pay subsidies to certain companies before Canadian National Steamships took it over.

Mr. HAZEN: What did they amount to?

Mr. VAUGHAN: The government paid a subsidy for many years to the old Royal Mail Steamship Company which operated four old boats which had been written off their books. They paid a subsidy of between \$300,000 and \$400,000 a year for the eastern service only.

Mr. HAZEN: Do you think that a loss of half a million dollars a year is justified for the results obtained?

Mr. VAUGHAN: Yes.

Hon. Mr. CHEVRIER: Your people in the maritimes are very strongly in favor of that.

Mr. HAZEN: I am asking Mr. Vaughan.

Hon. Mr. CHEVRIER: I thought you would be interested in knowing that several resolutions have come from boards of trade in the maritimes favoring that.

Mr. HAZEN: I know that.

Mr. VAUGHAN: I should like to point out that most of that loss is represented by depreciation. What is the cash loss?

Mr. COOPER: About \$250,000 a year. It averages that.

Mr. JACKMAN: Have you got boats on order to replace the ones which were sunk?

Mr. VAUGHAN: We have no new vessels on order. I should qualify that. There are three vessels being built which were started under the wartime ship-building program. They are improved freighters with a small amount of passenger accommodation. They will be turned over to us when they are completed for this service.

Mr. JACKMAN: There is no definite policy in regard to the future of this company at the present time.

Hon. Mr. CHEVRIER: I do not think there can be until we decide whether it will be advisable to renew the agreement.

Mr. JACKMAN: May I ask another question? The United Fruit Company brings up a lot of bananas from Guatemala and Salvador to New York. Is there any reason why we should not be able to get the transportation of those fruits into Canada?

Mr. VAUGHAN: If we had the vessels available I think perhaps we could get some of that banana business. We did carry very large quantities of bananas before the war in our boats.

Mr. JACKMAN: From the West Indies?

Mr. VAUGHAN: Yes, we brought most of the bananas into Canada on our boats before the war.

Mr. HAZEN: Do the United Fruit boats come into Canadian ports?

Mr. VAUGHAN: The United Fruit Company had one boat which came into St. John at infrequent intervals.

Mr. HAZEN: Yes. I know when it came there.

Mr. VAUGHAN: Yes. But we carried most of the bananas into Canada in our vessels.

Mr. HAZEN: What is to become of the Park boats? Are there any plans about those? You are still operating them, are you?

Mr. VAUGHAN: We are operating a number of Park boats, yes. We will continue to use those boats as long as there is freight for them. They have been assigned to us on the same basis as other vessels of the Park Steamship Company have been assigned to various commercial shipping companies.

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

Mr. BEAUDOIN: I second the motion, Mr. Chairman.

Mr. CHAIRMAN: Is that O.K.?

Mr. JACKMAN: It must be 6 o'clock.

Mr. BEAUDOIN: Are we adopting at the same time page 6 of the budget?

The CHAIRMAN: What about the budget?

Mr. PICARD: That is included in the motion.

Mr. JACKMAN: There are no capital items in that part of the budget at all.

Mr. VAUGHAN: No. No capital expenditures.

Mr. JACKMAN: Just what increased operations show. There is nothing to debate.

Motion agreed to.

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER, 1944

ASSETS		
INVESTMENTS:		
Vessels.....	\$ 5,589,268 15	
Plant and Equipment.....	8,273 78	
Office Furniture and Fixtures.....	17,555 85	
	<hr/>	\$ 5,615,097 78
CURRENT ASSETS:		
Cash in Banks.....	\$ 970,292 94	
Special Deposits.....	10,350 00	
	<hr/>	980,642 94
Accounts Receivable.....	597,430 54	
Freight, Passenger and Agency Balances..	530,629 84	
Inventories of Stores and Supplies.....	10,985 42	
Advances to Captains, Crews, etc.....	56,242 86	
Other Current Assets.....	25,105 67	
	<hr/>	2,201,037 27
INSURANCE AND REPLACEMENT FUND.....		7,267,865 29
DISCOUNT ON CAPITAL STOCK.....		40,000 00
UNADJUSTED DEBITS.....		3,902 18
		<hr/>
		<u>\$15,127,902 52</u>

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.....	\$	583,071 83
Advances:		
Working Capital.....	\$	450,000 00
Deficits (1929-1934).....	5,059,960 94	5,509,960 94
	<hr/>	6,093,032 77
CURRENT LIABILITIES:		
Accounts Payable.....	\$	1,064,427 88
Interest Matured Unpaid.....		10,350 00
Unmatured Interest Accrued.....		156,666 67
Passage Money paid in Advance.....		10,087 48
	<hr/>	1,241,532 03
UNADJUSTED CREDITS.....		103,189 05
UNCOMPLETED VOYAGES—SUSPENSE.....		202,177 16
ACCRUED DEPRECIATION.....		2,706,119 05
INSURANCE AND REPLACEMENT RESERVE.....		3,411,913 97
PROFIT AND LOSS:		
Deficit at 1st January, 1944.....	\$	9,341,448 26
Surplus for year 1944.....	1,271,386 75	8,070,061 51
	<hr/>	<u>\$15,127,902 52</u>

NOTE:—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

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 31st December, 1944, and 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, 1944, and that the relative Income Account for the year ended the 31st December, 1944, is correctly stated.

15th March, 1945

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

OPERATING REVENUE:

	1944	1943
Freight	\$ 4,125,593.02	\$ 3,503,027.22
Passenger	8,231.61	13,295.52
Miscellaneous	262,880.93	112,282.25
Subsidies	177,200.00	172,770.00
Charter	804,152.99	690,813.95
Total	\$ 5,378,058.55	\$ 4,492,188.94

OPERATING EXPENSES:

Closed Voyages	\$ 3,004,628.20	\$ 2,740,371.98
Depreciation on Vessels	243,158.05	239,362.63
Management and Office Salaries.....	119,685.66	99,191.17
Pensions	3,338.00	81,470.68
Other Expenses	32,915.83	28,182.26
Total	\$ 3,403,725.74	\$ 3,188,578.72
Operating Profit	\$ 1,974,332.81	\$ 1,303,610.22
Interest on Bonds held by Public.....	470,000.00	470,000.00
Exchange on U.S. Funds	51,700.00	51,700.00
Interest on Government Notes and Advances...	181,246.06	343,072.94
SURPLUS	\$ 1,271,386.75	\$ 438,837.28

The CHAIRMAN: Very well, gentlemen. That is the West Indies report. The next meeting, if it is agreeable to the committee, will be to-morrow morning at 11 o'clock in room 497. There is some difficulty about rooms to-morrow. Will 11 o'clock to-morrow be satisfactory to the committee?

Some Hon. MEMBERS: Yes.

Mr. HAZEN: What are you going to take up?

The CHAIRMAN: We have yet the securities trust report, the auditors' report and the minister's estimates.

Mr. JACKMAN: And the Trans-Canada Air Lines.

Mr. HAZEN: The minister's what?

The CHAIRMAN: The minister's estimates. You have three.

Hon. Mr. CHEVRIER: There are three estimates referred to the committee.

The CHAIRMAN: I mentioned the Trans-Canada Air Lines the other day. We have to give some notice to bring officials here from Winnipeg and so on. I mentioned the other day if it is possible to conclude this part of the proceedings this week, then we can go on with the Trans-Canada Air Lines next week, if that is agreeable to the committee. We have not much left. We should be able to get through that. That is not going too far, is it? We should be able to get through Canadian National Securities Trust, the auditors' report and the estimates.

Hon. Mr. CHEVRIER: I do not think we should go on with the Trans-Canada Air Lines report until we finish this.

Mr. JACKMAN: No. That is all right. I wondered which we would take up first, that or the matter which Mr. Howe has referred to in the House.

Hon. Mr. CHEVRIER: The point there was to see that the officers were available. Mr. Symington is in Montreal and while he may have been here this week, I doubt whether the officers would have been.

Mr. JACKMAN: When does Mr. Howe expect third reading on that matter?

Hon. Mr. CHEVRIER: He has to get second reading first, which will be to-morrow, I hope.

The CHAIRMAN: There is just one more thing, gentlemen. I am new on this committee, and I am not sure whether this reference from the House should be taken up first or whether the Trans-Canada Air Lines report should be.

Mr. JACKMAN: The reference from the House on the T.C.A.

Hon. Mr. CHEVRIER: No. I think we should complete this business first and discuss the Trans-Canada Air Lines afterwards.

Mr. BEAUDOIN: That is most logical.

Mr. JACKMAN: There is the suggestion as to whether we should take the T.C.A. report first or the reference on the T.C.A. from the House.

Hon. Mr. CHEVRIER: That is a matter that we can discuss next week, I think.

The CHAIRMAN: We can discuss that. We shall try to finish this to-morrow, everything in connection with the railway; that is, the auditors' report, securities trust report and the minister's estimates.

Mr. JACKMAN: We will sit at 11 o'clock in the morning and in the afternoon?

The CHAIRMAN: Say 4 in the afternoon, if that is agreeable to the committee. We will now adjourn.

The committee adjourned at 6.15 p.m. to meet again on Thursday, October 25, at 11 o'clock a.m.

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SESSION 1945
HOUSE OF COMMONS



STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, OCTOBER 25, 1945

WITNESSES

- Mr. R. C. Vaughan, Chairman and President Canadian National Railways;
- Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;
- Mr. T. H. Cooper, Comptroller, Canadian National Railways;
- Mr. O. A. Matthews, Representing George A. Touche & Co., Auditors;
- Mr. J. G. MacLachlan, Manager, Hudson Bay Railway.

MINUTES OF PROCEEDINGS

Room 497

THURSDAY, October 25, 1945.

The Standing Committee on Railway and Shipping owned, operated and controlled by the Government met this day at 11 o'clock a.m. Mr. Murray Clark, Chairman, presided.

Members present: Messrs: Chevrier, Clark, Coyle, Beaudoin, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Maybank, Nicholson, Reid.

In attendance: Mr. R. C. Vaughan, Chairman, and President; Mr. N. B. Walton, C.B.E., Executive Vice-President; Mr. T. H. Cooper, Comptroller; of Canadian National Railways. Mr. C. P. Edwards, O.B.E., Deputy Minister of Transport. Mr. F. M. MacLennan, secretary, The Canadian National Railways Securities Trust. Mr. O. A. Matthews and Mr. F. M. Stone of the firm of George A. Touche & Co. Auditors.

Mr. R. C. Vaughan tabled certain returns requested by the Committee at the preceding meeting. These returns appear as Appendices "A", "B", "C" and "D" to the Minutes of Evidence of this day.

Certain questions were asked arising of the consideration of the Annual Report of Canadian National (West Indies) Steamships, Limited, which were answered by Mr. Vaughan and Mr. Cooper.

The Committee then proceeded with its consideration of the Canadian National Railways Securities Trust for the Calendar year 1944. Mr. Cooper, Comptroller, at the invitation of the members, gave the Committee an outline of the purpose behind the setting up of the Securities Trust.

At the conclusion of the study of the Annual Report, presented by Mr. Cooper, Mr. Beaudoin proposed its adoption and the question being put it was carried unanimously.

The Committee then proceeded with the consideration of the Report of the Auditors to Parliament as it relates to the Canadian National Railway System, The Canadian National Railways Securities Trust and the Canadian National (West Indies) Steamships, Limited. Mr. O. A. Matthews and Mr. F. M. Stone, of the firm of George A. Touche & Co., Auditors, were called.

Mr. Matthews presented the Report and the discussion thereon, was adjourned to the next meeting.

At 1.10 o'clock p.m. the Committee adjourned to meet again at 4 o'clock p.m. the same day.

Room 497

THURSDAY, October 25, 1945.

The Committee met again this day at 4 o'clock p.m. Mr. Ralph Maybank, Vice-Chairman, presided.

Members present: Messrs: Chevrier, Coyle, Beaudoin, Belzile, Bourget, Emmerson, Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, LaCroix, Maybank, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Reid.

In attendance: The Officers and officials mentioned as being present at the morning sitting with, in addition, Mr. J. G. MacLachlan, Manager of the Hudson Bay Railway.

The Committee resumed from the morning's sitting the consideration of the Auditors' Report to Parliament.

Mr. O. A. Matthews was again heard. Other questions arising out of the Report were answered by Messrs. Vaughan, Walton and Cooper.

On motion of Mr. Reid, the Report of the Auditors as it relates to The Canadian National Railways System, The Canadian National Securities Trust and The Canadian National (West Indies) Steamships, Limited, was adopted unanimously.

The following items of the Estimates for the year ending 31st March 1946 were considered, namely:

Vote No. 377, Maritime Freight Rates Act, Canadian National Railways;

On motion of Mr. McCulloch the said item was adopted unanimously.

Vote No. 378, Maritime Freight Rates Act, Railways other than Canadian National Railways;

On motion of Mr. Reid, the said item was adopted unanimously.

Vote No. 421—Prince Edward Island Car Ferry and Terminal Deficit.

On motion of Mr. McCulloch, the said item was adopted unanimously.

The Committee agreed that Mr. Maybank, the Vice-Chairman, would present the necessary Report to the House recommending the adoption of the above Items of the Estimates.

Mr. J. G. MacLachlan, Manager of the Hudson Bay Railway, was called. He presented to the Committee a Financial Report on the Operations of the said Railway, which report appears as Appendix "D" to this day's Minutes of Evidence. Mr. MacLachlan was questioned thereon and he retired.

Mr. Maybank, Vice-Chairman, extended the thanks of the Committee to Mr. Vaughan and the other Officers of Canadian National Railways for their attendance to which Mr. Vaughan expressed the appreciation of the officers and himself for the consideration accorded to them by the Committee.

On the motion of Mr. Mutch, the Committee adjourned to meet again at 11 o'clock a.m., Tuesday, October 30, 1945.

ANTOINE CHASSÉ,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, October 26, 1945.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending 31st March, 1946, referred to it on October 17, 1945, and recommends their adoption, namely:—

Vote No. 377—Maritime Freight Rates Act, Canadian National Railways	\$3,500,000.00
Vote No. 378—Maritime Freight Rates Act, Railways other than Canadian National Railways,	\$ 900,000.00
Vote No. 421—Prince Edward Island Car Ferry and Terminal Deficit	\$ 713,000.00

All of which is respectfully submitted.

RALPH MAYBANK,
Vice-Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, October 25, 1945.

The Standing Committee on Railways and Shipping met this day at 11.00 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: There were some questions asked last night on which some of the officials would like to file answers. If that is agreeable Mr. Vaughan and Mr. Cooper will file answers to certain questions that were asked last night.

Mr. VAUGHAN: We were asked for a breakdown of our earnings and expenses by regions. I am filing that.

(Statement of Net Operating Revenue by Regions, 1944, appears as Appendix "A")

I think it was Mr. Hazen who asked for a statement of capital expenditures for the year 1944 on the Prince Edward Island car ferry and terminals.

Mr. HAZEN: While we are on that I understood you to say yesterday that the cost for a truck was \$6.

Hon. Mr. CHEVRIER: I think I said that.

Mr. HAZEN: I should like to have more information on that. Perhaps that report shows it. My information is that if a man living on the island takes a 5-ton truck loaded with potatoes to the mainland, leaves those potatoes there, loads up with coal and brings it back it costs him \$60.65. My information is that it is made up as follows, that he has to pay \$10 when he brings the truck on the ferry to put it on the car. It has to be put on a car and that costs \$10 each way or \$20. Then he has to pay 5 cents a pound, I think it is, for the stuff he is hauling. If it is 5 tons that comes to \$20, \$10 each way. That makes \$40. Then the driver of the truck pays 65 cents. In addition to that I understand there is a further charge. I have not got the memo on it here before me, but I understand that it costs a man with a 5-ton truck \$65 to take it loaded from the island to the mainland and bring it back to the island loaded. The distance is about nine miles.

Mr. BEAUDOIN: That is provided he comes back with a load.

Mr. REID: He would have to get a good price for his potatoes to pay a charge of that kind.

Mr. HAZEN: That adds so much to the cost of production. That is what they complain about.

Mr. VAUGHAN: We have not got those trucking charges here. I think what we had better do is to file a statement of the costs so that it will be on record in your proceedings.

Mr. HAZEN: The people on the island complain, and I think naturally, that the rate is too high. It certainly works to their disadvantage. When they take their potatoes over to the mainland to sell they have that big charge against them as overhead, and when they bring back coal for their own use they have got a big charge against that.

Mr. VAUGHAN: Most of the potatoes are moved by railroad. I do not think there are many potatoes moved by truck from the island to the mainland.

Mr. EMMERSON: That would be a man who was peddling, would it not?

Mr. VAUGHAN: Yes. There is a third statement here in response to a question asked by Mr. Hazen which gives our capital expenditures by provinces on the Atlantic region.

(Statement appears as Appendix "B")

The CHAIRMAN: I should like to ask one question for my own information as I often buy potatoes from Prince Edward Island. If I understood you correctly you said that the charge was 5 cents a pound, Mr. Hazen. That would be at the rate of \$3.75 a bag.

Mr. HAZEN: My information is only in the form of a rough note as I have it here. I have not got the particulars. Five tons of potatoes cost \$20. You can work out from that what it costs a pound.

The CHAIRMAN: That is a lot different. Five tons of potatoes would be 10,000 pounds. That is 2 cents a pound.

Mr. HAZEN: It is 20 cents a hundred pounds, is it not?

Mr. JACKMAN: That is more reasonable.

The CHAIRMAN: That is why I asked the question. I could not imagine that it was 5 cents a pound. These statements have been filed here for your information.

Mr. VAUGHAN: There is just one more statement. In order to amplify what was said last night regarding Canadian National West Indies steamships if agreeable to you, Mr. Chairman, and the committee, I should like Mr. Cooper to read a statement in that connection so that it may go on record or we can file it and put it on record. It is a summary of the results achieved by Canadian National West Indies Steamships from the period of their commencement up to the end of 1944.

Mr. COOPER: For the sixteen years, 1929 to the end of 1944, the total operating revenue was \$70,914,886.76. Operating expenses were \$62,351,626.63 showing an operating surplus for the sixteen years of \$8,563,260.13. After meeting interest on the bonds held by the public which was \$6,958,611.12, paying exchange and taking care of the discount which was suffered at the time the bonds were issued there was a surplus of \$746,142.52. Then we have to take up interest due the government and depreciation on the vessels. The interest due to the government in this period amounted to \$4,190,615.86 and the depreciation charged was \$4,625,588.17, so that the deficit of \$8,070,061 which appears on the balance sheet is entirely due to the charge for interest due the government and to the setting up of depreciation. Then I should like to point out that if this company were wound up today, that is, at the end of 1944, as against the deficit of \$8,070,061.51 which was referred to yesterday we have the insurance and replacement reserve, \$3,411,000. In the event of a winding up, that reserve would be transferred to surplus account so that to the end of 1944 the overall deficit of this company from the inception of its operations, including all operating costs, bond interest, interest due the government and depreciation, is \$4,658,000.

Mr. JACKMAN: And your capital would be intact either by assets in the form of ships or in your insurance reserve?

Mr. COOPER: To the extent we still have vessels in service, it would depend on the realizable value of those vessels compared with the present book value, the net book value after depreciation.

Mr. REID: What induced the C.N.R. to go into the shipping business to the West Indies in the first instance?

Mr. VAUGHAN: That was because of the Canada West Indies agreement. It was felt by the government after calling for tenders for the operation of this

service that the Canadian National West Indies Steamships could operate a better service with less cost to the Dominion of Canada and that has proved to be the case.

The CHAIRMAN: Is that all on that item?

Mr. JACKMAN: Have we got that picture clear, Mr. Cooper, on the summary of the historical operation of the West Indies Steamship Company? I did not follow it too closely, but as I understood it there was almost \$9,000,000 in the two items, interest due the government and depreciation, against which you could offset a small operating profit over the period. Let us call it a net of \$8,000,000. Then you spoke of an insurance reserve of \$4,000,000, was it?

Mr. COOPER: The balance sheet shows it as \$3,411,000.

Mr. JACKMAN: So you arrive at a net figure of . . .

Mr. COOPER: \$4,658,000.

Mr. JACKMAN: What about the original capital that went into the situation? That is not intact at all, is it?

Mr. COOPER: Oh, yes, any vessels which have gone out of service have been provided for in that figure. Then I mentioned in answer to your question that there would have to be taken into consideration the realizable value of our assets in comparison with their present net book value. I just wanted to remove the impression which seemed to be left with the committee yesterday that this company in its operations had lost money apart from interest and depreciation, and I am not questioning whether they are correct charges or not. Taking into account this reserve which we have on the books the real book deficit today is \$4,658,000.

Mr. HAZEN: As shown in your statement it was \$8,070,000, was it not?

Mr. COOPER: Yes.

Mr. HAZEN: I took that amount, divided it by 16 and figured out you were going behind on an average of half a million dollars a year.

Mr. COOPER: That is quite right, but nevertheless we should take into consideration the fact that we have this reserve of \$3,411,000 which in the event of the winding up of the company would be applicable to reduce the book deficit of \$8,070,000.

Mr. JACKMAN: The capital stock is a very nominal item on the balance sheet, \$40,000?

Mr. COOPER: That is correct.

Mr. JACKMAN: What else is there against the assets besides that capital stock? That is the only proprietorship item. What other money was put into the company to acquire assets in the first place or as the company went on during the years?

Mr. VAUGHAN: There was the bond issue.

Mr. JACKMAN: \$9,400,000.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: The true picture is then that if you have a few ships sunk, collect your insurance policies and apply the proceeds to wipe out your deficit you have still got your capital liability on the proprietorship account and on the borrowing account?

Mr. VAUGHAN: Yes, but we have this reserve Mr. Cooper speaks about as well as a number of vessels as assets.

Mr. JACKMAN: He has used that once already, Mr. Vaughan. That is what I am not quite clear about.

Mr. COOPER: At the end of 1944 we have \$15,000,000 of assets, and apart from the item of \$40,000 of discount they are all good assets, assuming that the value of the vessels is all right. I will file with the reporter the statement I have used showing the sixteen year income statement, if the committee wishes it, which will show the earnings from freight, passenger, and subsidies, and all operating costs, a complete breakdown of the deficit of \$8,000,000 as shown in the balance sheet.

(Statement appears as Appendix "C".)

The CHAIRMAN: Is it agreeable to file that statement?

Some Hon. MEMBERS: Yes.

Mr. JACKMAN: Mr. Hazen's statement though is not only substantially but absolutely correct that during the operating life of this company there has been lost \$8,000,000 which, as he pointed out, averages about \$500,000 a year. Had it not been for the five quite prosperous war years when your volume was up and other conditions operated in your favour it would have been substantially more. The war years are years which we cannot expect to have repeated with their volume of business and other conditions. Is that true?

Mr. COOPER: There is no very good reason why the item of \$3,411,000 shown on the balance sheet as being in reserve should not be transferred to surplus account in which event the over all deficit would be \$4,658,000.

Mr. JACKMAN: That reserve on the liability side must be against some asset. What asset is it against? It is not an asset; it is a liability.

Mr. COOPER: It is surplus. If you were arriving at the net surplus you would take the gross assets and deduct liabilities. This is not a liability, although it is on the liability side of the balance sheet.

Mr. JACKMAN: The balance sheet must balance and the \$3,411,000 must be found in some form or other in one of the accounts on the asset side. We can give credit for \$15,000,000 on the asset side but you cannot take credit for a reserve on the liability side too, surely?

Mr. COOPER: As against an asset.

Mr. JACKMAN: If we give you credit for \$15,000,000 of assets in this company those are all the assets you have?

Mr. COOPER: Right.

Mr. JACKMAN: If you take your liabilities the \$9,400,000 is a real liability; the \$6,000,000 is a real liability and your current liabilities are \$1,200,000. They are real. Your unadjusted credits are not important anyway but accrued depreciation is certainly real.

Mr. COOPER: You must stop there when you are considering liabilities.

Mr. JACKMAN: It is not a liability to the public. That is quite true, but in order not to overstate your profits or to understate your losses you must set up your depreciation. I presume you have maintained the original book value of your assets and do not carry your ships at their depreciated value on the asset side. You measure the depreciation on the liability side. We might just as well transfer the \$2,700,000 over to the asset side under vessels and take a net figure of \$5,500,000 less \$2,700,000?

Mr. COOPER: Quite correct.

Mr. JACKMAN: That is a real liability inasmuch as it measures the deficiency of an item on the asset side?

Mr. COOPER: Right, and if you do what you say you will arrive at a net deficiency in assets as compared with liabilities of \$4,658,000.

Mr. JACKMAN: I still do not see why it is not \$8,000,000 as your balance sheet states. The item of \$3,411,000 is the one which we are discussing.

Mr. COOPER: Which is a reserve and which can be transferred to surplus or applied in reduction of the deficit account, whichever you wish.

Mr. JACKMAN: Is that \$3,411,000 not represented by some item on the asset side? Does it not represent vessels in your \$5,500,000 which have been sunk, or something of that sort? Can you take the insurance and replacement reserve as an asset or to extinguish a deficit and still maintain your capital assets? If I give you credit for \$15,000,000 for assets surely the \$3,400,000 of insurance and replacement reserve must be among those assets some place, is it not?

Mr. HARRIS (*Grey-Bruce*): Are the assets all actual physical assets or do they include vessels sunk?

Mr. COOPER: The asset value shown in the accounts is the original cost of the vessels still in our ownership.

Mr. HARRIS (*Grey-Bruce*): Not sunk?

Mr. COOPER: No, vessels which have been lost have been written out.

Mr. HARRIS (*Grey-Bruce*): Is that not part of your question?

Mr. JACKMAN: It is a part, yes, but how did the insurance and replacement reserve arise?

Mr. COOPER: The insurance reserve arose out of the practice of charging to operating expenses insurance premiums in excess of the loss experienced, and the balance in the insurance reserve is nothing more or less than surplus on a winding up of the company.

Mr. GIBSON: You could dissipate that by losing a ship?

Mr. COOPER: I was speaking on the assumption we went out of business at the end of 1944.

Mr. GIBSON: So it is not really an actual asset?

Mr. COOPER: It was at December, 1944.

Mr. GIBSON: As of December, 1944, but to-morrow you might lose it. It could be wiped out quite easily.

Mr. VAUGHAN: A large part of that loss shown, of course, is represented by a charge of 5 per cent by the government on deficits that we think should never have been in there. We feel we should have been credited with the subsidies which the government would have had to pay had outside companies been operating the service.

Mr. HAZEN: Might I ask Mr. Vaughan another question? Do all the Lady boats sail from Halifax to the West Indies?

Mr. VAUGHAN: In normal times some of them came into Saint John and went around to Halifax. They sailed eventually from Halifax.

Mr. HAZEN: Were there complaints made by the board of trade or anybody in Saint John that some of the boats should sail from Saint John to the West Indies?

Mr. VAUGHAN: I do not recall now. It is quite possible there were representations made, but I do not recollect them at the present time.

Mr. HAZEN: Was there any complaint that manufacturers and shippers from Saint John had to ship all their stuff by rail around to Halifax before they could ship it?

Mr. VAUGHAN: I think there was something of that kind.

Mr. HAZEN: On the Lady boats to the West Indies, and that added greatly to the expense.

Mr. VAUGHAN: That was thoroughly explained at the time, and I think satisfactorily. Six years have elapsed now and I do not remember the recommendations which were made at the time.

Mr. JACKMAN: I think we are all right, Mr. Cooper, on it. I think I have got it through my head now. Your \$15,000,000 of assets are all real except for the depreciation account of \$2,700,000, and all liabilities above insurance and replacement reserve are liabilities to the public or the government which you owe to somebody?

Mr. COOPER: Yes.

Mr. JACKMAN: If you realize on your assets less depreciation reserve and pay off your liabilities you do not owe the insurance and replacement reserve to anyone but yourself and whatever is left over belongs in liquidation to the company, and whereas your books show a deficit of \$8,000,000 that \$3,411,000 is not owed to anybody but you see the deficit is reduced by that amount.

Mr. COOPER: You agree then that the deficit is really \$4,658,000?

Mr. JACKMAN: I think that is the true book value.

Mr. COOPER: Thank you, sir.

Mr. HAZEN: May I ask another question about the Lady boats? Was it not one of the complaints when the Lady boats came to Saint John and then went around to Halifax that merchants or manufacturers who would have preferred to ship from Saint John to save costs could not put their stuff on board the boats when they arrived in Saint John because when the boats got to Halifax the cold storage facilities were all turned off? As they were perishable goods they could not put them on in Saint John because the cold storage was turned off when they got to Halifax and they would be destroyed. So they had to ship them around by rail to Halifax.

Mr. VAUGHAN: I do not remember that being given as a reason.

Mr. REID: You have no vessels in British Columbia?

Mr. VAUGHAN: We just have coasting vessels.

Mr. JACKMAN: Are you going to open up the service on the Pacific coast again?

Mr. VAUGHAN: Pardon?

Mr. JACKMAN: Are you going to open up the service on the Pacific coast again?

Mr. VAUGHAN: We have always operated vessels from Vancouver to Prince Rupert and Alaska and we will continue to operate them.

Mr. JACKMAN: Are all these Prince ships gone now?

Mr. VAUGHAN: No. The large Prince boats, as you know, were requisitioned by the government and have been used as war vessels, the Prince Rupert, Prince Henry and Prince David. They will not be back again. One of our vessels was lost the other day but it will be replaced.

Mr. JACKMAN: Did you consider tendering on any of these corvettes or other possible cargo ships that the war assets disposal corporation have?

Mr. VAUGHAN: We have given some consideration to it but we came to the conclusion that the boats would not be suitable for our service and could not be economically operated by us.

Mr. HARKNESS: You say that the Prince David, Prince Rupert and these other ships will not be back. What is the reason for that? Did you not find it profitable to operate them there?

Mr. VAUGHAN: They have been made practically useless for passenger boats. There was so much work done on them to convert them to vessels of war. It would be too costly to reconvert them to passenger vessels.

Mr. GIBSON: Do you intend to replace the Prince George by building on the Pacific coast?

Mr. VAUGHAN: Yes, we do.

The CHAIRMAN: Is that all in connection with that? Can we go on to the Canadian National Railways Securities Trust.

Mr. HAZEN: Where is the financial statement about the boats on the Pacific coast? That does not come in under this?

Mr. VAUGHAN: No.

Mr. HAZEN: Where is that shown?

Mr. COOPER: In the railway accounts.

The CHAIRMAN: We will now take up the Canadian National Railways Securities Trust. The chairman is W. C. Clark, Deputy Minister of Finance. I am going to ask Mr. Vaughan to read this.

Mr. VAUGHAN: I think it would be better if you read it, Mr. Cooper.

Mr. JACKMAN: Mr. Chairman, may I ask first of all, not only for the sake of the old members who need brushing up on it, but for the sake of the new members on the committee, what is the purpose of this securities trust, how it arose, and something of the history of it?

Mr. COOPER: I think I can answer that, Mr. Jackman. I rather anticipated someone would ask the question, "What is the securities trust?" I think it is very helpful to an understanding of what the securities trust is if one has some understanding of the reasons for its creation.

When the companies now comprising the Canadian National Railways were under private ownership government cash assistance to them was in the form of interest bearing loans. The government was not then the shareholder and therefore required that its investment should have priority over the share capital. There were certain contingent interest securities held by the public which were entitled to interest only if earnings were available, and the assessment of interest charges on the government loans had the effect of deferring interest on such securities. The dominion loans and the interest thereon were also factors to be given weight in assessing the value of the Canadian Northern and Grand Trunk capital stocks the value of which was a matter for arbitration. Out of these conditions there grew up the practice of treating the dominion's investment as loan capital. The interest charge generally was 6 per cent.

After the government acquired control of the Canadian Northern and Grand Trunk systems it had the responsibility for financing their capital and operating requirements. Sometimes the requirements were met by cash loans but otherwise were met by the issue of railway securities carrying the government's guarantee. In 1932 attention was called to this in the report of the Royal Commission, which report stated: "Since the debt of the system in the hands of the public is now very large and more than the railway can carry from its earnings even under improved conditions, sums which are required to meet deficits should be voted by parliament annually and not raised by the issue of railway securities as has been done in recent years".

This recommendation of the Duff commission was accepted by the government and the Minister of Finance in his budget speech March 21, 1933, stated: "One of the recommendations of the Royal Commission on Railways and Transportation to which effect is being given in the legislation now before parliament is that sums which are required to meet deficits should be voted by parliament annually". For the year 1932 and subsequently any deficit from the operation of the railway has been met by a vote of parliament.

It became obvious that if it were improper in 1932 and subsequently to force the railway to borrow the money lost in operation then loans for that purpose in 1931 and prior also were improper and recognition of this view brought about the Capital Revision Act of 1937. One of the main purposes of that Act was to bring about the removal from the railway balance sheet of

all the outstanding loans for deficits and interest accruals. It was considered, however, that the outright cancellation by the government of its claims against the railway might have the effect of improving the position of certain unguaranteed securities and subsidiary company capital stocks held by the public. To prevent this the Securities Trust was created. The government transferred its claims to the Trust so that the railways remained obligated to the Trust in the same way and to the same extent they previously had been obligated to the government. The Securities Trust itself was declared to be a corporation comprised in the National Railways, so that the claims referred to took on the category of intersystem assets and liabilities and as such had to be eliminated from the system consolidated balance sheet. In so far as this phase was concerned the creation of the Securities Trust was a means whereby the debts were lifted from the railways collectively (as a system) but are perpetuated as against the railways individually.

The Capital Revision Act also provided that government loans to the railway for capital purposes and then outstanding should be treated as share capital rather than interest bearing debt. The amount of such loans, some \$270 millions, thus became represented by shares capital stock of the Securities Trust. From such cut-off date government advances to the railway for capital purposes and for debt redemption have all been treated as interest bearing advances.

The Capital Revision Act further provided that the five million no par value shares of the Securities Trust should be given an initial stated value of \$270 millions plus, and that such shares at such value together with the capital stock of the Canadian National Railway Company and the capital investment of the crown in the Canadian Government Railway should be included in the balance sheet of the National railway system under the heading of "Proprietor's Equity", which is analogous to the shareholders equity account as usually carried in ordinary corporate balance sheet statements. Provision was also made for adjustments to the initial value given to the shares and under this provision the book value of the shares is to be reduced by capital losses subsequent to the date the Act was made effective.

The trustees of the Securities Trust are: the Deputy Minister of Finance, the Deputy Minister of Justice, the Deputy Minister of Transport, and two of the executive officers of the railway. All the shares of the Trust are vested in the Minister of Finance in behalf of the dominion. At December 31, 1944 the shares are shown to have a book value of \$359 millions, or \$89 millions greater than when they were issued. The balance sheet of the Trust shows how this increase has been brought about, viz: surplus earnings, capital gains and capital losses.

Mr. JACKMAN: When you speak of the value being greater by \$89,000,000, I would take it that that means a minus quantity or worthlessness of \$89,000,000 greater; that is the net loss or net amount of money the government has to pump into the C.N.R. since 1932.

Mr. COOPER: Not at all, Mr. Jackman.

Mr. JACKMAN: Are any of these items in the Securities Trust of value to the Securities Trust, or are these just a measure of the deficit for bookkeeping purposes?

Mr. COOPER: The government is the shareholder of the Canadian National Railways and its position as such is reflected in the Proprietor's Equity account. On the railway balance sheet it is shown to be \$754,000,000. That is the book equity of the government in the Canadian National Railway System. It is divided into three sections: the value represented by the shares of the trust, \$359,000,000; the value of the capital stock of the Canadian National Railway Company, \$18,000,000; and the Crown's investment in the Canadian Government Railways, \$377,000,000. The value of the shares of the Securities there,

\$359,000,000 is \$89,000,000 greater than it was in 1937 when the shares were first issued.

Mr. JACKMAN: I realize that; but am I to understand what you say is that this amount set up, \$270,000,000, resulted from the debt structure of the railway transferred to—

Mr. COOPER: —to share capital. It was taken out of the category of debt and put on an equity basis.

Mr. JACKMAN: Is it fair to assume that after that time when it was set up there was no real value behind it, and that is why you wanted relief?

Mr. COOPER: I would not say that. The reason for the relief was the fixed charges of the railway were out of all reason. As to what the value of the Canadian National Railways is, of course, one could talk from now until doomsday.

Mr. JACKMAN: Well, while we are on this, the railway could not earn enough money to service the interest requirements on the bonds which were represented by these bonds; it was an intolerable load; is not that the story?

Mr. COOPER: That is so.

Mr. JACKMAN: And, in order to give you any kind of a hope at all of getting any decent statement \$270,000,000 was changed from a debt to the government to an investment by the government?

Mr. COOPER: Yes, that is perfectly correct, Mr. Jackman; except that I wish to make it clear, there never was any thought that that adjustment was a complete adjustment, it was only a partial adjustment.

Mr. JACKMAN: Well, I gather that it did not represent an accounting asset, no matter how much physical assets it represented. You then come to the present situation where you increase the \$270,000,000 of 1937 by \$89,000,000; so this becomes \$359,000,000. You said that represented the surplus earnings and losses and the capital additions, capital investments by the government since that time.

Mr. COOPER: Yes. When we come to the balance sheet of the trust, Mr. Jackman, it is in the report of the Securities Trust which we are about to take under consideration, you find—that on page 6, and on the asset side you find that the surplus earnings amount to \$87,745,000; capital gains amount to \$19,105,000; capital losses have been \$17,808,000; making a net gain of \$89,043,000. And if you look over on the other side you will see that while the original value of these shares at the time they were issued was stated to be \$270,000,000, by reason of these transactions which I have just mentioned it has now become \$359,000,000.

Mr. JACKMAN: That is quite different. It arises from different reasons than those from which the \$270,000,000 arose, from much more worthy reasons, if one may put it that way.

Mr. COOPER: Yes. I do not think there is any question that the book value of the shares, or the book value of the government's equity in the Canadian National Railways since the issue of these shares in 1937 has increased by \$89,000,000.

Mr. JACKMAN: Yes. Did you turn over to the government last year \$20,000,000?

Mr. COOPER: \$23,000,000, yes.

Mr. JACKMAN: So you are really using all this \$359,000,000, as proprietorship indebtedness—if we may call it that—increasing it by the \$23,000,000 last year?

Mr. COOPER: If you take the equity of the government as shown on the balance sheet, it is \$754,000,000—as against that investment we gave them a return in 1944 of \$23,000,000, and for 1945 we expect to give them a return

of \$25,000,000. That, of course, is in addition to paying the interest on all the debt held by the government.

Mr. JACKMAN: Yes.

The CHAIRMAN: Would it be all right if we started at the first of the report, gentlemen, and had it read from the start? We are jumping around here a little bit. Would it be helpful to have Mr. Cooper read Mr. Clark's report there to the commissioners, and then go on from there? Perhaps it might help to clarify some items.

Some Hon. MEMBERS: Agreed.

Mr. COOPER: The report is dated the 17th of March 1945, and is addressed to the then Minister of Transport.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 17th March, 1945

The Honourable J. E. MICHAUD, K.C., M.P.,
Minister of Transport,
OTTAWA.

SIR,—In conformity with Section 23 of the Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of the Canadian National Railways Securities Trust for the calendar year 1944.

The book value of the capital stock of the Securities Trust has been increased during the year by \$22,400,052.60, as shown hereinunder:—

Surplus Earnings of the Canadian National Railway System for the year 1944.....	\$23,026,924.35
Abandonment of dock facilities at Seattle, Washington	626,871.75
Net Gain credited to Proprietor's Equity...	<u>\$22,400,052.60</u>

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, 1944.

For the Trustees,

W. C. CLARK,
Chairman.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

SCHEDULE A.1

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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, 1222.....	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.....	\$ 312,334,805.10

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.....	\$ 118,582,182.33

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 Saskat- chewan.....	2,898,536.98
Agreement with Government under Chapter 71, 1903.....	
Total Grand Trunk Pacific.....	\$ 116,006,599.08

**Notes and Collateral Held*

None. Charge is on premises mortgaged October 4, 1911.	
None.	
None.	
Mortgages dated June 23 and June 26, 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 Notes.....	5,700,000.00
3½% and 4½% Debenture Stocks.....	7,139,399.00
6% Demand Notes.....	56,858,496.44
Miscellaneous Bonds and Debentures.....	14,744,817.25
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
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, October 18, 1917.....	
Mortgage, October 18, 1917.....	
Receiver's Certificates.....	53,339,162.74
Cremation Certificates, coupons destroyed.....	8,698,170.
Cremation Certificates, coupons destroyed.....	2,925,723.88
Grand Trunk Pacific Development Company Capital Stock..	2,999,000.00
<i>forward</i>	

STANDING COMMITTEE

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

<i>Loans Outstanding</i>		<i>*Notes and Collateral Held</i>	
CANADIAN NATIONAL RAILWAY COMPANY:			
6% Loan, Vote 139, 1923.....	\$ 24,550,000.00	{ 6% Canadian Northern Demand Note.....	\$ 12,655,019.57
		{ G.T.P. Receiver's Certificates.....	3,313,530.01
		{ G.T.P. Interest Coupons.....	1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	1,318,315.86
		{ G.T.P. Receiver's Certificates.....	4,691,173.58
		{ G.T.P. Interest Coupons.....	1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,496,718.21
		{ G.T.P. Receiver's Certificates—Cr.....	1,422,425.17
		{ G.T.P. Interest Coupons.....	8081,530.02.
5% Loan, Vote 372, 1926.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,062,624.30
		{ G.T.P. Receiver's Certificates—Cr.....	364,898.78
		{ G.T.P. Interest Coupons.....	1,530,880.56
5% Loan, Vote 336, 1929.....	2,932,652.91	5% Canadian National Railway Company Demand Note....	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931.....	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes.....	29,910,400.85
5¼% Loans, Chapter 6, 1932.....	11,210,815.56	5¼% Canadian National Railway Company Demand Notes.	11,210,815.56
Temporary Loan 1930, repaid.....		{ 166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad.....	4,171,940.94
		{ 5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.....	8,609,000.00
<i>Less:</i> adjustment authorized by the Capital Revision Act, 1937.....	1,666,897.57		
Total Canadian National Railway Company.....	\$ 96,936,971.75		
Total Loans.....	\$ 643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st. Mortgage Bonds in the amount of £5,307,000 (\$25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Mr. COOPER (continues): We have gone over the balance sheet of the Securities Trust. It indicates how the initial value given to the shares at the time of their issuance has been increased by \$89,000,000, and the details of that are given on the opposite side. Then you have a list of the securities which are held by the trustees under the terms of the trusteeship contained in the Capital Revision Act.

Mr. JACKMAN: Just for clarification, the only changes which took place in the proprietors account not reflected in the Securities Trust are operating profits or losses of the railway from year to year, and any advances by parliament of monies for capital purposes, they are represented by the issue of indebtedness certificates or bonds by the railway to the government; is that so?

Mr. COOPER: Well, as to the second item to which you refer, that is government advances for capital purposes, they have no bearing on the Securities Trust.

Mr. JACKMAN: None at all?

Mr. COOPER: They are directly from the government to the railway and are dealt with in the regular accounts.

Mr. JACKMAN: And the government gets back from the railway a bond or certificate of some sort covering the advances; in other words, with respect to this Securities Trust the only changes from year to year as the result of operating surpluses or losses of the railway?

Mr. COOPER: And in addition capital losses or capital gains; as for instance, when we vested British securities we made a capital gain of some \$19,000,000. That was not taken up as an earning in our railway statement, it was treated as a capital gain added to the book value of the shares of the trust.

Mr. REID: Mr. Cooper, there are one or two questions I would like to ask. May I speak and put my question as a layman, because I may as well confess that I am not at all expert in fiscal matters.

Mr. COOPER: Well, Mr. Reid, I am just a layman myself.

Mr. REID: These figures are confusing to an ordinary layman and there is one thing I would like to get clear in my mind, that is the total indebtedness from its inception to the present time of the Canadian National Railways and also the extent to which, if any, that total indebtedness has been reduced—I understand it has been reduced?

Mr. COOPER: Yes.

Mr. REID: What I want to get clear is what is the amount of the outstanding indebtedness of all kinds, what does the railway owe. If I were able to get that in my mind I would probably have a more clear picture of the whole set up.

Mr. COOPER: The amount which the railway owed the government in 1944 is shown in the balance sheet, the figure is \$661,875,000.

Mr. REID: That is the complete debt?

Mr. COOPER: Yes, sir.

Mr. REID: Has it ever been reduced?

Mr. COOPER: It was reduced by the Capital Revision Act.

Mr. REID: I meant all the debt to the government and the public; I want to know the total debt, the total indebtedness of the railway.

Mr. COOPER: If you are speaking of the long term debt apart from current liabilities, the debt of the railway to the public is \$629,453,000, and the debt of the railway to the government is \$661,875,000.

Mr. MAYBANK: That is after cutting off \$270,000,000 which was taken over by the trust?

Mr. COOPER: Which was removed from debt account to equity account, and which is still in our balance sheet.

Mr. HARRIS (*Grey-Bruce*): It also eliminates these items on page 6, the securities and the loans to constituent railways.

Mr. COOPER: Pardon me, sir; what was that?

Mr. HARRIS (*Grey-Bruce*): This item of \$642,000,000—was that figure included in the amount you gave to Mr. Reid in the answer you made?

Mr. COOPER: Mr. Reid asked as to the present debt position, but an amount was absorbed as the result of the Capital Revision Act.

Mr. HARRIS (*Grey-Bruce*): I think he was trying to find out, from the very beginning, the amount of money that was advanced for one cause or another by the Dominion of Canada to these various constituent companies.

Mr. COOPER: That is quite an involved question. May I refer you to the note which appears on the balance sheet which reads this way:—

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.

The Act required that there be attached as an appendix to public accounts a complete record of all assistance granted by the dominion to the railways in Canada—the Canadian National Railways, the Canadian Pacific Railway, and any other railways that there are; and the complete picture insofar as the Canadian National is concerned, is to be found in that appendix.

Mr. HAZEN: What appendix is that?

Mr. COOPER: In the appendix to the public accounts.

Mr. HAZEN: In what year?

Mr. COOPER: Every year.

Mr. JACKMAN: Included as the net debt of the country or subtracted?

Mr. COOPER: I think it is all charged to net debt, but I had better not speak about public accounts. My understanding is it has been charged off to net debt.

Mr. JACKMAN: The net debt of the country is so many billions—

Mr. COOPER: I think the public accounts are quite clear as to the correct position.

Mr. JACKMAN: What is the meaning of this?

Mr. COOPER: The meaning of this is, Mr. Jackman, that during the passage of the Capital Revision Act the suggestion was made that this write-down if it were effected would result in a loss of the record of assistance by the government to the railways, so to prevent that the Act provided that every year the public accounts of Canada shall disclose the complete historical record of all the assistance given by the government to the railways of Canada.

Mr. HAZEN: Might I ask a question? The capital stock of Canadian National Steamships in the report is \$40,000. And now, I turn to page 22 of the annual report of the Canadian National Railways and I see that under the heading of companies comprising the Canadian National Railway System, there is one, number 16, Canadian National Steamship Company, Limited—capital issued \$15,000; and then I look on down to number 47 and I see that one is owned by The Grand Trunk Pacific Railway Company.

Mr. COOPER: You are speaking of two different things.

Mr. HAZEN: That is what I wanted to get cleared up.

Mr. COOPER: The capital stock of the Canadian National (West Indies) Steamship Company, \$40,000 is all owned by the Dominion of Canada, it is not owned by the Canadian National Railway Company. The capital stock of the Canadian National Steamships, which is our Pacific coast steamship service, is owned by the Grand Trunk Pacific Railway Company.

Mr. HAZEN: That refers to specific lines?

Mr. COOPER: Yes, sir.

The CHAIRMAN: Is that clear, gentlemen? I think the next item we have on the agenda here is—

Mr. MAYBANK: I would move the adoption of the report; I figure you will need that.

The CHAIRMAN: Yes. Does anyone care to second that motion?

Mr. BEAUDOIN: I will be pleased to second that motion.

Mr. VAUGHAN: Mr. Jackman, we have that statement in depreciation that you asked for; shall we just put it on the record now?

Mr. JACKMAN: I think so, it will be useful to the members of the committee.

Mr. VAUGHAN: All right, we will do that.

(See Appendix D)

Mr. JACKMAN: I see, Mr. Chairman, some of the members are still discussing this statement about Securities Trust. It seems to be rather dense still. I think we should at least feel that we know all about it. There is nothing wrong with the statement made to-day, but it is chiefly due to the lack of background, most of us have not had sufficient time to give to it. Is there anything else in the way of explanation that you would like to make in regard to these items? The officers of the company are all here now. Are there any items about which you would like to raise questions; have there been any changes in interest rates; has the Department of Finance given you any opportunity to refinance?

Mr. COOPER: As far as the collateral securities are concerned there is no interest accruing on them. They are merely held as collateral. The only transactions affecting them are where we require their release to permit cancellation of mortgages securing bonds which mature and are retired. We have to meet the trustees and explain the reasons why in our opinion we think they should release these securities, and they have the power under the Act to release them for good cause. That is the only change which takes place in respect to the collateral securities.

Mr. JACKMAN: Well, I appreciate the reason for the write-down in 1937, it is there for reference. What is the use of keeping these underlying securities outstanding on the balance sheet of the railway?

Mr. COOPER: So long as there are railway securities outstanding, and, of course, we have over \$600,000,000 of them, cancellation of all these collateral securities might have the result of improving the priority of some of the securities held by the public, so they are held really to preserve the position of the government in that regard.

Mr. JACKMAN: All the old bonds of the railways which you took over are still outstanding in the hands of the public do not bear the government guarantee and the government wants to keep its prior position on certain of these issues?

Mr. COOPER: That is it.

Mr. MAYBANK: If we were to burn all of these up to-morrow these other bonds would undoubtedly immediately appreciate many points, those in the hands of private holders, and there would be unearned increment by reason of that position; is that right? Is that the thought at any rate?

Mr. COOPER: Yes.

Mr. HARKNESS: Are the bonds held by the public worth anything at the present time?

Mr. VAUGHAN: Definitely.

Mr. COOPER: Those bonds are not held by the public, they are held by the Minister of Finance as collateral, or by the trustees; they are not in the hands of the public at all.

Mr. JACKMAN: I mean the unguaranteed bonds.

Mr. COOPER: The unguaranteed bonds in the hands of the public? Definitely, many of them are very much in excess of par.

Mr. JACKMAN: Perhaps if you could tell us in a very general way, in round figures, how this bonded debt and the securities held by the government come to this \$270,000,000—some of that will be guaranteed.

Mr. COOPER: Yes. From our statement on page 19 of the railway report you will get a breakdown of that, Mr. Jackman. We list there all the funded debt held by the public. The total is \$629,000,000. Of that \$576,000,000 is guaranteed by the dominion. \$2,700,000 is guaranteed by the provinces, and so on.

Mr. JACKMAN: Where is the debt of the railway that is not guaranteed by any government?

Mr. COOPER: It is on the next page, \$33,279,000.

Mr. JACKMAN: Once that has matured then you should be able to ask the securities trust to cancel all these underlying bonds because all existing bonds will be guaranteed by the government, will they not?

Mr. COOPER: Unfortunately you notice some of them are perpetual. There are four issues there which are perpetual.

Mr. JACKMAN: That is a long time, is it not?

Mr. REID: What is the idea of that antiquated word "gold bond"?

Mr. COOPER: It was at one time thought to have a value.

Mr. JACKMAN: These perpetual issues are not very large. \$4,000,000 is the largest one. Do you want to get them in? It is largely from the standpoint of appearance. It does make the whole statement cumbersome. Are you trying to buy them in at all?

Mr. COOPER: No.

Mr. JACKMAN: What are these 4 per cent perpetual consolidated debenture stocks of the Canadian Northern, 1903 to 1912 issue, of which there are \$4,131,000 outstanding? Do you know what rate they bear on the market? They are selling over par, I suppose?

Mr. COOPER: I do not know the price but it would be at a premium, I am sure.

Mr. JACKMAN: Can you not buy in a perpetual bond at a lesser cost to the company than you can borrow new money?

Mr. COOPER: From time to time we seize any opportunity in that direction. For instance, I might mention the third item from the bottom, indebtedness of the S.S. and C. Company, \$155,865.25. They carry a 4 per cent interest rate. Now, you did not notice perhaps that in the budget which you passed yesterday we are asking authority under our 1945 budget to buy those bonds in.

Mr. MAYBANK: They are callable?

Mr. COOPER: We have the option to call them in.

Mr. MAYBANK: That is the meaning of the word "optional" here?

Mr. COOPER: Yes, and we are going to call them in. We are going to call in any bond which we can discharge if it is carrying a coupon rate in excess of 3 per cent if we have the right to do so. In fact, some of the 3 per cent coupon bonds have been called in. Wherever there is an advantage to the railway by negotiation or any other way to get these interest charges of ours down I think we can assure the committee that nobody is more alive to that necessity than the railway officers are.

Mr. JACKMAN: Is it not a fact that a 4 per cent perpetual bond even of a government or a railway will sell on a slightly higher basis yield than one with a long maturity? People do long to have some certainty and a perpetual bond, if I recall correctly, does yield a little bit more.

Mr. COOPER: I think that is proven by the government 3 per cent perpetu-als. I think they have a little higher yield than the bonds which have a maturity date.

Mr. JACKMAN: If it were known in the street that you were going to buy them in of course they would go up to the same price as a long term government bond or a long term C. N. R. guaranteed bond, but if you pick them up gradually I suppose you might get rid of them at some saving to the company? Four per cent is a high rate for a railway to pay at the present time.

Mr. COOPER: This is a personal opinion. The U.K. government under war measures issued a vesting order taking from all U.K. residents any securities which the government wished to possess. If Canada did the same thing of course these securities could be vested.

Mr. JACKMAN: I am not suggesting that be done. I am just wondering if you cannot buy them in at a lesser rate than money would cost you?

Mr. VAUGHAN: We watch that very carefully and when the opportunity presents itself we seize it if we can buy them in and be money ahead as against issuing new securities.

Mr. JACKMAN: What I am asking is are you whittling away at it a little bit each year?

Mr. VAUGHAN: Yes, we are. We are doing our very best to get our fixed charges down in every possible way.

Mr. REID: I have two questions I should like to ask Mr. Cooper. On page 21 of the report I find that it is kind of intriguing to me. I notice investments in affiliated companies. If you look at the first column the heading is "Total Par Value Outstanding". Then the next heading is "Par Value" and then "Book Value". My first question is whether the total par value is the amount of money invested by the C. N. R. in the affiliated companies. My second question is whether this is the par value and the book value of these investments now because if it is some of them are very startling. I only see one of them where the par value remains the same as the investment value. My last question is do you receive any interest from these investments?

Mr. COOPER: In the last few years where the book value, which is the cost value to us, exceeded the par value we have written down our book value so that it would not exceed the par value.

Mr. REID: What does the first column mean, "Total Par Value Outstanding?" Take the first item.

Mr. COOPER: Taking the Belt Railway Company of Chicago they have \$3,120,000 of stock outstanding. Canadian National owns \$240,000 out of the total. We own 1/13th, as I remember it, in that joint facility.

Mr. REID: That explains it. Do you get any interest from your investment in these companies?

Mr. COOPER: On the Belt Railway Company of Chicago in 1944 we had a dividend of 16.67 per cent.

Mr. JACKMAN: I wonder what Mr. Nicholson thinks of that.

The CHAIRMAN: Can we take up the auditor's report now?

Mr. HAZEN: May I ask one more question? In reply to a question asked by Mr. Reid you said that the total indebtedness of the railway to the government was \$661,875,000. In the statement of the securities trust on the last page the total loans, or summary of indebtedness, transferred from the government to the securities trust was \$643,000,000.

Mr. HARRIS (*Grey-Bruce*): That is shown at the top of page 6.

Mr. HAZEN: Where is the difference? There is \$18,000,000 difference. What connection is there between those two amounts?

Mr. COOPER: The \$661,000,000 is what we owe today. The \$643,000,000 is the amount which was written down as a result of the Capital Revision Act.

Mr. MAYBANK: They are not related?

Mr. COOPER: They are not related at all.

The CHAIRMAN: Perhaps we had better take up the auditor's report now. Mr. Matthews, as the representative of Touche & Company, would you read your report?

Mr. MATTHEWS: Mr. Chairman, may I just mention to the members of the committee that like the railway report this was written on the 15th of March, 1945, and its comments in respect of wartime conditions would have to be considered in that light.

The Honourable the Minister of Transport,
Ottawa, Canada.

SIR,—Acting under authority of The Canadian National-Canadian Pacific Act, 1936, and Chapter 8, 1944, "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, 1944, and we now submit, through you, our report to parliament.

Supplementing our audit certificate appended to the accounts published by the railway, we comment on the consolidated income account, consolidated balance sheet, general scope of audit and uniform accounting regulations as follows.

What we are discussing here are certain sections of the Canadian National Railway report which you have in your hands.

Mr. JACKMAN: Do you want interruptions as we go along or at the end?

The CHAIRMAN: Perhaps we had better wait until afterwards and then go back, start at the beginning and have questions on it.

Mr. MATTHEWS:

Consolidated Income Account

The cash surplus of the National System amounting to some 23 million dollars for the year 1944 is after making provision for the general expenses of operation—including the retroactive wage rate increases, cost-of-living bonus and higher unit prices of materials—together with:—

- (a) Interest on Funded Debt held by the Public;
- (b) Premium on Funded Debt Retired;
- (c) Interest on Loans from the Dominion Government;
- (d) General Taxes;

- (e) Deferred Maintenance as a result of war-time conditions—in respect of Fixed Properties and Equipment;
- (f) Railway's portion of Pension Payments to retired employees—under all pension plans;
- (g) Increase in Pension Contract Reserve—covering the railway's portion of the estimated capital amount of all pension contracts in force at the year end under the 1935 plan;
- (h) Increase in Pension Equalization Suspense—covering railway employees in service at the year end beyond retirement age and entitled to pension contracts under the 1935 plan;
- (i) Increase in Reserve for Material and Supplies Inventories—arising out of war-time conditions;
- (j) Depreciation of Equipment—Canadian Lines—including special provision for abnormal war-time use;
- (k) Depreciation of Equipmnet and Fixed Properties (excluding track structure)—United States Lines;
- (l) Fixed Property Retirements—Canadian Lines—excluding capital loss from abandonments charged to Proprietor's Equity.
- (m) Fixed Property Retirements—United States Lines track structure;
- (n) Amortization of certain defence projects considered as having no potential economic value in post-war operations, and
- (o) Amortization of Discount on Funded Debt.

The total of provisions (a) to (o) made during the year exceeded 103 million dollars of which some 36½ millions have been credited directly to corporate Reserves. Of this latter amount some 20½ million dollars represent special war-time provisions for deferred maintenance, material and supplies inventories, depreciation of equipment in excess of normal rates in order to provide for extra use and amortization of defence projects.

The term "cash surplus" used in the Consolidated Income Account represents the "surplus earnings" as distinguished from the capital gains and capital losses shown in the Dominion of Canada—Proprietor's Equity Account. The surplus funds made available during the year in an amount exceeding 28 million dollars through the foregoing provisions (h) to (o), in lieu of their investment for the specific purposes named, have been utilized mainly in reduction of the total cash requirements for capital additions and betterments, investments in affiliated companies, sinking funds and serial debt payments, the balance being utilized for working capital purposes.

In respect of depreciable fixed properties—defined in the 1943 Order of the Interstate Commerce Commission as including buildings, stations, shops, bridges, etc., but excluding track structure—depreciation provision has been made during the year for the United States Lines in accordance with the 1943 Order but not for the Canadian Lines which continue on the retirement basis. Insofar as the Canadian Lines are concerned, it would not appear practicable to institute any similar depreciation plan, until after the termination of hostilities, because of the substantial expense involved in determining unit property costs prior to 1923 and the need for all of the technical personnel of the Railway in meeting the transportation requirements arising out of the present national emergency. The post-war adoption of depreciation accounting for major units of fixed properties on the Canadian Lines is embodied in the recommendations made later in this report, under the caption "Uniform Accounting Regulations."

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that, subject to the war-time conditions which necessitated the provision for deferred maintenance, the fixed 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.

The cash surplus for the year shows a decrease of some 12½ million dollars in comparison with 1943. The major portion of this decrease is accounted for by the retroactive wage rate increases, additional cost-of-living bonus and higher unit prices of materials, approximating 30 million dollars during 1944—less the non-recurring "Revenue Appropriated for Pension Reserve" which in 1943 amounted to some 19 million dollars. The balance of the decrease in cash surplus is attributable mainly to more maintenance work, larger provision covering reserve for inventories and lower net profits from separately operated properties as a whole—less special income credits and reduced costs of taxes, equipment rentals and interest in 1944.

Looking forward to the post-war period, the impact of the accumulated war-time increases in wage rates and material prices on the operating results from prospective revenues at that time is a matter to which we commend the consideration of parliament. We would also make mention of the disproportionate amount of fixed charges borne by the National system in comparison with other major railways in North America.

Consolidated Balance Sheet

Investments in Fixed Properties and Equipment appearing in the books of the constituent companies at the 1st January, 1923, were accepted by us. Against the corporate property investments brought into the National system accounts in 1923, there have been applied the reductions authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the net additions and betterments have been shown on the basis of cost. During the year 1944 the net additions and betterments approximated 35½ million dollars, the major portion of which applied to the acquisition of rolling stock.

The several special funds of the National system including sinking funds, deposits in lieu of mortgaged property sold, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to some 77 million dollars, are composed of cash and investments in the securities of dominion, provincial and municipal governments and in the securities of companies within the National system. The year-end value of the securities held in these special funds in total exceeded the book figure.

The insurance fund increased approximately ½ million dollars during the year with no major loss claims being reported outstanding at the date of the balance sheet. This increase in the fund results mainly from the adjustment of the book value of system securities sold during the year from par to cost, the operating profits of the fund being transferred to the Railway's Cash and Income Accounts.

Investments in Affiliated Companies, as detailed in the relative schedule, are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. This type of investment is made primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines dealt with later in this report, the 1944 financial statements issued by the companies representing the larger investments indicate:—

- (a) That the affiliates have utilized the funds from the sale of their securities up to the 31st December, 1944, for investment in fixed properties and equipment;
- (b) That no operating losses of importance were sustained during the year 1944 excepting in the case of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National System, and

- (c) That no corporate deficits have been accumulated up to the 31st December, 1944. This indicated position, however, should be considered in conjunction with the restrictive accounting policies relating to accrued depreciation of fixed properties.

During the year investments in affiliated companies increased in an amount somewhat exceeding $1\frac{3}{4}$ million dollars, principally with respect to the purchase of additional bonds of the Northern Alberta Railways Company in order to finance 50 per cent of that company's requirements for maturing Funded Debt and Capital Additions and Betterments in 1944.

Other investments are comprised largely of securities of the dominion government, valued at cost, and those of companies within the National System, valued at par, in the total amount of some $1\frac{1}{2}$ million dollars, the balance being represented by investments of a miscellaneous character.

Material and supplies are shown on the basis of ledger balances. Owing to war-time demands upon the railway personnel the customary physical inventory was not taken in 1944.

Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in Western Canada.

Other unadjusted debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; general suspense debits covering the contra accrual of operating revenues and income, and other debit items that cannot be entirely disposed of until additional information is received.

Long term debt does not include securities held in the Treasury of the railway nor those held as collateral by The Canadian National Railways Securities Trust and the dominion government.

The combined capital debt to the public, special funds and the Dominion of Canada was reduced by the net amount of approximately 7 million dollars during the year. Broadly speaking, this net reduction results from the loan repayments to the government of some $25\frac{1}{2}$ million dollars out of working capital created by cash surpluses, plus serial debt payments approximating $8\frac{3}{4}$ million dollars, less some $27\frac{1}{4}$ million dollars representing the balance of new capital requirements for additions and betterments.

Accrued Depreciation—Canadian Lines—applies only to equipment and dates from the 1st. January, 1940, retirement accounting continuing in effect for fixed properties. In respect of equipment, it should be pointed out that as no depreciation accruals were made prior to 1940, the present reserve would be liable to serious impairment from abnormal losses which would have to be accounted for if and when abnormal retirements were found necessary, because of exhausted service life and obsolescence, under any major post-war program for the modernization of the rolling stock of the National system similar in scope to that presently contemplated by other large railways in North America. We recommend to parliament that the railway be furnished with whatever authority may be deemed necessary to establish a special depreciation reserve to provide, at least in part, for this anticipated post-war situation. It should be made clear, however, that the creation of such a reserve would be an accounting provision only, involving in itself no cash outlay, because all expenditures as and when proposed to be made by the Railway on the purchase of new Equipment in the post-war period would form part of its capital budget subject to the annual approval and vote of parliament at that time.

Accrued Depreciation—United States Lines—applies to equipment from a date prior to the 1st January, 1923, and to Fixed Properties (excluding track structure) mainly from the 1st January, 1943.

The corporate reserves for pension contracts, insurance, depreciation, deferred maintenance, material and supplies inventories, and amortization of certain defence projects aggregate some 160 million dollars, of which some 71½ million dollars are represented by specific funds. Furthermore, of the aforementioned 160 million dollars some 66½ million dollars represent the accumulated total from 1941 of special war-time provisions for depreciation of equipment in excess of normal rates in order to provide for extra use, deferred maintenance, material and supplies inventories and amortization of defence projects.

Other deferred liabilities are comprised principally of the outstanding capital amounts of the workmen's compensation awards by the provinces of Ontario and Quebec, and the balance of the obligation to the State of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits are made up of the Canadian Lines' estimated proportion of prepaid revenues on freight in transit; general suspense credits covering the contra accrual of operating expenses and income charges, and other credit items that cannot be entirely disposed of until additional information is received.

Dominion of Canada—Proprietor's Equity—is set forth in the Balance Sheet and the relative schedule in accordance with section 2 (f) of the Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account, and section 12 of the Canadian National-Canadian Pacific Act, 1936, which provides for the appropriation by Parliament for Income Deficits in any year in which they occur. The Surplus Earnings of some 87¾ Million Dollars, as shown in the aforementioned schedule, are for the years 1941 to 1944 inclusive. The attention of Parliament is drawn to the fact that the total book value shown for Proprietor's Equity is subject to the factors referred to in our comments on Investments in Fixed Properties and Equipment, Accrued Depreciation and Pension Plans.

Major Contingent Liabilities are outlined in the relative schedule. (That is at page 21). In respect of Pension Plans referred to therein, we would point out that:—

- (a) Under the 1935 Contractual Plan a reserve is set up against the estimated capital value of contracts in force but not against pensions conditionally accruing. The contributions by employers presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the Railway.
- (b) Under prior Non-Contractual Plans no reserve is set up against the capital value of pensions now being paid or conditionally accruing.

The accounts of the National System are stated in Canadian currency converted mainly at the par of exchange.

General Scope of Audit

The general scope of the test audit of the National System accounts for the year 1944 may be outlined briefly as follows:—

- (a) Examination of major expenditure authorities which are based mainly upon recorded Resolutions of the Directors. These expenditure authorities in turn are established principally by Corporate By-Laws, Orders-in-Council and Acts of Parliament;
- (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 as exercised 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., and
- (d) Audit and certification of the Consolidated Income Account and Consolidated Balance Sheet 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 covers the various Balance Sheet units in Canada, the United States and Great Britain with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters applicable to some 90 companies comprising the National System as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine Limited and the Trans-Canada Air Lines, the holdings in the Capital Stocks of the Affiliated Companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the Companies are not treated as units of the National System nor are their accounts audited by us. In a few instances their accounts are certified by Public Accountants but for the most part they are audited, in due course, by joint committee composed of National System accountants and representatives of outside interests.

Uniform Accounting Regulations

Having in mind the conflicting elements in the railway situation in Canada and the widespread publicity given to the matter from time to time in the decade preceding the present war, we are persuaded that the uniform presentation of the published accounts of the two major Canadian railways will be of far-reaching importance in the post-war years to the Government and people of Canada as the shareholders of the National System. Accordingly, we deal briefly with the matter to which we have made reference for several years.

Viewed strictly from an operation standpoint, the published accounts of the two railways have not been subject to proper comparison because of:—

- (a) Difference in the accounting bases as between Operating, Income, Surplus and Reserve Accounts and as between the "Consolidated" and "Parent Company" presentation, and
- (b) Disparity in traffic density over the peace-time years, due largely to the difference in purposes of original construction and extension of a considerable portion of the two properties.

We therefore recommend to Parliament the establishment, as early as practicable in the post-war period, of uniform accounting regulations for Canadian railways under the statutory authority of the Dominion.

The recommendation is primarily that, after providing for any special requirements inherent in the ancillary operations of Canadian railways, these regulations governing the published accounts should follow the broad bases of the Interstate Commerce Commission classification for the United States railways in respect of the accounting allocations to Total Operating Revenues, Total Operating Expenses (suggested to include Depreciation of all Equipment and the larger units only of Depreciable Fixed Properties), Net Income, Surplus

and the General Balance Sheet Accounts including specific provisions covering the utilization of Reserves. Whilst the adoption of the broad bases of the Interstate Commerce Commission classification is recommended because of international operations, it is in regard to the voluminous details involved in some of the orders affecting the railways of the United States that we see the desirability of the proposed Canadian regulations different in policy by simplifying the methods of accounting distribution at the source and by the avoidance of a certain amount of clerical expense.

It is further recommended that the regulations require the published Income Accounts to show the two principal traffic density factors of freight tonnage and passenger volume per mile of road operated.

The main advantage arising from the adoption of the proposed regulations would be the making available to the Government and people of Canada, particularly during periods of public discussion, an improved yardstick with which to measure the relative operating performances (apart from Fixed Charges) of the two major railways, thus eliminating the misconceptions arising through the endeavour to compare published results which have not been computed on the same basis.

May I just make this comment to the members of the committee: on this particular matter we would like to be clearly understood that we are not in any way criticizing the accounting procedure of any other railway, but having regard to the public discussions of this so-called railway problem back over many years, we feel and have felt for a good number of years that a uniform presentation of railway results would be in the interest of the people of Canada whom we represent, namely through parliament.

CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Supplementing our audit certificate appended to the accounts published by the Securities Trust, we comment of the balance sheet as follows:—

The Canadian National Railways Securities Trust, under authority of Section 22 of the Capital Revision Act, 1937, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' Report and a separate Balance Sheet for the Securities Trust. It is further provided that the Trustees' Report is to set forth the transactions of the Securities Trust during each year, which comprise the net change in the book value of its Capital Stock originating in the accounts of the Railway and, subject to the approval of the Governor in Council, the release (if any) of Indebtedness or Collateral Securities belonging to the Trust.

I think if I may, just at this point, in view of the discussion that has already taken place in regard to the Securities Trust and the Capital Revision Act of which this is a part, point out that there is one very important thing which should be mentioned to the members of this committee; namely, the basic reason for the capital revision and the consequent creation of the Securities Trust. Fundamentally the purpose behind the Capital Revision Act had to do with the credit of this country. For some years prior to that time there was a misconception which arose as to what Canada's debt position really was and it got to a serious point in New York and London I believe at that time Canada's net debt was in the neighbourhood of three billion dollars and duplications had reached the proportion of 50 per cent of that net debt. It had been considered that in view of the problem of the railways, which was real enough in itself, there was little good common sense in perpetuating a condition which added to that problem. And I might say this,

that at the time the bill was up for consideration and during the presentation by the then Minister of Transport of the reasons behind the measure contemplated, the matter of debt duplication was brought out; and at the same time during the passage of the bill through the Senate committee the matter was again considered; and at that time the New York bankers for Canada were up here to deal with a loan for the Dominion; the matter was discussed with them and the minister of that time and the Bankers stated very definitely that the potential interest rate on Canadian borrowings might very well be affected by the debt duplication. I would just like to have that put on the record for the information of the committee, because there might be a tendency to look at this Securities Trust in some way as a devious means to complicate the accounts of the National railway. There was no such intention on anybody's part, but it was one of those necessary things to preserve the equity of the dominion government in respect of these unguaranteed securities that were outstanding at that time. Furthermore, I would just like to mention one other thing, that it was made clear at that time that this capital revision did not in any way affect the debt to the public, and it was clearly set out by the minister in his statement to the Commons' committee that even if the bill were enacted the interest burden of the national railways would still remain very much higher than that of other railways in Canada and in the United States.

Mr. HAZEN: Where do we find the statement which you just referred, the one made by the then minister to the committee? Can you tell us where we can find that?

Mr. MATTHEWS: Yes. As a matter of fact, there was considerable interest in the whole matter at the time, and I have here one of the copies of the statement which the minister had prepared and submitted to the committee giving the basic reasons for the bill and full details of the Act itself. Several hundred copies of it were printed at that time.

Mr. HAZEN: What is it entitled?

Mr. MATTHEWS: It is entitled, "Capital Revision Act 1937,—explanation of the provisions of same."

Hon. Mr. CHEVRIER: I will see that members of the committee are supplied with copies of that.

The CHAIRMAN: And now, gentlemen, we will have to skip Trans-Canada Air Lines until a later date.

Mr. MATTHEWS: We cannot deal with that anyway because the accounts have not been submitted to the committee as yet. What about Canadian National (West Indies) Steamships Limited?

The CHAIRMAN: That is all right.

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% stock ownership of the parent steamship company being vested in the Dominion government.

Supplementing our audit certificate appended to the accounts published by the Steamships, we comment on the consolidated income account and consolidated balance sheet as follows:—

Consolidated Income Account

The Surplus for the year 1944 amounting to some \$1,271,000 is after making provision for the general expenses of operation and:—

- (a) Interest on Funded Debt held by the Public;

- (b) Interest on Loans from the Dominion Government;
- (c) Depreciation of Vessels;
- (d) General taxes, and
- (e) Pension Payments to the Canadian National Railway Company as Pension Contract Underwriter.

The total of provisions (a) to (e) approximates \$899,000.

The Surplus for the year shows an increase of some \$832,000 as compared with 1943. In the main, this increase in the Surplus arises from additional Charter and Management Fees, improved ratio of direct Operating Costs to Revenues and reductions in the charges for Pensions and Interest in 1944.

Consolidated Balance Sheet

Investments in Vessels and other properties are carried on the basis of cost. During the year these Investments were reduced by approximately \$216,000 as a result of Vessel losses covered by insurance.

Of the total Insurance and Replacement Fund, some \$1,154,000 applies to Insurance and \$6,113,000 to Replacement. The Fund as a whole is composed of cash, unsettled claims against Underwriters and investments in the securities of Dominion, Provincial and Municipal Governments. The year-end market value of the securities exceeded the book figure. The Insurance portion of the Fund increased approximately \$140,000 during the year with no major loss claims payable being reported outstanding at the date of the Balance Sheet. The Replacement portion of the Fund is maintained for the purpose of providing either for vessel replacement or redemption of the outstanding Bonds at their maturity.

Funded Debt remained unchanged in 1944.

The total Capital and Interest Indebtedness to the Dominion of Canada was reduced by approximately \$1,819,000 during the year as a result of the payments to the Government out of the working capital created by Cash Surpluses.

Of the total Insurance and Replacement Reserve, some \$1,154,000 applies to Insurance and \$2,257,000 to Replacement. For all practical purposes the Replacement portion of the Reserve may be regarded as representing appropriations from Profit and Loss Account in respect of Capital Gains and Operating Profits of the Replacement Fund.

With reference to the Contingent Liability for Pensions, we would point out that a Reserve has been provided through the C.N.R. as Pension Contract Underwriter against the estimated capital value of contracts in force under the 1935 Plan but not against pensions conditionally accruing. The contributions by the Steamships employees presently in service are invested through the separately administered Pension Trust Fund under the same Plan.

The accounts of the Canadian National (West Indies) Steamships, Limited are stated in Canadian currency converted mainly at the par of exchange.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of Capital Assets.

In respect of the Steamships the test audit for the year 1944 was similar in scope to that of the National System previously outlined in this report.

Yours faithfully,

GEORGE A. TOUCHE & CO.

Mr. MAYBANK: I would move the adoption of the report with the exception of the T.C.A. part which has yet to be passed.

Mr. HAZEN: You made a number of recommendations in this report, would you mind pointing out where they may be found so we will have them before us? How many of them are there?

Mr. NICHOLSON: There is the matter of the fixed charges, page 2.

Mr. HAZEN: What is the first one?

Mr. MATTHEWS: The first one has to do with depreciation on fixed properties. That is on page 2. Then, in the last paragraph on that page under the heading, Consolidated Income Account, we have called the attention of parliament to the effect of wage rates, material prices and fixed charges.

Mr. HAZEN: There is one on page 3, Accrued Depreciation?

Mr. MATTHEWS: That is right, that is on page 3, the third from the last paragraph.

Mr. HAZEN: That is the second one, isn't it?

Mr. MATTHEWS: And the uniform accounting regulations.

Mr. HAZEN: There are three recommendations at the moment?

Mr. MATTHEWS: Yes.

Mr. HAZEN: Have you a list of the vessels and their value making up that total of \$5,589,000? Could you give us the value of each vessel?

Mr. MATTHEWS: The railways could supply you with that, yes. I haven't got it.

Mr. VAUGHAN: That statement is as follows:—

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS LIMITED

Cost of Vessels owned at December 31st, 1944:—

<i>Lady Nelson</i>	\$1,685,730 12
<i>Lady Rodney</i>	1,784,672 30
<i>Cathcart</i>	394,872 48
<i>Cavelier</i>	435,770 36
<i>Connector</i>	286,759 85
<i>Chomedy</i>	500,739 02
<i>Colborne</i>	500,724 02
	\$5,589,268 15

Mr. JACKMAN: The department cash surplus, that is synonymous with net profit, isn't it?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Why do you not put it that way then?

Mr. MATTHEWS: Because it goes back to the original government practice in 1932, when the total deficit was divided as between such items as depreciation and other non-cash items; then about 1935 or 1936 in order that the Canadian National Railway results would be complete, so that there would be no division between cash surplus and non-cash surplus, the account was put on the basic assumption that if the railway had a deficit it would not make any difference how the charges originated, whether they were depreciation or other bookkeeping items, the proposed deficit would be voted by the government as such and the monies used like in depreciation in reduction of the requirements for capital purposes. It was adopted about 8 or 10 years ago in order to eliminate any question of what the complete income result was and the term "cash surplus" has been carried forward simply arising out of that practice; that is why we make mention of the matter in the report, because we know that in commercial practice the term is not ordinarily used.

Mr. JACKMAN: Then, referring to the consolidated income account, can you tell me this; does the railway pay any income tax to the provincial governments?

Mr. MATTHEWS: The matter of income tax is one that has been determined by the government. We would not have any comments. There are no Dominion income taxes in Canada being paid by the Canadian National Railways.

Mr. JACKMAN: Even if they made money, would it be taxable by the provinces; I mean, in the same way as other corporations have to pay income taxes?

Mr. MATTHEWS: I do not think we could enter into any discussion on hypotheses like that.

Mr. JACKMAN: Then, (g), the figures under the pension fund as a reserve; do you consider the plan to be actuarially sound, and similar to other commercial practice in this country or the United States?

Mr. MATTHEWS: I do not think that you could compare it with the United States, because they have an entirely different set up over there. But so far as the capital value of the pension contracts issued are concerned, the capital value is determined on what we consider to be a sound actuarial basis having regard to the potential earning power of money, life expectancy, etc.; and the matter is referred from time to time to the dominion department having some knowledge of these matters.

Mr. JACKMAN: There is no question about these contracts which are issued and in force, but in view of the accruing liabilities as employees retire—they are O.K.?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: And there is a liability, although not an immediate one, relative to these employees who will reach the retirement age of 65?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Do you feel as an auditor you should draw special attention to that?

Mr. MATTHEWS: We point that out to you. We can not do more than that.

Mr. JACKMAN: I appreciate what you are saying, why you do point it out; could we do anything about it in order to have a complete picture of the accounts?

Mr. MATTHEWS: No. Quite frankly our feeling on the matter is that so long as the parliament of Canada have knowledge of the fact; that with the development of the pension plan of the Canadian National Railways, the way that the 1935 contractual plan is gradually absorbing more pensioners each year—we would not ourselves sponsor at this time any recommendation for the capitalization of a so-called pensions accruing. There are many reasons for that. One of them is that they are entirely conditional. It would be very difficult to form any actuarial opinion—in fact I do not see how any actuarial basis could be attempted, because not only is the matter of life expectancy involved in pensions, but the matter of employment.

Mr. JACKMAN: Yes; but, Mr. Matthews, if you were taking over a company with a lot of old employees and one of the conditions of the purchase of the assets was that you maintain these people and continue the company's practice of granting pensions at the age of 65 years, certainly you would have a very great monetary liability there which would affect the position of the company.

Mr. MATTHEWS: Mr. Jackman, you are saying that we recommend to parliament...; I am just saying that the Canadian National Railways having regard to all the facts and for all practical purposes the Canadian National Railways contractual pension plan over a period of years is going to be fairly

representative; and while it is quite true as we point out that accruing pensions and these pensions being paid under non-contractual plans,—there is no capital liability set up, that is perfectly true; but when one looks ahead a bit and visualizes the pension situation ten years from now we feel that each year the situation will come closer to righting itself. It would be a tremendous problem to attempt any capitalization of accruing pensions, either under the 1935 plan, or to attempt to capitalize other plans. It would be much easier to estimate the capital value of pensions being already paid under the non-contractual plans; but, with respect to the capitalization of pensions accruing, subject to the conditions that are laid down in the pensions regulations, I see no means by which you could arrive at an actuarial basis because employment is involved.

Mr. MAYBANK: Is it not a fact that the determination of the actuarial soundness of any pension plan is a separate study of itself?

Mr. MATTHEWS: Yes, and the actual value of the pension contract presently outstanding is an actuarial study.

Mr. MAYBANK: And auditors are not actuaries?

Mr. MATTHEWS: No, auditors are not actuaries.

Mr. MAYBANK: No.

Mr. MATTHEWS: But Mr. Jackman is raising a point that has to do with the pensions that are accruing out of the 1935 plan, and also pensions that are presently being paid under the non-contractual plans, and what is the capitalizable value of these things.

Mr. MAYBANK: Yes.

Mr. MATTHEWS: My answer is that our view is that the Canadian National Railways contractual plan if given time will meet all reasonable requirements.

Mr. JACKMAN: I would like to be assured of this; is the C.N.R. doing as much in the way of setting up a fund for this contingent liability as are comparable companies in the railway field in Canada or the United States? You said it was difficult to make any exact comparison. But let me point this out, that some of the companies, particularly the smaller ones, do not have pension plans, if an employee gets old they take care of him, give him so much money, whereas the large companies endeavour, particularly in good years when they have sufficient surplus to enable them to do so, to set up a pension fund.

Mr. MATTHEWS: That is right.

Mr. JACKMAN: But there is that difference, some of them set up their funds through insurance companies while others have pension funds of their own, and I want to know whether this large company—this is one of the largest in the country—is doing as much in the way of taking care of that liability as other companies.

Mr. MATTHEWS: I think the present position of the Canadian National Railways pension reserve is far in excess of what the majority of large companies either in Canada or the United States are doing. I should like to see the balance sheets of many large companies which have capitalized their pension liabilities to any greater extent than the Canadian National Railways.

Mr. JACKMAN: Of course, you have got two classifications. You have got one classification which is actuarially sound and you have got the other classification which is not in the same category.

Mr. MATTHEWS: That is quite true, but I still say from a comparative industrial point of view I think the Canadian National Railways are on a very sound basis.

Mr. JACKMAN: What do the American railways do?

Mr. MATTHEWS: In the United States the situation is entirely different. These things are operated under the auspices of the government.

Mr. JACKMAN: If they adopted uniform accounting particularly following the I.C.C. classification would it make a difference with regard to this?

Mr. MATTHEWS: The American railroads are not setting up capitalized liabilities to compare with the Canadian National on these contracts.

Mr. MAYBANK: What about the C.P.R.?

Mr. MATTHEWS: I think the C.P.R. have an entirely different set-up. We are not really familiar enough with the C.P.R. They have their own pension plan, but I would say that the liability set-up of the Canadian National Railways will compare very favorably with many large corporations of which I have any knowledge.

The CHAIRMAN: Gentlemen, Mr. Maybank has moved the adoption of the report.

Mr. REID: I have got two questions I should like to ask.

Mr. MAYBANK: I have moved the adoption of the report in order that questions might come in on the motion. That is all. I was not trying to hurry it up.

Mr. JACKMAN: I asked expressly whether you wished interruptions as we went along or whether I should wait until afterwards.

The CHAIRMAN: It is one o'clock. I will tell you what we have left. There are three estimates and this auditor's report. You have further questions to ask on it. I think there was some objection to meeting at 4 o'clock depending upon the T.C.A. bill being brought up in the House. Can we arrive at a time that would be suitable? (Discussion *re* adjournment).

Hon. Mr. CHEVRIER: Why do we not do it this way: adjourn 4 o'clock and see what happens in the House from 3 to 4? If there is a discussion perhaps we can adjourn from 4 to 8. Is that agreeable?

(Carried)

The CHAIRMAN: There is one other matter, gentlemen. I must advise the head of the T.C.A. when his officials are to come down here. With the approval of the committee may I say Tuesday?

Mr. HARKNESS: I do not think you can because we do not know how long this bill is going to take.

Hon. Mr. CHEVRIER: You can decide on that this afternoon.

The Committee adjourned at 1.10 p.m. to meet again under the arrangements as outlined above.

AFTERNOON SESSION

The committee resumed at 4.00 p.m. Mr. R. Maybank, Vice Chairman, presided.

The VICE CHAIRMAN: Mr. Clark had to go away and as vice chairman I have got to sit in his chair. Before adjournment we were taking up the auditor's report and had begun the questioning of Mr. Matthews on it. Shall we continue from there? I think you were asking a question at that time, were you not, Mr. Jackman?

Mr. REID: Are we taking this page by page?

The VICE CHAIRMAN: We have made no decision on that, Mr. Reid. I would thin that probably it would be better to start at the front and go through to the back.

Mr. REID: If you do that it keeps the argument more in sequence.

The VICE CHAIRMAN: Are there any questions or observations on this report?

Mr. JACKMAN: What were we at, Mr. Matthews? Had we finished the last question?

Mr. MATTHEWS: I believe we were talking about pensions.

Mr. JACKMAN: I think we finished that. On item (L), Fixed Property Retirements, I suppose we did see how much that was in the annual report although I cannot recall it to mind at the moment. About how much would that be as compared with previous years?

Mr. MATTHEWS: That would be about \$1,650,000, roughly.

Mr. JACKMAN: Owing to the necessity of using all available equipment is that sum very much less than in a normal pre-war year?

Mr. MATTHEWS: During wartime naturally retirements of property would be on a lesser scale when the need is great.

Mr. JACKMAN: That is what I am suggesting.

Mr. MATTHEWS: Quite right.

Mr. JACKMAN: You retired \$1,650,000 last year. What is it for a normal pre-war year in the way of retirements?

Mr. MATTHEWS: On all fixed properties?

Mr. JACKMAN: The \$1,650,000 applied to all fixed property?

Mr. MATTHEWS: No. I might say, Mr. Jackman, that is Canadian lines principally, because in the United States beginning with 1943, as we have pointed out, depreciation accounting was put into effect for fixed properties whereas on the Canadian lines they are still continuing to operate on the basis of retirements.

Mr. JACKMAN: The question is that \$1,650,000 was the amount of fixed property retirements last year. How does that compare with a normal year?

Mr. MATTHEWS: I will be subject to Mr. Walton's opinion in the matter but my own view would be looking back over the years that during wartime it would naturally follow retirements would be less because of the fact you are not retiring property; you are using property beyond the point you ordinarily would use it.

Mr. JACKMAN: That is what I have been suggesting for the last two minutes, but I want to know how much?

Mr. MATTHEWS: How much what?

Mr. JACKMAN: What difference is there as compared with the \$1,650,000?

Mr. MATTHEWS: I suggest you might ask Mr. Walton that question.

Mr. VAUGHAN: What was the question?

The VICE CHAIRMAN: Retirements in the years before the war as against this last year on fixed property.

Mr. COOPER: I do not have the figure in front of me.

Mr. JACKMAN: I only want to know approximately.

Mr. COOPER: Last year the amount of property replaced, was in the neighborhood of \$12,000,000, and I would imagine that was substantially in line with normal retirements.

Mr. JACKMAN: What was the figure of \$1,650,000 that Mr. Matthews gave me for the last year?

Mr. MATTHEWS: This is the charge on the Canadian lines that is in lieu of what would be charged if there was depreciation accounting. It is excluding

track structure. That is entirely excluding track structure because you see the retirement of fixed properties, even with the Interstate Commerce Commission, excludes track structure. There is no depreciation, and those undertakings where track is relaid are handled directly through the primary operating expense accounts. That, Mr. Jackman, would be something that would have to be taken out of the individual primary accounts. What we are referring to here in this figure I have given you is retirements apart from track structure.

Mr. JACKMAN: Item (L) in your definition section under Consolidated Income Account is fixed property retirements. All I am asking is was the amount last year in view of war conditions very much less, and how much less than in a normal year?

Mr. MATTHEWS: In 1943 my recollection is that the comparable figure would not be very much different.

Mr. JACKMAN: I presume these fixed property retirements are treated as an operating charge last year?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: One presumes they are less last year because you could not replace them. You kept them going. How much was it last year? One figure given to me is \$1,650,000. What is the right figure, and how does the figure compare with a normal pre-war year?

Mr. MATTHEWS: I could not answer you that because I would have to go back. A comparable figure could be secured for previous years if you want it.

Mr. JACKMAN: It obviously must be less because you are building up a special reserve of money that you cannot spend at the present time to take care of it.

Mr. MATTHEWS: That has nothing to do with the reserve for depreciation.

Mr. JACKMAN: Deferred maintenance though; you have got two or three reserves set up.

Mr. MATTHEWS: Deferred maintenance, that is quite true. The deferred maintenance account has to be taken into account in that respect, but I think we have to start with the fact that the track structure portion of fixed properties even in the United States are not subject to depreciation and they are not considered as retirements in that sense. They are charged as repairs through the primary accounts of maintenance of way and structure. It is a difference in term. This has to do with buildings and so forth on the Canadian lines principally.

Mr. JACKMAN: I only asked a simple question. I only want two figures given to me, those of now and then.

Mr. MATTHEWS: As I say if you want figures for previous years I have not got them but I can get them for you.

Mr. REID: There is a difference between depreciable fixed properties and the retirement basis comparing it with the United States Interstate Commerce Commission way of doing business. Is that not more important than what you have given the committee a moment ago because I notice that you recommend for the consideration of the committee that until the war is over we should not attempt to copy the order of the Interstate Commerce Commission in regard to buildings, stations, shops, and bridges?

Mr. MATTHEWS: Right.

Mr. REID: At the present time on the Canadian side we have them designated on the balance sheet on a retirement basis?

Mr. MATTHEWS: That is right.

Mr. REID: Whereas in the United States they are different?

Mr. MATTHEWS: They have been on the depreciation basis since 1943.

Mr. REID: What would be the real difference in the balance sheet if we were on the same basis as the Interstate Commerce Commission?

Mr. MATTHEWS: You would be setting up an annual charge for depreciation and a credit reserve for depreciation for fixed properties in Canada the same as they are in the United States.

Mr. JACKMAN: If Mr. Reid will read the memorandum that Mr. Cooper prepared he will see the difference in these two systems.

Mr. REID: Being a layman I want it in short terms, as few words as possible. I can read it but I want it in terms that I, at least, can understand.

Mr. MATTHEWS: Even there, as you will notice, track structure is not included as part of depreciation. That is handled on a repair basis and not as a depreciable item.

Mr. JACKMAN: Perhaps Mr. Cooper could answer a question for me. Nothing hangs on it very much. Fixed property retirements are charged to operations during the year; is that right?

Mr. COOPER: Yes.

Mr. JACKMAN: What I am asking is, was the amount charged to operations on that account last year very much less than what it would be in a normal year because of the exigencies of war?

Mr. COOPER: Somewhat less, Mr. Jackman, because under war conditions any property which could be kept in service was kept in service.

Mr. JACKMAN: I understand the philosophy but what are the amounts?

Mr. COOPER: The only way of answering that would be to produce figures for five or six years which we can do, and that will disclose readily the amount set aside in 1944 as compared with the preceding five or six years, but generally under war conditions there has not been the same retirement of property which there would be if labour and material had been available for replacement purposes. As to the amount, we cannot give you the figure off hand but we could have a statement made very quickly. We can give it to the reporter and have it put in the record.

Mr. JACKMAN: If I did not have the utmost confidence in the management I might think that it might be you only wrote off \$5,000,000 charged to operations last year whereas ordinarily you have perhaps \$25,000,000. I do not suspect. I just want to know. That is all.

Mr. COOPER: It is unfortunate in a way that the statement which was handed in about depreciation was not read because one paragraph says this:—

Attention is directed to the provision made in the accounts since 1940, in amount of \$34,000,000, for maintenance of fixed property and equipment which has had to be deferred due to the difficulties in obtaining labour and material. This sum includes provision for the loss chargeable to operating expense for fixed property the normal retirement of which may have been deferred under war conditions.

Mr. JACKMAN: In other words, you have stated the accounts as conservatively as you can. You have stated your cash surplus as conservatively as you can.

Mr. COOPER: Yes.

Mr. JACKMAN: I think that is a very good paragraph.

Mr. VAUGHAN: We will file that statement for you, Mr. Jackman.

Mr. JACKMAN: All right, Mr. Vaughan.

Mr. HARKNESS: What does this last item mean, amortization of discount?

Mr. MATTHEWS: That is where issues have been made by the railway where the proceeds have been less than par and the amount of the discount is spread over the lifetime of the security and each year that amount is taken up in the income account so that on the maturity of the bond the discount is wiped out.

The VICE CHAIRMAN: Are there any further questions on that?

Mr. JACKMAN: Reading that further where you talk about depreciation of fixed property and subsequently make a recommendation about the I.C.C. what would you recommend in regard to the depreciation on hotels which I understand do not come into the American railroad system?

Mr. MATTHEWS: As far as we are concerned we favor at this stage the adoption of depreciation for large units of fixed properties which would include hotels.

Mr. JACKMAN: You believe in a unit depreciation policy?

Mr. MATTHEWS: Yes, and particularly if the experience of the United States lines is satisfactory. Of course, we have to remember that it only started with them in 1943. We have reason to believe that income tax factors may have influenced their thinking, because I well remember back in 1928 when the original order number 15,100 was passed the railways of the United States took strong exception to the adoption of depreciation for fixed properties. But as of the first of January 1943, the inter-state commerce commission instituted depreciation accounts for fixed properties excluding track structure. As far as the Canadian National in Canada is concerned we think that the inter-state commerce commission has gone to some extreme in carrying out the provisions of depreciation on fixed properties, carrying it down to units that are relatively small; and therefore, that is for the Canadian National, we would prefer to see that limited to large structures such as terminals, hotels and very large bridges, and that kind of thing. That would not require too much clerical expense. There is a point to which if this is carried it over-balances the good. After all, the principal purpose in depreciation at any time is to avoid unusually heavy charges to any one year's operations; and, if on a system the size of the National railways the depreciation on fixed property is limited to large structures we feel that that broad purpose could be achieved. However, there is some difference of opinion, as always, in these matters. That is our opinion.

Mr. JACKMAN: You believe it should be depreciated on large structures only?

Mr. MATTHEWS: Well, Mr. Jackman, we say in view of the fact that depreciation accounting has finally been adopted by the United States lines that we think that consideration should be given to it for the Canadian National Railways.

Mr. JACKMAN: Turning now to that paragraph on page 2 which you read, which says:

Looking forward to the post-war period, the impact of the accumulated war-time increases in wage rates and material prices on the operating results from prospective revenues at that time is a matter to which we commend the consideration of Parliament.

You also make mention of this question about fixed charges borne by the national system in comparison to other major railways in North America. I do not know (I am expressing my own opinion) but that seems to me to be a rather unusual paragraph to find in an auditor's report. I should think that some managers might take exception to opinions like that being voiced by auditors, unless the opinions happen to be in agreement with those of the management. What are you going to say to the committee about that? What consideration do you think this committee should give to it?

Mr. MATTHEWS: First of all, on the point as to the function of the auditors in calling attention to a matter of that kind, it would not ordinarily be done; but the position of the auditors of the Canadian National Railways is not exactly the same as the position would be with the ordinary commercial company. Let me just remind you, Mr. Jackman, of what the terms of the Canadian National-Canadian Pacific Act are insofar as they relate to the auditors. One of the provisions in the Canadian National-Canadian Pacific Act is this, it says: "their annual report shall call attention to any matters which in their opinion require consideration or remedial action." Now, that is a pretty broad instruction to give to the auditors; and we feel that with the revenues at the level at which they have been in recent years and the developing satisfactory results that have been obtained that we should not miss the opportunity to just make mention in our report to parliament from our point of view. The legislation says that the auditors are to do that. Now, it is our view that because of the higher revenues of the war period, we do not want to leave any impressions so far as our reports are concerned that there are not heavy costs in there that may stick with us after the war, and if revenues should recede to any such levels as we had in the past years—it is just a point of comment in passing.

Mr. JACKMAN: May I say at once that I am very glad to get the terms of reference which the auditors hold, and our own terms of reference admittedly call upon us to examine all matters and to report from time to time the committee's observations and opinions thereon. That is why I bring up the subject now. That is why I asked at previous sittings whether the management had in view applications for higher passenger or freight rates. I understand that up to the present time there have been no such applications put in. But the auditors apparently feel that costs have gone up for the railway both with respect to wages and materials, and that with some diminution in the volume of traffic which we expect in peace time it may be that the management would find difficult going unless they got some relief by way of increased rates.

Mr. VAUGHAN: I think I mentioned that in some of my earlier remarks. I said we had not prepared any case for submission to the board of transport, but that if the present level of expenditures are maintained and traffic declines it is likely that we would need some relief.

Mr. JACKMAN: Mr. Chairman, we as a committee have to put in a report to parliament, and we have to submit that report in writing. Do you want us as a committee to put something in with regard to raising rates?

The VICE CHAIRMAN: Mr. Jackman, I am only here chairwarming; but I suppose a matter of that sort a little later on would come into the hands of the usual small drafting committee, and then they would bring their draft into the larger committee for consideration; and while you were speaking, and because of what you were saying, it did occur to me that they would have to take that into consideration all right. That is the way my mind was functioning while I was listening to you. I felt that that was natural, that that should be done.

Mr. JACKMAN: The last sentence in that same paragraph in the auditors' report says this. "We would also make mention of the disproportionate amount of fixed charges borne by the National system in comparison with other major railways in North America."

The VICE CHAIRMAN: That is right.

Mr. JACKMAN: Anyway, to make any intelligent observation to parliament in the discharge of our responsibility—it either is ours or it is not ours—we would be called upon to make a thorough examination of these matters; or, are we to deal with it in a merely perfunctory manner? I do not wish to

labour the point unduly, but it seems to me to be really our function, or something should be done about changing the responsibility of this committee. We just cannot grasp this tremendous system in a very short time, especially as intelligently as we should, and we need all the help we can get from the president. It may come about that there will be a squeeze there between the old road structure and the new costs and there won't be anything left at all, we will be faced with a deficit again; and they have that under consideration and we as a committee should have it under consideration. Some of us do not know much about it. What are we to do?

The VICE CHAIRMAN: Don't you think it is fair to remember this, that the railroad officials cannot make government policy, and they have got to be in their reporting and in all their statements guided to adopt what might be termed the attitude of factual reporting. I do not think you can expect them to do more than call to the attention of the committee any difficulties that they have. Then, of course, the committee can recommend something in reference to government policy. But I think you would be putting them in a rather invidious position asking them to go too far into policy making.

Hon. Mr. CHEVRIER: Perhaps I should say this at this juncture, that the railway officials have made representation to the minister on more than one occasion in connection with a reduction of fixed charges. The matter is receiving consideration, and I am not in a position to say now what may be done in connection with it; but I can say it is being studied.

Mr. JACKMAN: That is very interesting; representations have been made to you; of course, the committee do not count.

Hon. Mr. CHEVRIER: You are saying that the representations are made first to the minister, I think they should be made to the minister; and I presume that that is how it is brought about in the auditors' report. You certainly would not suggest, I take it, representations being made other than to the minister first. I think the minister should be aware of what the railway has in mind with reference to the reduction of fixed charges.

Mr. JACKMAN: I think he should be too; but it seems to me, as the auditor points out to us, that the system should be put in a more relative position to other comparable railways and we have not got very much information on it; and yet certain statements or suggestions have been made to you as to the reasons why there should be a reduction, but we have not heard very much about them at this particular session of the committee anyway; and if it is going to be taken up with you, and it has been, and the matter is brought to our attention by the auditors—perhaps not in the report itself—then I think we should give some examination to it if we are to be a real committee; otherwise we will not know just what we are doing here.

Mr. HARRIS (*Grey-Bruce*): May I ask, Mr. Chairman, whether this point is brought up for the first time this year, or whether it has been brought up in previous years; and, if so, what was done about it.

Hon. Mr. CHEVRIER: I do not remember it last year; I was not a member of the committee so I do not know, but I understand that this did come up before.

The VICE CHAIRMAN: The matter has been up several times; I think it has been up in nearly every committee. It has always been pointed out and observed that this railroad is under this disability now being referred to.

Mr. HARRIS (*Grey-Bruce*): I think there are about 11,000,000 people in the Dominion of Canada who hold that view.

The VICE CHAIRMAN: That is right. The question is one which has been before this committee on several occasions, and I understand that it has been before the government at all times.

Mr. VAUGHAN: In the preliminary remarks I made I filed a statement showing our fixed charges in comparison with other railroads, and it seems to me it might be helpful if this committee cared to go on record recommending that our fixed charges be brought more in line with our earning power.

Mr. JACKMAN: Provided we have some reason for forming a like opinion.

Mr. VAUGHAN: I think that statement I filed would be a very good reason for considering the matter.

Mr. HAZEN: The statement you filed is an appendix. Does that show the names of all the first-class railways in the United States?

Mr. VAUGHAN: It shows the names of the principal railways, those which are comparable with the Canadian National Railways.

Mr. HAZEN: What I had in mind was I thought there might be other United States first-class railways with higher fixed charges than those you referred to.

Mr. VAUGHAN: The average in there is the average of the class one railroads in the United States.

Mr. HAZEN: You gave us the average. I was thinking that there might be first-class railways other than the ones you show. You refer to several railways in that appendix. There are other first-class railways in the United States.

Mr. VAUGHAN: We picked out the largest railways which would be comparable with ours, and I am quite satisfied there is not a single railroad in the United States which has fixed charges comparable with ours based on their gross earnings.

Mr. HAZEN: I thought possibly you might have picked out the ones which had the lowest fixed charges.

Mr. VAUGHAN: No, sir.

The VICE CHAIRMAN: Three of the largest railroads are there.

Mr. VAUGHAN: I might say, if you go back to the pre-war days, the situation was very much different, very much worse from our standpoint, and those conditions may come again. For example, our fixed charges were 26·24 in 1939, and the average of class one railroads in the United States was only 15·21, and a number of them were very much lower. I think it is fair to assume that roads like the Santa Fe, and Union Pacific, which are two of the largest and most important railroads in the United States, might be taken for comparative purposes; and their figures are, for the Santa Fe, 6·91; and for the Union Pacific, 8·66, as against our figure of 26·24.

Mr. HAZEN: In 1939 what did you ask for, or did you ask that the fixed charges of the C.N.R. be made the same as the average charges of the railways in the United States?

Mr. VAUGHAN: No. We have not done that. We have up with the Department of Finance now certain adjustments in our fixed charges. If I might be permitted to do so, I would make this suggestion to the committee. A number of these things are just in negotiation. We will have another meeting soon, about March, and perhaps the matter might be discussed more fully at that time.

Mr. JACKMAN: What I am suggesting, Mr. Chairman, is that if we are going to touch upon that aspect of the railway in our report, we must examine it. I am quite willing to leave it now; but if we are going into it, it is certainly pretty lengthy.

The VICE CHAIRMAN: You would not want the adoption of anything along that line without a much more extended examination than we are having at the present time.

Mr. JACKMAN: That is what I am saying.

Hon. Mr. CHEVRIER: I think you will agree with this, Mr. Jackman, that it is hardly 2 months since the war has expired, that the attention of the government has been directed towards war matters all along and has not had time to consider this thing as it should be properly considered. That perhaps might be a reason for leaving it then until the next session which should be very soon after this one.

Mr. JACKMAN: I am quite willing to let it stand. But I hope, when the time comes, you will bring up reasons which are new as compared with those produced at the time you got the 1937 write-off.

Hon. Mr. CHEVRIER: 1939.

Mr. JACKMAN: When was it, 1939?

Mr. VAUGHAN: 1937.

Hon. Mr. CHEVRIER: You are referring to the Capital Revision Act now?

Mr. JACKMAN: Yes; because undoubtedly the line has a heavy indebtedness. The sins of its folly cannot be eliminated entirely. Before I became interested in politics, I always understood that the C.P.R. was a monument to Sir John A. Macdonald and the C.N.R. was a monument to another great Canadian.

The VICE CHAIRMAN: Shall we pass on now? Are there any other questions or observations?

Mr. REID: Are we on page 2?

The VICE CHAIRMAN: We are just moving along, Mr. Reid.

Mr. REID: I just want a little information with regard to the insurance fund.

Mr. MATTHEWS: Yes?

Mr. REID: I note at the foot of page 2:

"The several special funds of the National System including sinking funds, deposits in lieu of mortgaged property sold, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to some \$77,000,000..."

and so on. I note it has increased by half a million dollars. What insurance is that?

Mr. MATTHEWS: That is a self insurance fund carried by the railway for the insurance of most of its own risks and it has been in existence for perhaps 15 years or more. It goes back a considerable time.

Mr. REID: Does the fund fluctuate a great deal?

Mr. MATTHEWS: It does not fluctuate a great deal now because it is a self-carrying fund, and any operating profits in the fund are transferred to the railway's income account; so that for practical purposes the fund does not fluctuate a great deal excepting that the inter-system securities in the fund are always carried at par and where securities are bought below or above par, there are adjustments from year to year. In the year 1944 there was an adjustment of that kind due to the difference between par and cost in the sale of some securities within the fund. But other than that, the operating profits of the fund are transferred to the railway's income account.

The VICE CHAIRMAN: Are there any other questions?

Mr. HAZEN: The Northern Alberta Railways Company does not seem to have been very successful in its operation, judging from the statement. What is the length of that railway and what country does it serve?

Mr. VAUGHAN: The Northern Alberta Railway runs from Edmonton up into the Peace River country, up to Dawson Creek. There is also a branch east of there running north of Edmonton. It serves the so-called Peace River country. The road is owned jointly by the C.P.R. and the C.N.R.

Mr. HAZEN: Are there possibilities of its position improving as the country gets settled?

Mr. VAUGHAN: As more settlers come in, and there is more wheat to ship and more traffic to come out, the situation should be improved. But I do not see any prospect for any immediate improvement. The road did reasonably well during the war years when there were so many contractors moving large quantities of material up there for the construction of the Alaska Highway.

Mr. JACKMAN: That reminds me, Mr. Minister, that we were forgetting about the Hudson Bay Railway. I hope it will not take too long.

Hon. Mr. CHEVRIER: Well, we are ready.

The VICE CHAIRMAN: Is there anything else on that page?

Mr. JACKMAN: It is hard to get through this quickly. This insurance fund has increased approximately half a million dollars. You were talking about that a moment ago. No major loss has been reported. This insurance fund is to carry some of your own insurance?

The VICE CHAIRMAN: It is self insurance.

Mr. VAUGHAN: We carry our own insurance. We have a fund of our own and I think we have about \$13,000,000 in it which is invested in good securities and which more than takes care of our losses.

Mr. JACKMAN: Have you a ceiling on that? I mean, if you increase it every year by half a million, would the time not come where it met all needs?

Mr. VAUGHAN: We did. We have got it up to the point now where we do not need to increase it any more.

Mr. JACKMAN: I just cannot quite follow the wording, as to how you get that small profit of half a million dollars resulting mainly from the adjustment of the book value of the system securities sold during the year from par to cost. Can you give me an explanation of that?

Mr. MATTHEWS: Yes. I do not blame you. When system securities are purchased for the fund, if they are purchased below or above par, the fund figure is adjusted to par. In this particular year the railways were fortunate enough to be selling securities that originally the fund had to take a charge on, and when these securities were sold, the sale price was above par and sufficient to wipe out the amount that had been originally written out of the fund at the time it was purchased.

Mr. JACKMAN: All I can say is, "What an odd way of doing things."

Mr. MATTHEWS: No. I do not think so; because the principle of inter-system securities is that they are carried at par on the asset side in order to equalize the par on the ledger side. I think it is a most reasonable procedure, Mr. Jackman.

Mr. JACKMAN: Why not put them at cost? Par value does not mean anything.

Mr. MATTHEWS: All systems securities are carried at par now in the special funds, of which the insurance fund is one.

Mr. JACKMAN: That perhaps accounts for the surplus if you buy them below par and when you sell them you adjust it.

Mr. MATTHEWS: That is right. That would come in as part of the operating profits of the fund, Mr. Jackman.

Mr. JACKMAN: If they are operating profits, what happened to them again?

Mr. MATTHEWS: The operating profits of the fund are transferred to the income account of the railway each year.

Mr. JACKMAN: That was the thing I wanted to question. Why did you leave the operating profits to the credit of the fund?

Mr. MATTHEWS: Because it has been found that the amount at which the fund has been established takes care and has taken care of the losses of the railways over a period of years. In other words, you reach a certain point where it is determined within reasonable bounds that your fund is sufficient, and therefore it has been the policy of the railways in recent years to transfer the operating profits of the fund to the income account of the railway. It is all predicated upon the basis that the amount of the fund has proven itself to be sufficient for the purposes for which it was created.

Mr. JACKMAN: The annual income from the fund—not the difference between capital and loss, but the annual income is kept in the fund to pay for the losses.

Mr. MATTHEWS: No. If the fund suffered an operating loss in any year, that would be taken up.

Mr. JACKMAN: Paid by the railway system?

Mr. MATTHEWS: Yes. It is maintained on the basis that it is changed where the inter-system securities are below or above par. That is the broad basis. As I say, Mr. Jackman, if in any line of endeavour you establish a reserve that has proven over a period of years to be reasonably sufficient, you would not continue to appropriate out of your earnings a continuing figure. You would reach a point eventually where it would not be necessary. That has been the policy of the railway, and the results thus far have justified it.

Mr. JACKMAN: It is not a very important matter, Mr. Matthews. But as I understand this, the railway carries its own insurance?

Mr. MATTHEWS: That is right.

Mr. JACKMAN: And you have a fund there consisting of system bonds, securities of one sort or another?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: You did for a number of years pay an annual premium?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Every year there is an annual premium paid.

Mr. MATTHEWS: There was, especially in the earlier years, by charges to the operating expenses to create the reserve.

Mr. JACKMAN: In the early years. You do not pay a current premium now?

Mr. MATTHEWS: No. The charges to operating expenses now are not very substantial.

Mr. JACKMAN: They have no relation to what you would have to pay a commercial company?

Mr. MATTHEWS: No. That is quite right; because over the early years the reserve was built up and reached that point where the historical record established that the amount reached was sufficient and the losses are taken into account each year against the earning power of the fund.

Mr. JACKMAN: And that fund is so large and healthy now that you do not have to call on the railway for any premium or the equivalent of premiums at all. Is that right?

Mr. MATTHEWS: I would not say "any". I just have not got the full analysis of the fund. Mr. Cooper, what is the proportion of premiums in here?

Mr. COOPER: There are not any premiums now paid into the fund, except with respect to risks which we insure with outside underwriters.

Mr. JACKMAN: You mean there is a certain amount of re-insurance to spread your risk?

Mr. COOPER: On special risks we take out outside insurance.

Mr. JACKMAN: What would be the special risk in a railway system?

Mr. COOPER: Fidelity bonds, Grand Trunk Milwaukee Car Ferries, the Pacific Coast steamships with respect to war risk; things of that sort.

Mr. JACKMAN: The fund is set out in the balance sheet some place, is it?

Mr. COOPER: Yes.

Mr. JACKMAN: All right.

The VICE CHAIRMAN: That is, you only put in, Mr. Cooper, the amount that has to be paid out to some commercial company at the present time?

Mr. COOPER: Yes. It is paid in and goes out and does not affect the balance of the fund. In answer to Mr. Jackman's question generally, the railway to-day is not paying any premiums for insurance. The income from the investments of the fund is sufficient to meet the losses which occur.

Mr. JACKMAN: In case you might be thinking I was critical, I wish to commend you for having such a nice fund there. You are very fortunate.

Mr. HARKNESS: You have an item here reading, "Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in western Canada." Has the railway company still a considerable amount of land in western Canada?

Mr. VAUGHAN: Yes, we still have quite an acreage for sale.

Mr. HARKNESS: Where does it appear in the balance sheet? I was looking over the balance sheet and I do not see any amount included for the value of this land. The only thing I see is that shown at cost.

Mr. VAUGHAN: It may not be shown separately.

Hon. Mr. CHEVRIER: What about miscellaneous property?

Mr. COOPER: The amount carried in other deferred assets with respect to contracts receivable on our western land amounts to \$2,126,000.

Mr. JACKMAN: That is the amount receivable last year on instalment payments.

Mr. HARKNESS: Where does that appear in your consolidated balance sheet?

Mr. COOPER: It appears under the general heading of deferred assets and is the last item there, other deferred assets, \$3,176,378. As the auditors say in their report the principal item included in that account is in respect of these western land contracts the amount of which is \$2,126,000.

Mr. HARKNESS: That is land already sold?

Mr. COOPER: Yes.

Mr. HARKNESS: I was talking about land which is not sold.

Mr. VAUGHAN: I do not think we have that figure but we will be glad to get it and give it to you.

Mr. HARKNESS: Where does that appear in your balance sheet or do you list it at all?

Mr. MATTHEWS: Miscellaneous physical property.

Hon. Mr. CHEVRIER: Miscellaneous physical property.

Mr. COOPER: On the balance sheet under the heading of miscellaneous physical property, \$65,127,197, the third item on the asset side. That includes \$2,234,000 for land which is not sold. It is carried in the accounts generally at \$5 an acre.

Mr. JACKMAN: Do you know offhand how many thousands of acres you have got?

Mr. VAUGHAN: That we had originally?

Mr. JACKMAN: No, left.

Mr. COOPER: I could not say offhand.

Mr. JACKMAN: About 400,000.

Mr. VAUGHAN: I think it is a little less than 400,000, but we will be glad to file a statement on it.

Mr. HARKNESS: That is not really the rated value. It is just a figure set on it.

Mr. COOPER: We wrote it down as far we thought we should write it down. We thought \$5 an acre was the minimum amount at which to carry it in the balance sheet.

Mr. HARKNESS: Actually I should think it would be worth considerably more than that at the present time.

Mr. COOPER: I am sure it is, especially under present conditions, but keep in mind this is the unsold balance of the original acreage and naturally includes the worst of the acreage which we had.

Mr. HARKNESS: Is the company making any effort to sell that land at the present time in view of the fact that prices are about as high in western Canada as they ever have been?

Mr. VAUGHAN: We have a very active land department. We are selling substantial acreages of land every year. They are pushing the sale of those lands as hard as they can all the time.

Mr. HARKNESS: I should have thought some of those lands could have been made use of for veterans' re-establishment under the Veterans' Land Act.

Mr. VAUGHAN: I think our people have had some negotiations in that connection. I do not know how far they have developed, but I know they have not missed any opportunity to dispose of these lands.

Mr. EMMERSON: That land is not developed land in any way?

Mr. VAUGHAN: It is not irrigated land. Most of it is unbroken land.

Mr. EMMERSON: There has been no attempt to foist that off on veterans, has there?

Mr. HARKNESS: Most of this land is relatively close to the railway and I should think it would be quite suitable for veterans' re-establishment.

Mr. VAUGHAN: Some of the land is close to the railway and some is not so close, but we are not missing any opportunity at all to sell this land at what we think is a fair price for it. Our land department is very active in that connection.

Mr. REID: Under your colonization scheme have you investigated this land from an agricultural, climatic and every other point of view?

Mr. VAUGHAN: I did not catch that.

Mr. REID: Under your colonization scheme have you investigated the land? Have you had experts go in and check on the soil and the climate?

Mr. VAUGHAN: We have our own agricultural and colonization department who do that. They have a report on every acre of land we own.

Mr. REID: How does it rate?

Mr. VAUGHAN: As Mr. Cooper said, some of that land is not the best land we had. Some of it is very good agricultural land but I could not tell you how the various parcels rate. These acreages are spread all over in different localities.

Mr. BEAUDOIN: I should like to ask a question but it is on page 5..

The VICE CHAIRMAN: We have been moving forward and backward.

Mr. BEAUDOIN: I have a question which is on page 5. I guess I had better read it. It is under the heading "Uniform Accounting Regulations."

Having in mind the conflicting elements in the railway situation in Canada and the widespread publicity given to the matter from time to time in the decade preceding the present war, we are persuaded that the uniform presentation of the published accounts of the two major Canadian railways will be of far-reaching importance in the post-war years to the government and people of Canada as the shareholders of the National System. Accordingly we deal briefly with the matter to which we have made reference for several years.

Then a little further down you say:—

It is further recommended that the regulations require the published income accounts to show the two principal traffic density factors of freight tonnage and passenger volume per mile of road operated.

Then in the last paragraph you point out that if these recommendations are accepted it would eliminate the misconceptions arising through the endeavour to compare published results which have not been computed on the same basis. What I should like to know is why nothing has been done although you have been recommending these things for several years?

Mr. MATTHEWS: Something has been done in respect of that. As a matter of fact, in the early period of the war there was a departmental committee formed along with representatives of the two major railways to give some preliminary consideration to the matter. I believe that at that time it was under Mr. Howe but owing to war conditions it was not found possible at that time to bring the matter to any conclusion. It was a matter that had received some consideration at that time but since the war there have been more important things to consider. With the post-war period, and having some recollection of the thirties, our viewpoint is it would be a matter meriting the serious consideration of parliament.

Hon. Mr. CHEVRIER: Perhaps I might add that in 1937 the then Minister of Transport set up a committee. The reference to the committee was limited to an instruction to review the whole question of uniform railway accounting regulations under statutory authority of the dominion. That committee met and made a great deal of progress but was stopped by the war, as Mr. Matthews points out. Then it was agreed that their work should be discontinued for the time being as it was obvious on account of the increased work arising out of the war no radical change in accounting methods could be introduced.

Mr. BEAUDOIN: Is that committee still in existence?

Hon. Mr. CHEVRIER: I do not think so.

Mr. BEAUDOIN: Was that committee formed with the C.N.R. and the C.P.R. people?

Hon. Mr. CHEVRIER: Yes, I have a list of the names here. I think that the committee is defunct now. I presume the auditor puts it in his report so as to bring it to the attention of the committee and of the government in order to suggest that a similar committee be set up, or perhaps the same committee.

Mr. BEAUDOIN: I presume, Mr. Vaughan, it is contemplated that some of your officers will get in touch with officers of the C.P.R. in order to accomplish this?

Mr. VAUGHAN: Our officers and the C.P.R. are in touch from time to time. There have been many differences of opinion in respect of this accounting matter and I suppose there will continue to be.

Mr. BEAUDOIN: But this matter is being discussed?

Mr. VAUGHAN: There will continue to be differences of opinion. We have not quite reconciled our views yet either with the Canadian Pacific Railway or with Mr. Matthews on this matter, but I do not think we are very far apart and we may be able to get together.

Mr. REID: I was going to ask Mr. Matthews if any other railroads have, in your opinion, a better system of accounting and, if so, what is to prevent the C.N.R. changing their accounting system so as to be in line with the other railways if they think they are better? Why should there have to be compulsion? If they have a better system why not adopt it? What is preventing that being done?

Mr. MATTHEWS: We are thinking in terms of uniformity because in years gone by there has been so much publicity given to the comparative positions of the two railways. In so far as the National System is concerned they are in the main on the I.C.C. basis, but it is a question that resolves itself ultimately into some department of government with authority to make regulations as the I.C.C. do and to see they are enforced uniformly by the railways of Canada.

Mr. REID: One would almost infer from reading that in the recommendation that the C.P.R. balance sheet is in such a form that it places itself in a more favourable light, apart from the difference in fixed charges. Leaving that aside and speaking entirely of the operations of the railways and their accounting systems one would gather from reading it that the C.P.R. must have a better system and that their balance sheet to the public shows a far more favourable picture.

Mr. VAUGHAN: We would take decided objection to that. We think their system is no better than ours.

Mr. BEAUDOIN: I think your idea was to remove misconception on the part of the public but there is no intention on your part to say that the C.P.R. or any other system is better than the C.N.R.

Mr. MATTHEWS: I thought I made that clear when I read that section that it was not a singling out of any other railway but a suggestion for uniformity that would apply to the two major railways of Canada, principally along the lines of the uniform accounting as effected by the Interstate Commerce Commission in the United States for all railways.

Mr. REID: I am willing to accept Mr. Vaughan's statement right off, that their accounting system is itself better. I am willing to accept it right there, and having accepted it, I cannot see why the Canadian National system is in any inferior position before the public outside, apart from the capital structure.

Mr. VAUGHAN: Mr. Matthews can say very readily whether he considers our system of accounting satisfactory or not.

Mr. MATTHEWS: We would not be certifying the accounts if we did not think so. But this is a matter which touches a much broader situation than that. It has to do with the history of public relations affecting the Canadian National Railways when comparisons are made with the Canadian Pacific Railway; and I think those who remember the publicity given to the matter of the Canadian National Railways' more or less hopeless position as pictured by many people in Canada during the period when the capital revision proposals were up and prior to that time, that one cannot help but feel that uniformity of presentation would be of advantage to the people of this country who own this Canadian National Railways. I do not want to be placed in any position, as I said this morning, of passing any opinion on the accounting of companies of which we have no more knowledge than you have already gained through the accounts published. But in the post-war period, we have in mind for instance the matter of reserves and the utilization of reserves, and we feel strongly that there should be some means adopted that would ensure that the utilization of

those reserves be effected on a uniform basis. As we see it the only way that it could be accomplished would be under government auspices, somewhat similar to the position of the Interstate Commerce Commission in relation to the railroads of the United States. It is a matter that we realize is contentious, but we feel looking back over the years that it would be an advantage.

Mr. MUTCH: An advantage from the point of view of the public to be able to picture the relative positions of the railroads.

Mr. MATTHEWS: That is right, without criticizing either one.

Mr. MUTCH: It might be a good suggestion, with one system of explanation more approaching the lines of publicity than the other.

Mr. JACKMAN: May I suggest that the commission proposed by Mr. Beaudoin and Mr. Reid to go into the matter of accounting would hardly be needed in view of the fact that this committee is to sit again in a matter of months. Should we make any reference to that in our report, or do we want to go into it now?

The VICE CHAIRMAN: We can study it, as you said a little while ago, when we are talking about this matter of fixed charges.

Mr. HAZEN: I do not think we need to decide now to put it into our report.

Mr. REID: Perhaps at a later session we could go more fully into it.

Mr. HAZEN: When is that set up?

HON. Mr. CHEVRIER: That was set up in 1937.

Mr. BEAUDOIN: Have we gone through this page 6, Trans-Canada Air Lines?

HON. Mr. CHEVRIER: No, not yet.

Mr. JACKMAN: I do not see, Mr. Matthews, that you have reported profits from affiliated companies. I was wondering if you could tell us whether there were any substantial earnings by the subsidiary companies which would accrue to the Canadian National system, but which has not yet been declared in the form of a dividend.

Mr. MATTHEWS: We are more concerned about losses.

Mr. JACKMAN: You reported all the losses, but you did not say anything about profits, and whether or not they were paid over to the system.

Mr. MATTHEWS: That is quite right, but our chief concern about investments of this kind is to keep parliament advised as to whether or not there are any of these companies in which investments are made that are suffering losses that are not reflected.

Mr. JACKMAN: I see, you are more concerned with the losses; our concern is with both, as to whether there were profits or losses.

Mr. MATTHEWS: Mr. Cooper indicated this morning that there are several of these affiliated companies whose dividend record has been very good.

Mr. JACKMAN: He mentioned one of sixteen per cent. That may or may not have been paid over. I presume that he was talking about dividends.

Mr. MATTHEWS: Yes.

Mr. JACKMAN: What I am asking is whether any substantial amounts earned in the affiliated companies were turned over, what our share was.

Mr. MATTHEWS: Some of the American affiliates would naturally have a surplus the same as any other company, but the Toronto terminals for instance, in which there is a very considerable investment, is neither a surplus or a deficit company.

Mr. JACKMAN: All I am asking is, is there any substantial amount in relation to—

Mr. MATTHEWS: Do you mean, abnormal amount being withheld?

Mr. JACKMAN: I mean, is there any substantial amount earned that is not paid out?

Mr. MATTHEWS: I do not think in any sense that there is any extra surplus; no, Mr. Jackman.

Mr. JACKMAN: But I still—

Mr. MATTHEWS: They pay dividends annually when they are earned, but they naturally do not pay out of their surplus any more than any other prudently managed companies.

Mr. JACKMAN: You see, the Companies Act has seen fit to make companies reveal whether subsidiaries have paid out their full earnings or are keeping some from the shareholders. As you will appreciate, in this case we are the shareholders, and I am merely asking you that question.

Mr. MATTHEWS: That is from an income tax point of view quite true.

Mr. JACKMAN: It is not from the income tax point of view, it is from the point of view of the shareholders; we are the shareholders, at least we represent them; I do not know whether these companies had any substantial earnings.

Mr. MATTHEWS: We have no company in mind that is piling up any undue surplus without making some distribution of dividends.

Mr. REID: Arising out of page 4, the general scope of the audit; is your audit itself very extensive?

Mr. MATTHEWS: Extensive?

Mr. REID: Yes.

Mr. MATTHEWS: Yes; as far as territory is concerned, our offices in Canada; we utilize them for most of the main accounting points such as Moncton, Montreal, Toronto, Winnipeg, Vancouver; and in the States at—

Mr. REID: You have offices at these various places across the country?

Mr. MATTHEWS: That is right; and our American offices cover such points as Detroit, Duluth, Cleveland and St. Albans and our London office takes care of the London and Paris offices of the National Railways. To that extent it is diversified at the principal points.

Mr. JACKMAN: Other affiliated companies again, why did you see fit to put in clause (c), "that no corporate deficit had been accumulated up to the 31st December, 1944. This indicated position, however, should be considered in conjunction with the restricted accounting policies relating to accrued depreciation on this property"; what does that mean to us?

Mr. MATTHEWS: First of all, it would be a very unsatisfactory position if the National railways had substantial investments in affiliated companies that had any corporate deficits to start with.

Mr. JACKMAN: Yes.

Mr. MATTHEWS: In the second place, we say that is not the case, the companies do not have corporate deficits; but we have to bear in mind that in the United States as well as in Canada these companies have not had depreciation accounting on fixed properties very long, only since the 1st of January 1943.

Mr. JACKMAN: Is that a warning to us that the retirement accounting may not be adequate in connection with some of these companies?

Mr. MATTHEWS: No. It is just a statement of fact, that in considering the actual financial position of these affiliates that in regard to depreciation on fixed properties their policy has been in line with the Interstate Commerce Commission which was started at a very recent date, 1943.

Mr. JACKMAN: In other words, we can take it from that that we are not to be warned by that paragraph.

Mr. MATTHEWS: That is a statement of fact.

Mr. JACKMAN: Quite so, it should be considered in conjunction with restricted accounting policy; you say, "this indicated position, however, should be considered in conjunction with the restricted accounting policies relating to accrued depreciation of fixed properties." I say there is a warning signal to draw my attention to something; that is it is not as healthy as the books indicate.

Mr. MATTHEWS: Not at all. It is only to point out to you that the accounting for fixed properties commenced at a late date, and that these companies in common with all other railroads in the United States have but recently adopted depreciation policies for fixed properties.

Mr. MOORE: Repeated references have been made to the fixed charges of the C.N.R. I think someone said that they were just about the highest railroad on the American continent. Is there any reason why the fixed charges of the C.N.R. should be higher than that of any other system?

The VICE CHAIRMAN: Do you mean, should remain higher?

Mr. REID: Should be higher.

Mr. VAUGHAN: On account of the way the railroads have been built up. There were high interest charges when these railroads were taken over and become part of the Canadian National Railways and they have been carried along.

The VICE CHAIRMAN: Are there any other questions?

Gentlemen, we had hoped you remember to get through these estimates also. I do not want to hurry anybody. I just point out that we had hoped to get through.

Mr. JACKMAN: May I ask Mr. Matthews about the next paragraph which refers to the Northern Alberta Railways?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: It says: "During the year investments in affiliated companies increased in an amount somewhat exceeding $1\frac{3}{4}$ million dollars, principally with respect to the purchase of additional bonds of the Northern Alberta Railways Company in order to finance 50 per cent of that company's requirements for maturing funded debt and capital additions and betterments in 1944." Of this how much was for additions and betterments.

Mr. MATTHEWS: About a half million dollars. There was the maturing obligation of \$2,420,000, of which the two railroads each contributed 50 per cent, the Canadian National proportion being \$1,210,000.

Mr. REID: I move that the report be adopted.

Mr. BEAUDOIN: I will second that motion.

Mr. JACKMAN: What about the last page there? There are one or two items on the general scope of the audit. Do you have many defalcations, do you find any defalcations?

Mr. MATTHEWS: No. As we point out, we are primarily concerned with the system of internal audit control exercised by the railway and the officers of the railway have at all times been cooperative with us on any points where there appeared to be any desirable changes in order to protect the interests of the railway. And, further, Mr. Jackman, I would mention to you that the railway has seen to it that they carry a very substantial fidelity bond which is world-wide, and that is good policy.

Mr. JACKMAN: Then there are no defalcations?

Mr. MATTHEWS: I would not say there are no losses, but nothing of large proportions.

Mr. JACKMAN: But you mention that some of the premiums paid for insurance were to insure outside of the company for defalcations.

Mr. MATTHEWS: That is the fidelity bond.

Mr. JACKMAN: You really are covered entirely for any defalcations.

Mr. MATTHEWS: We think reasonably so, Mr. Jackman, anywhere in the world.

Mr. JACKMAN: Under that general scope of audit the auditors report that they have examined the minutes and by-laws, etc. I was wondering whether or not in view of the size of this corporation and in view of the fact that parliament saw fit some years ago to put into the Bank Act the requirement that there be published the attendance record of the directors of the banks—the directors of the company I believe get \$5,000 a year for serving and as far as I know they do their job very well—do you think it would be in the interest of parliament and the people that attendance records were kept and published as in the case of the chartered banks? After all, people are much closer to this than they are to the banks in a sense because we own this and we only have public interest in the banks.

Mr. VAUGHAN: I do not think there is any particular objection. We practically have 100 per cent attendance all throughout the year.

Mr. REID: Are there any vacancies?

Mr. VAUGHAN: I should like to point out that our directors do a great deal more than just sit in at directors' meetings.

Mr. HAZEN: How often do they meet?

Mr. VAUGHAN: They meet once a month, but they are doing a great deal of work in between times for the Canadian National Railways.

Mr. MUTCH: Do they get any expenses without income tax?

Mr. REID: I see there is no one there from British Columbia. That is why I asked about the directors' meetings.

Mr. MUTCH: You are too far away out there.

Mr. JACKMAN: Do you want to recommend—

The VICE CHAIRMAN: There was a motion made, although I did not put it because at that time you also asked a question, Mr. Jackman. But there is a motion made by Mr. Reid and Mr. Beaudoin for acceptance of the auditors' report. Is that what you are asking me now?

Mr. JACKMAN: No. I was not referring to that.

The VICE CHAIRMAN: I thought that you asked if there was a motion. I beg your pardon.

Mr. JACKMAN: No. I was asking you whether or not... in view of the fact that it is not only in the public interest but is a publicly-owned railway, in view of the fact that parliament saw fit to ask for an attendance record of the bank director we—should ask for an attendance record in future of the directors of the Canadian National Railways?

The VICE CHAIRMAN: Would you agree with this, Mr. Jackman? We will sit down to consider the report after the officers have gone, as we always do; and it would properly come up at that time. Is that not right?

Mr. JACKMAN: Yes.

The VICE CHAIRMAN: Will you bear that in mind and revive it at the time?

Mr. JACKMAN: I will try to.

Mr. BEAUDOIN: What is the next item?

The VICE CHAIRMAN: Are we ready for this motion?

Mr. JACKMAN: No.

The VICE CHAIRMAN: All right. I only wanted to know.

Mr. JACKMAN: We are leaving the T.C.A. until next week, are we?

The VICE CHAIRMAN: Yes.

Hon. Mr. CHEVRIER: That is right.

The VICE CHAIRMAN: Are you ready for the motion?

Some Hon. MEMBERS: Question.

The VICE CHAIRMAN: Those in favour of the motion, say "aye".
Those opposed, if any?

Some Hon. MEMBERS: Carried.

Motion agreed to.

The VICE CHAIRMAN: That is carried, then.

That concludes consideration of the C.N.R. reports.

Mr. REID: I wonder if I could ask one question of Mr. Vaughan. It is something that has always been running through my mind every time I pass from the west to the east. How much money is really collected from the poor passengers passing through Saskatchewan when they eat meals? I know it would not interfere with this system at all, but I always wondered how much was collected and if there was a record of it kept.

Mr. VAUGHAN: I do not know whether we could segregate that or not.

Mr. MUTCH: Ask the C.C.F.

Mr. REID: The C.C.F. had nothing to do with this. It was in effect before they came into office. I kicked about it.

Mr. VAUGHAN: A man may come into the dining car in Alberta and may pay his bill in Saskatchewan or may come in Saskatchewan and pay his bill in Manitoba.

Mr. REID: I wondered if there was any accounting kept; every time you eat in Saskatchewan it is so much for a meal.

Mr. VAUGHAN: That tax goes to the province of Saskatchewan. You know that.

Mr. NICHOLSON: And we are making a point of collecting it.

Mr. VAUGHAN: We have the same thing in the province of Quebec.

Mr. REID: There is?

Mr. VAUGHAN: Yes.

Mr. MUTCH: There is a little compensation in Quebec, though.

The VICE CHAIRMAN: This concludes the C.N.R. report. I do not know whether or not, in connection with these estimates, we will want the officers of the C.N.R. to remain.

Hon. Mr. CHEVRIER: Not unless they want to.

The VICE CHAIRMAN: We are not going to try to chase them away. I am sure the committee would want me to express our thanks to the officers for their attendance.

Mr. REID: I move a vote of thanks for the attendance of the officers and the information they gave.

Some Hon. MEMBERS: Hear, hear.

The VICE CHAIRMAN: That is unanimous and is reported on the minutes.

Mr. VAUGHAN: I should like to say to the committee, on behalf of the railway, that we appreciate very much the consideration of the committee.

The VICE CHAIRMAN: As I say, you are not being chased away, Mr. Vaughan; I think the next matter is one you may have an interest in. I think you will, anyhow. The next matter is concerning three items. There are still some blue estimate books here.

Mr. HAZEN: What is the page?

The VICE CHAIRMAN: The votes are numbers 377, 378 and 421. The first two are on page 48. This is 377:—

To hereby authorize and provide for the payment from time to time during the fiscal year 1945-46 to the Canadian National Railway Company of the difference (estimated by Canadian National Railway Company and certified by the auditors of the said company to the Minister of Transport as and when required by the said minister) occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (upon the same basis as set out in section 9 of the said Act with respect to companies therein referred to) on all traffic moved during the calendar year 1945 under the tariffs approved on the eastern lines (as referred in section 2 of the said Act) of the Canadian National Railways.

The amount is \$3,500,000. It was the same last year. What is your pleasure with respect to that appropriation?

Mr. JACKMAN: Before we go on with this, I want to direct to the attention of the chairman of the committee, before the directors leave, that we have not touched the Hudson Bay Railway yet. It should not take very long.

Hon. Mr. CHEVRIER: We are prepared to go on with the Hudson Bay Railway any time.

Mr. JACKMAN: I do not care when you do it. I keep forgetting about it and you do not remind me.

The VICE CHAIRMAN: I think the minister is to blame. He should be reminding you.

Hon. Mr. CHEVRIER: There is an officer from the Hudson Bay Railway here, so we will be ready to go on.

Mr. JACKMAN: I do not think we need the C.N.R. officials.

The VICE CHAIRMAN: Before you travel up to Churchill, what about this estimate?

Mr. JACKMAN: This comes before us because it is an estimate of the Department of Transport?

The VICE CHAIRMAN: Yes.

Hon. Mr. CHEVRIER: And it is a statutory estimate under the Maritime Freight Rates Act.

Mr. JACKMAN: Have we power to alter it?

Hon. Mr. CHEVRIER: No. You have the power to amend the Act or at least parliament has power to amend the Act.

Mr. JACKMAN: What are our functions in regard to it?

The CHAIRMAN: We have to approve it.

Hon. Mr. CHEVRIER: It is referred to the committee of supply and taken, by virtue of the motion setting up this committee, from the committee of supply to the Railways and Shipping Committee. It has been referred to this committee for some years, but it does not take away from parliament the right to discuss, consider and review this estimate when the committee is in supply.

Mr. JACKMAN: What I wish to find out is what we have to do with regard to it.

The VICE CHAIRMAN: We have never done anything except just pass it.

Mr. NICHOLSON: Could we have some statement of the position during the war years? We have never taken much time going into details about this. Could we have some details as to that?

Mr. JACKMAN: What I should like to know, Mr. Minister, is if we are aiming at something, and if so, what it is. I should like to know what we are shooting at. It is very hard to direct questions until you know what it is about.

Hon. Mr. CHEVRIER: Perhaps I should say that under the Maritime Freight Rates Act, section 2 and section 9—

Mr. HAZEN: What chapter is that?

Hon. Mr. CHEVRIER: It is chapter 79.

Mr. HAZEN: 1927?

Hon. Mr. CHEVRIER: It is in the revised statutes of Canada of 1927. Authority was given to the Canadian National Railways in each fiscal year to provide for the payment of the difference between the normal rates and tariff rates on the lines of the Canadian National Railway in the eastern districts or eastern lines; that is the lines of the Canadian National Railway operating in the provinces of New Brunswick, Prince Edward Island and Nova Scotia and the eastern part of Quebec, extending from Diamond Junction to Levis.

Mr. BELZILE: Oh, the old inter-colonial.

Hon. Mr. CHEVRIER: I will come to that. We discuss that in the next vote. This vote has to do only with the 20 per cent reduction in tolls paid to the Canadian National Railways and not to other lines operating in this area.

Mr. REID: There is no vote that could become more controversial than this particular vote, if it opens up.

The VICE CHAIRMAN: That is right.

Mr. REID: Because I have argued it in the house for years, when comparing the rates with those in British Columbia. However, I am not going to open that subject up today. But if you want to open it up, I am ready to open it up with any one.

The VICE CHAIRMAN: I think you had better stay with the bag pipes. We like them.

Mr. REID: I am not going to open it up.

Hon. Mr. CHEVRIER: If you look at the accounts of the railway, I think you will find that it is contained in their accounts as being received by the railways. I think Mr. Cooper dealt with that to some extent last night.

Mr. COOPER: What is that, sir?

Hon. Mr. CHEVRIER: I am referring to the item of \$3,500,000 that is paid by the government to the railway.

Mr. COOPER: That is shown on page 15. In 1944 the amount was \$3,853,000 as compared with \$4,140,000 in 1943.

Mr. MUTCH: That is just a contribution for the relief of the maritime area, is it not?

Hon. Mr. CHEVRIER: That is right.

Mr. NICHOLSON: How do you arrive at this amount?

Hon. Mr. CHEVRIER: It is estimated by the Canadian National Railway Company and it is certified by the auditors. The estimate arises out of the report of the Duncan Commission, I think, which found that discrimination was exercised against the maritime provinces as opposed to the rest of Canada, and recommended that some measure of relief be granted to the maritime provinces by way of reduced freight rates. Mr. Dunning introduced to parliament—in 1927 or 28, I think—this Act and gave reasons for it at the time, namely that it was to give relief to the eastern provinces.

Mr. REID: And by the way, I think it was the only part of the Duncan Report that ever was adopted by parliament. That was singled out.

Some Hon. MEMBERS: No, no.

Mr. REID: I think so, anyway.

Mr. JACKMAN: What discretion lies with the committee, Mr. Minister, in regard to this item?

The VICE CHAIRMAN: I do not fancy there is any discretion except that in debate, I suppose, resolutions adding to it might be made, but I do not know. It is a statutory amount.

Mr. JACKMAN: Could I put a question to Mr. Vaughan? He sometimes knows more than he talks about. Can we do anything about this, Mr. Vaughan? What have we got to do with this? Do you know that? Can you help us out?

Mr. VAUGHAN: We really are not affected to any great extent, because this refers to the difference between the tariff rate and the amount apparently that the Duncan Commission felt the people in the maritime provinces ought to be asked to pay. We still get credit for our tariff rate.

Mr. HAZEN: Is this 20 per cent less than the tariff rate?

Mr. VAUGHAN: Yes.

Mr. McCULLOCH: Not in all cases.

Mr. HARKNESS: Is this a lump sum paid every year, or does it depend on the amount of traffic?

Mr. VAUGHAN: Yes, it depends upon the amount of traffic.

Hon. Mr. CHEVRIER: And the Canadian National Railways estimate what the amount of traffic is.

The VICE CHAIRMAN: It was more than this that was paid out last year.

Mr. JACKMAN: Are we supposed to consider the principle of the whole thing now?

The VICE CHAIRMAN: No, because it is in an Act of parliament already.

Hon. Mr. CHEVRIER: It is a statutory vote, and I understand that in parliament we do not vote statutory items. They are on the estimates just as this one is. They can be discussed if one wants to do so, but I do not think they can be abrogated or annulled or affected in any way.

Mr. MUTCH: The only way to alter this, if my understanding of it is correct, would be to attack the Act itself and amend the Act.

Hon. Mr. CHEVRIER: That is right.

Mr. MUTCH: Then this committee has no more power than any individual to do that.

Hon. Mr. CHEVRIER: I would not think so.

Mr. MUTCH: We could say, in our wisdom, that we thought somebody should change it, but it does not extend beyond that.

Hon. Mr. CHEVRIER: That is right.

Mr. BEAUDOIN: There is only one thing to do and that is to move the adoption of the estimates.

The VICE CHAIRMAN: It has to be adopted or else a change made, yes. We have always just approved it so far.

Mr. REID: To show you how broad-minded I am, I will move the adoption of the estimate.

Mr. EMMERSON: I will second it.

Mr. JACKMAN: There must be some reason for this.

The VICE CHAIRMAN: We are passing them every day in the House of Commons.

Mr. JACKMAN: It was referred specifically to this committee.

The VICE CHAIRMAN: Oh, yes. The reason for that was that it was tied in with the C.N.R. to a certain extent. It is a piece of money that goes to the C.N.R. I recall at the time that Mr. Dunning brought this Act in it was specially stated,

Well, it is tied in with the C.N.R. matter, and you might as well send it to the committee for consideration at the same time.

That is the manner in which it got here.

Mr. JACKMAN: The consideration we give it is whether or not it is too much or too little.

Hon. Mr. CHEVRIER: I do not think you can change the amount.

Mr. REID: It is under Act of parliament.

Mr. JACKMAN: Can we not revise it?

Hon. Mr. CHEVRIER: What happens is it is in the estimates which are now tabled in the House of Commons and referred to the committee of supply. It was withdrawn from the committee of supply at the request of the House some years ago and ever since then it has been brought before the committee.

Mr. HAZEN: Carried.

Mr. HARKNESS: You say we cannot change the amount. That is why I was asking whether it was a lump sum.

Hon. Mr. CHEVRIER: The amount is not fixed by the Act. The amount is fixed by the freight and the traffic. The Canadian National Railways say to the government what the traffic is, it is audited by the auditors, and we pay.

Mr. JACKMAN: I presume this is an opportunity for the maritimers to ask for an increase.

Mr. McCULLOCH: I move that this item be passed.

The VICE CHAIRMAN: I should think that Mr. Hazen would second that.

Mr. HAZEN: Yes.

The VICE CHAIRMAN: All in favour?

(Carried).

No. 378 is:—

Amount required to provide for payment from time to time during the fiscal year 1945-46 of the difference (estimated by the Board of Transport Commissioners for Canada and certified by the said Board to the Minister of Transport, as and when required by the said Minister) occurring on account of the application of the Maritime Freight Rates Act, between the tariff tolls and the normal tolls (referred to in Section 9 of the said Act) on all traffic moved during the calendar year 1945 under the tariffs approved by the following companies: Canada and Gulf Terminal Railway.

Then there is quite a long list of railways there, and the amount is \$900,000.

Hon. Mr. CHEVRIER: This is exactly on the same basis as the other only it is paid to railways other than the Canadian National Railways.

Mr. REID: I move it.

Mr. McCULLOCH: I second it.

The VICE CHAIRMAN: Moved by Mr. Reid, seconded by Mr. McCulloch, that it be approved. All in favour?

(Carried).

No. 421 is on page 54. It is the Prince Edward Island Car Ferry and Terminals:—

Amount required to provide for the payment during the fiscal year 1945-46 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport, made from time to time by the National Company to the Minister of Finance, and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1945.

The estimated amount is \$713,000.

Mr. REID: There is just one question regarding that. I see an item in the estimates for a new car ferry, combination ice-breaker, railway car, highway vehicle and passenger ferry service.

The VICE CHAIRMAN: That is that capital expenditure.

Mr. REID: That should be of some considerable help when it gets into operation.

Mr. VAUGHAN: That is a government matter. That is to replace the car ferry which was lost.

HON. MR. CHEVRIER: That is in the course of construction now. It was voted last year.

Mr. McCULLOCH: Was the insurance on that old ferry carried by the government or privately?

Mr. VAUGHAN: On the old ferry we were fortunate. No insurance was carried on those boats but we thought inasmuch as she was going out in the Atlantic around to St. John where she was to be dry-docked we should put some insurance on her, so we put \$1,000,000 insurance on her, which was collected.

Mr. McCULLOCH: Very nice.

Mr. VAUGHAN: And turned over to the government.

Mr. HARRIS (*Grey-Bruce*): I think you are very modest when you say you were fortunate.

The VICE CHAIRMAN: What is your will regarding that?

Mr. McCULLOCH: I move that it be carried.

Mr. HARRIS (*Grey-Bruce*): I second that.

The VICE CHAIRMAN: All in favour?

(Carried).

Where do we go from here, gentlemen?

HON. MR. CHEVRIER: Mr. Jackman, do you want to go into Hudson Bay?

Mr. JACKMAN: I think I would like to look at it.

Mr. McCULLOCH: Stop off at Churchill.

The VICE CHAIRMAN: Before you do that those items are usually the subject of a separate report to the House and are carried in the House separately from the other main report. It is usually the second report of the committee. Do you move that this be reported as the second report of the committee?

Mr. REID: I move that.

(Carried).

The VICE CHAIRMAN: The report will be drafted and submitted in the usual way.

HON. MR. CHEVRIER: Mr. Jackman, there is just one thing I should like to say about the estimates of the Hudson Bay Railway. The fiscal year is not

the same as that of the Canadian National Railway. We have all the information that I think you will want. Mr. MacLachlan, who is an officer of the Canadian National Railways and familiar with the Hudson Bay Railway, has come down from The Pas to give evidence on it. There may be some difficulty in comparing the C.N.R. figures with those of the Hudson Bay because the Hudson Bay is on the same basis as the government accounts.

Mr. JACKMAN: March 31st is the end of the fiscal year.

Hon. Mr. CHEVRIER: That is right.

Mr. JACKMAN: Perhaps this is the railway on which the C.N.R. want density of traffic.

Mr. VAUGHAN: I think you understand the method under which the Hudson Bay Railway is operated. It is operated by the Canadian National Railways as agents for the government. Mr. MacLachlan is manager of the Hudson Bay Railway.

Mr. JACKMAN: I felt that is was a big bill of expense each year and that we should inquire into it. We have a demand from certain members of the House for increased service on it and the opening up of the Hudson Bay route. I think some of us should know something about it in the House of Commons.

Mr. NICHOLSON: I think this is the first time we have had Major MacLachlan since I have been on the committee. I wonder if we could have a statement from him regarding the railway before we proceed.

Hon. Mr. CHEVRIER: I do not know that Mr. MacLachlan has come down here to make a statement. He has come down here to discuss the accounts of the Hudson Bay Railway. That was the question which was raised in the House of Commons and I think I answered that they would be available when the committee sat. Had I known before perhaps I could have said to Mr. MacLachlan that he prepare a statement on the general economics of the railway, but if it is going to be the custom to call him each year we can do that.

Mr. JACKMAN: If he should come down. I suppose he could come down or perhaps the C.N.R. who operate it can answer the questions. I should not think they would be very many or very deep in regard to it. It is the fundamentals of it we want, not the amount of axle grease used.

Mr. REID: I should like to hear a statement made, if not in this session probably in the next, because I have listened carefully every year since I came to Ottawa in 1930, with the exception of the war years, for a statement about Churchill, and with all due deference to the member who introduced it—and I think he did right—I have never heard a good reason for carrying it on. If I represented that district I, of course, would bring it into the House and want it carried on.

The VICE CHAIRMAN: I feel sure you did not listen carefully.

Mr. MUTCH: It is a quarter to six. I would not want to start on that now but you can have that information.

Mr. JACKMAN: Have we not got a balance sheet and operating statement?

Mr. NICHOLSON: Major MacLachlan has come a long way. It seems unfortunate to bring him all the way from The Pas without giving him a chance to say something about it.

Mr. JACKMAN: We are all waiting.

Mr. REID: How long will it take? I will listen to you all day tomorrow and Sunday, too, but I hope you can finish it before six.

Mr. JACKMAN: Have you a statement of assets and liabilities and the operating statement for last year?

Mr. MACLACHLAN: I have got the revenues and expenses for last year.

Mr. JACKMAN: Just one copy?

Hon. Mr. CHEVRIER: It is ready for distribution and questions might be asked.

(Department of Transport report on Hudson Bay Railway appears as appendix E.)

The VICE CHAIRMAN: The questions might be asked, Mr. Jackman, and then it will be spread on the minutes.

Mr. VAUGHAN: It seems to me that this whole thing relates to the matter of government policy, whether they want this road operated or not. The point is that the lines cannot be operated otherwise. We have been criticized for not directing more grain to Churchill. We have nothing to do about it. The grain merchant is at liberty to consign his grain as he wishes. So long as there is a minimum amount of traffic going through there there is bound to be a loss.

Mr. REID: The atomic bomb may change it.

Mr. McCULLOCH: Is this the place to discuss that?

Mr. VAUGHAN: It is a matter of government policy entirely.

Mr. McCULLOCH: This is not the place to go into that, is it?

Mr. VAUGHAN: We are running a minimum service, providing one train a week, and at certain times only one train every two weeks. These are mixed trains. If you ran a train every month instead of every two weeks you might save some money, but not very much, because the track equipment and buildings have to be maintained.

Mr. JACKMAN: We have succeeded in getting the accounts referred to this committee, and I think the C.N.R. people might give us the benefit of their opinion, as we asked for it, as to what they think of this as a railway from the taxpayers' standpoint; is the railway needed; and in view of the traffic and results, may it not be in the case of certain branch lines which should be discontinued?

Mr. BELZILE: All the results of its operations are here.

Mr. JACKMAN: Naturally.

Mr. NICHOLSON: I see the revenue from trade is down a good deal, that is indicated there on the first page. Could we have some explanation as to that?

Mr. MACLACHLAN: You are dealing with the 1944-45?

Mr. NICHOLSON: Yes.

Mr. MACLACHLAN: In the previous year we handled a great deal of traffic for the American army. That dropped in 1944-45 with a resultant decrease in freight revenue.

Mr. JACKMAN: Do you expect other decreases for that region?

Mr. MACLACHLAN: Yes. We handled considerable traffic outbound this year.

Mr. JACKMAN: About how much would the normal year show by way of operating revenue?

Mr. MACLACHLAN: It is difficult to say, because we do not have normal years. We did handle some grain a few years ago, but it is pretty hard to say.

Mr. HAZEN: In the years previous to 1940, 1941 and 1942, what were your total operating revenues—could you give us the details for those years?

Mr. MACLACHLAN: In 1941-42 we took in \$104,985.15; in 1942-43 we took in \$1,102,161.15.

Mr. HAZEN: What about 1940-41?

Mr. MACLACHLAN: In 1940-41 it was \$113,488.74. In 1943-44, \$647,941.90.

Mr. JACKMAN: We have that here.

Mr. HAZEN: Your figures are for 1942-43?

Mr. MACLACHLAN: That is right there, sir.

Mr. JACKMAN: In other words, \$100,000—

Mr. MACLACHLAN: —\$110,000.00 appears to be about the minimum amount you get from local traffic.

Mr. REID: The deficit shown here is the clear deficit on the operation of the railroad, it is not like the deficit shown sometimes on the C.N., there is no debt structure in there?

Mr. MACLACHLAN: That is right.

Mr. REID: That is just on clear operation?

Mr. VAUGHAN: There is no interest on investment.

Mr. REID: There is no interest on the investment of \$33,000,000?

Mr. VAUGHAN: No.

Mr. JACKMAN: When was this railway built?

Mr. MACLACHLAN: It was started in 1909 and finished in 1929.

Mr. JACKMAN: Was there any year in which you paid the operating costs?

Mr. MACLACHLAN: Yes, in 1942-43.

Mr. JACKMAN: What would be the net loss on operating account since 1929, to date; or, in each year, if you want to put it that way.

The VICE CHAIRMAN: Mr. Jackman, the reporter has a good deal of difficulty in hearing you as well as Mr. MacLachlan. I think it is because you have been talking too directly the one to the other.

Hon. Mr. CHEVRIER: What was that question, again?

Mr. JACKMAN: The net operating loss or profit from 1929.

Mr. MACLACHLAN: I have it sir. I haven't got it for 1929, but I have it for 1935 on.

1935-36	\$239,702.75	(Deficit)
1936-37	252,854.81	"
1937-38	364,413.77	"
1938-39	285,035.11	"
1939-40	330,382.06	"
1940-41	417,558.50	"
1941-42	459,859.28	"
1942-43	112,120.75	(Surplus)
1943-44	347,872.90	(Deficit)
1944-45	564,940.02	"

Our expenses increased very materially.

Mr. JACKMAN: These increases would probably be due largely to increases in material costs?

Mr. MACLACHLAN: They have increased from 1940-41 up to the present time.

Mr. JACKMAN: In the present year you are going to face a diminution of outgoing heavy business and no sources of new traffic, and you are going to have an operating loss for the year 1945-46?

Mr. MACLACHLAN: Our budget calls for a deficit of \$500,000.

Mr. HARRIS (*Grey-Bruce*): If your revenues for the coming year, 1946-47, are to be \$150,000, how much will your expenses be, would there be a drop in them also?

Mr. MACLACHLAN: It is difficult to say, if the cost of things continues to increase we cannot foresee that.

Mr. HARRIS (*Grey-Bruce*): I am following up Mr. Jackman's question; this year you are going to lose practically over half a million dollars?

Mr. MACLACHLAN: We are dealing with the 1945-46 year?

Mr. HARRIS (*Grey-Bruce*): Yes.

Mr. MACLACHLAN: Our budget for that is estimated for \$500,000.

Mr. HARRIS (*Grey-Bruce*): That is pretty nearly your highest. Last year it was \$564,000. I might read you the comparison between 1944-1945 estimates and the 1945-46 budget. In 1944-45 we took in \$150,481 in freight. For 1945-46 we figure on \$146,600, which is a drop. For passenger business, we took in in 1944-45, \$42,074; and for the current year's budget we figure on \$40,000.

Mr. JACKMAN: We have the 1944-45 budget in front of us. Just give us the 1945-46 estimates and perhaps we can write them down.

Mr. MACLACHLAN: Mail, \$3,600; express, \$7,000; telegraph, \$12,000; all other, \$17,000; making a total operating revenue of \$226,200.

Mr. HARRIS (*Grey-Bruce*): Then what were your total operating expenses?

Mr. MACLACHLAN: Maintenance of way and structures for the current year, we budget at \$365,000; maintenance of equipment, \$52,300; transportation, \$180,100; miscellaneous operations, \$15,750; general, \$26,250; making total operating expenses of \$639,400. We have other expenses which enter into the picture and that is hire of freight cars, \$26,300; rental of locomotives, \$37,000; rent of passenger train cars—\$5,575.

Mr. REID: What is the rent of locomotives? Have you not any locomotives?

Mr. MACLACHLAN: We do not own any.

Mr. VAUGHAN: The Hudson Bay Railway does not own any railway equipment; I mean any freight cars, locomotives or passenger cars.

Mr. MACLACHLAN: Rent of passenger train cars, \$5,575; rent of loading equipment, \$26,100; total rentals, \$94,975. We get a credit for joint facilities of \$11,375 and other miscellaneous income of \$112, making \$11,487.

Mr. JACKMAN: And the deficit is \$500,000 approximately?

Mr. MACLACHLAN: \$500,000, yes.

Mr. MUTCH: Have you finished that question?

Mr. JACKMAN: Yes.

Mr. MUTCH: Could you give the committee any idea of the numbers of military personnel that were carried during the war into this area; and perhaps while you are at it, if you have it available, the tonnage of defence material?

Mr. MACLACHLAN: We were not permitted access to those figures except in a very round-about way, because they were all secret and confidential; but the total cars needed on account of American army was around 8,500.

Mr. MUTCH: 8,500 cars. That is freight?

Mr. MACLACHLAN: Well, mostly freight. That is the total.

Mr. MUTCH: My point in raising that, of course, is the fact that it is the back door to this continent. Allied strategy did give serious consideration to the threat from the north, and the entrance to it was through the Hudson Bay Railway. As against the tangible results from the road must be set, during the last 5 years a very considerable contribution to the defence of this continent. I think it is worthy of notice in passing that it is a good thing that those facilities were there.

Mr. NICHOLSON: Just along that line, I think if we had not had that railway in service, it is quite possible that the central part of this continent might have been subject to enemy attack during the war years.

Mr. HARRIS (*Grey-Bruce*): Do not let us get into an argument as to the value of the railway. Just let us keep to the estimates. Somebody has started arguing whether this thing should be or should not be, and we do not need to get into an argument about it.

Mr. NICHOLSON: Referring only to the deficit of \$500,000 a year, it might look as if it was of no value.

Mr. HARRIS: Give the committee credit for some intelligence.

Mr. MOORE: Fifty years ago we could have put up the same argument in connection with the C.N.R. and C.P.R.

The VICE CHAIRMAN: It is approaching 6 o'clock. Shall we meet again on the Hudson Bay Railway?

Mr. HARRIS (*Grey-Bruce*): No. Let us finish.

The VICE CHAIRMAN: I do not know whether we can. It would be fine if we could.

Mr. HARKNESS: I think we should adjourn.

The VICE CHAIRMAN: Do you wish to come back on that, Mr. Jackman, or can it be finished this afternoon?

Mr. JACKMAN: I would endeavour to finish if it is the wish of the committee, but there are quite a lot of questions I want to ask.

Mr. VAUGHAN: We are going home to-night, so if there are any questions you would like to ask the Canadian National Railways, we shall try to answer them to the best of our ability while we are here.

Mr. JACKMAN: There seem to be many more than myself interested in this.

Mr. MOORE: I should like to ask the president if he thinks some time in the future that, with the two or three months that the officials say the Hudson Bay Railway can be operated with success, it would be possible to put sufficient produce through the port of Churchill to make the Hudson Bay Railway pay for itself.

Mr. VAUGHAN: That is not a difficult question to answer. If there is sufficient traffic, we can certainly make it pay. The railroad itself can be operated all the year round without a great deal of difficulty; but as you know, the Port of Churchill is only open for 3 or 4 months of the year.

Mr. MOORE: That is the point I made, as to whether it could be possible, with 3 months operation of this port, to make the railroad pay for one year's operation.

Mr. VAUGHAN: I doubt if you could do it. It would depend entirely on the volume of traffic going there. It is doubtful if you could make any property pay on 3 months' operation.

Mr. JACKMAN: There is no other railway in the world that you know of that was able to make a profit on three months' operation, in view of the fact that you are blocked at the outlet and cannot get the stuff moving, apart from 3 months.

Mr. BELZILE: Is it possible to have any in-bound traffic?

Mr. VAUGHAN: There has been a little in-bound traffic coming, but the fact is there has never been very much traffic moving either in or out of Churchill. Whose fault it is I do not know. I am not prepared to say. Undoubtedly the line has had a great strategic value from a military standpoint.

Mr. JACKMAN: Do those cooperatives out west, the wheat pools, have anything to do with the direction or shipping of the grain, or does the government control that?

Mr. VAUGHAN: The cooperative wheat pools have a great deal to do with the shipping of the grain.

Mr. JACKMAN: The cooperative wheat pools on the prairie provinces do direct the shipment of their own grain according to their own wishes?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: Do they direct much over this line? It would appear obvious that they do not. Is that a fact?

Mr. VAUGHAN: Mr. MacLachlan, have you a statement on that?

Mr. MACLACHLAN: I have the amount of grain handled each year.

Hon. Mr. CHEVRIER: I filed that on the discussion of the resolution in the House. It is already on Hansard.

Mr. MUTCH: It is on the record. There is no use of putting it there if you cannot get ships.

Hon. Mr. CHEVRIER: That is so.

Mr. MUTCH: There is a difference of opinion,—an honest difference of opinion, I hope,—as to why you sometimes you cannot get ships. There is certainly a difference of opinion as to the length of time that it is possible to keep the harbour open.

Hon. Mr. CHEVRIER: Up until March of next year we cannot get ships. That is assured. The next thing is there is no in-coming traffic. If there is grain to take out, there is nothing to take in; and ships do not want to go there unless they have a load both ways.

The VICE CHAIRMAN: If you had ships, they could not get in right now.

Mr. VAUGHAN: The last 6 years is not a fair comparison because it was impossible to get the ships to take the grain away that was in the elevators.

Mr. JACKMAN: It was not much better before that. In fact it was a wee bit worse before the war.

Mr. BEAUDOIN: There might have been some factors at that time.

Mr. JACKMAN: There always are.

Mr. BEAUDOIN: I understood this railroad was finished in 1929.

Mr. NICHOLSON: Just at the beginning of the depression.

Mr. BEAUDOIN: And went through that period.

Mr. VAUGHAN: It seems to me that the traffic which will be developed there will depend entirely on the extent to which the grain merchants will use the port.

Mr. NICHOLSON: I think we have had a pretty full discussion on the Hudson Bay Railway report in the House, and unless the members have something pressing I think we might adopt the report.

Mr. JACKMAN: Mr. MacLachlan, there are no substantial decreases in operating expenses that you think are likely to come about? Maintenance of way and structures have to go on and they will cost nearly \$400,000?

Mr. MACLACHLAN: And are increasing rather than decreasing for the reason your structures were built in 1926 and 1927 and are now reaching the stage where they require more repair.

Mr. JACKMAN: Transportation expense is pretty much dependent upon volume?

Mr. MACLACHLAN: The price of coal and all that has gone up tremendously and as far as we know may continue to go up.

Mr. JACKMAN: If trains do not run your transportation expenses go down. That is the other major item in that.

Mr. MACLACHLAN: Except there is a certain amount of expense in connection with transportation that is static. No matter how many trains you have running you have to keep up your terminals.

Mr. JACKMAN: Who put up the money for them?

Mr. MACLACHLAN: The dominion government.

Mr. JACKMAN: And the elevator at the end of it is owned by the government, too?

Mr. MACLACHLAN: It is operated by the National Harbours Board.

Mr. JACKMAN: Are there any other capital items in connection with the Hudson Bay Railway outside of elevators which were paid for by the government and which are not included in the items the railway accounts?

Mr. MACLACHLAN: The elevator does not come in.

Hon. Mr. CHEVRIER: They are handled by the National Harbours Board.

Mr. JACKMAN: Are there any other facilities necessary to the carrying on of the operation in the way of capital assets which are owned by the government but not run by the railway? You run the railway; the National Harbours Board runs the elevators. What about docks?

Mr. MACLACHLAN: And there is the harbour boat.

Mr. JACKMAN: Are there any other items?

Hon. Mr. CHEVRIER: There are a number of facilities?

Mr. JACKMAN: Are they of any extent?

Hon. Mr. CHEVRIER: No, I listed them the other night in the discussion.

Mr. NICHOLSON: Where are you giving restaurant service now?

Mr. MACLACHLAN: That means board cars and restaurants. We have a deficit in that now because we are not allowed to charge more for meals than previous to the war. The result is we show a small deficit in feeding our own men and at points like Churchill we cater to the public, too, because there is nobody else to do it.

Mr. JACKMAN: I take it we are about to adjourn. I will not detain the committee now on this. I hope at the next meeting Mr. Vaughan will be able to discuss how this committee can be most useful, not only in its report to parliament as the owner of the property, but also any possible usefulness we might have to the operating officials. As I see it at the present time this committee in the short time at its disposal cannot really consider the important matters which are referred to it. I should like for us to analyze our own activities and see whether or not we should have some change in the reference from the House and perhaps in the constitution of the committee. I should like to suggest to Mr. Vaughan, with the permission of the committee, that we would appreciate any suggestions he might have for us at our next sitting.

Hon. Mr. CHEVRIER: The committee can take as long as it wants to analyse the various reports put before it but the information my officers give me is that over the past number of years it has taken from two to three days to dispose of it because the committee can get rid of the work in that time. If the committee feels it wants to take a week I do not think there will be any objection from the officers of the Canadian National Railways or from the chairman. They are at the disposal of the committee.

Mr. JACKMAN: All I am suggesting is that this is a very important subject, and I am not quite sure whether or not we can be of very much use on it. I feel that this batting around on the reports we have to do—and I will not say hurrying through because we can take our own time—is not as useful an

occupation for us as it might be. I think more consideration should be given to the situation. I am not sure that any improvement can be made but I feel a certain futility.

Hon. Mr. CHEVRIER: Do you not think that would be a subject for discussion when the motion is made setting up the committee?

Mr. JACKMAN: The House is a very formal body. I think Mr. Vaughan might have some suggestions for us.

Hon. Mr. CHEVRIER: As I see the thing we are bound by the reference from the House of Commons.

Mr. JACKMAN: Yes, but what I am suggesting is if we have some recommendations to make to them they might change the terms of the reference.

Hon. Mr. CHEVRIER: I am sure if Mr. Vaughan has any suggestions he will be glad to pass them on to the chairman or to the minister.

Mr. JACKMAN: I am not suggesting that he do it now.

Mr. VAUGHAN: Between now and the time the committee meets in March you would like us to give it some consideration.

Mr. JACKMAN: Yes.

Mr. MUTCH: If that is settled I move we adjourn.

The VICE CHAIRMAN: Before we adjourn it was said this morning that we might meet on Tuesday on T.C.A. Since then I understand from the minister that it has been tentatively arranged that we would have Mr. Symington here on that day. That is, he will be available if we decide that is the time. Shall we adjourn until Tuesday at 11 o'clock for the purpose of taking up the T.C.A. report?

Mr. JACKMAN: Whenever we set the time it is going to interfere.

Hon. Mr. CHEVRIER: Anything we do will interfere with something.

Mr. JACKMAN: It is an inconvenient time but I will not say it is any more inconvenient than some other.

Hon. Mr. CHEVRIER: We are all in the same position.

The VICE CHAIRMAN: Tuesday morning at 11 o'clock.

The committee adjourned at 6.15 p.m. to meet again on Tuesday, October 30, 1945, at 11 o'clock a.m.

APPENDIX "A"

CANADIAN NATIONAL RAILWAYS
NET OPERATING REVENUE BY REGIONS, ETC.—YEAR 1944

	Revenues	Expenses	Net
Canadian Lines			
Atlantic Region	\$ 52,268,828	\$ 49,670,625	\$ 2,598,203
Central Region	186,441,170	130,176,727	56,264,443
Western Region	136,076,849	85,701,640	50,375,208
Common Expenses—such as depreciation, general administration and provision of reserves		41,393,275	41,393,275
Express, excluding railway proportion of revenue included above	9,800,894	9,763,916	36,978
Commercial Telegraph Department	6,998,161	6,629,431	368,730
Total	391,585,902	323,335,614	68,250,288
U. S. Lines	49,561,608	39,211,429	10,350,179
System	\$441,147,510	\$362,547,043	\$ 78,600,467

APPENDIX "B"

BUDGET OF CAPITAL EXPENDITURES FOR ATLANTIC REGION—YEAR 1945

	Quebec	N.B.	N.S.	P.E.I.	General	TOTAL
New rails and fastenings— various subdivisions	\$ 528	\$ 43,431	\$ 986			\$ 41,917
Relaying with part worn or second hand rail-various sub-divisions	27,399	9,907	7,855	4,915		50,076
Relaying with part worn or second hand rail-passing and yard track and business sidings					13,931	13,931
Tie plates					28,020	28,020
Rail anchors					77,920	77,920
Rock and washed screened gravel ballast	86,000	113,990	53,540			253,530
Slag ballast			20,400			20,400
Widening cuts and fills.....	5,000	20,000				25,000
Rip-rap	50,000					50,000
Tile and wooden base and other drainage	15,025					15,025
Improvements to roadway — Bathurst		525				525
Right-of-way fence and cattle guards including planting of trees and hedges in lieu of fencing		10,565				10,565
Other tracks, yard tracks and public business sidings	15,180	36,175	8,300			59,655
Passing tracks		930			5,490	6,420
Provision for traders and in- dustrial tracks					35,000	35,000
Roadway machines and road- way small tools		14,500	1,060		112,934	128,494
Roadway miscellaneous		3,300				3,300
New steel bridges or replace- ment with concrete or steel bridges	14,300	7,575	25,230	54		47,159
Culverts		3,500				3,500
New timber bridges and trestles including replace- ments	1,160	58,380	3,300			62,840
Improvements to bridges		1,000	370		511	1,881
Protection of grade and high- way crossings					10,000	10,000
Stations and shelters — new and replacements	18,560		2,430			20,990
Stations and shelters — Betterments	6,870	605	6,000			13,475
Freight sheds — Betterments Section dwellings and bunk houses	5,509	1,375	2,900			9,784

	Quebec	N.B.	N.S.	P.E.I.	General	TOTAL
Platforms	685					4,285
Buildings — new and replacements		3,880	1,288	1,008		
Express facilities		44,400				44,400
Water supplies		4,905	6,076			10,981
Fuel stations		2,541	700			1,841
Turntables			3,000	4,500		7,500
Ashpits		5,440				5,440
Enginehouse and machine shops			4,150			4,150
Locomotive and car shop buildings		12,500	9,750			22,250
Automatic block signals and interlocking plants		32,416				32,416
Shop machinery tools and equipment		20,005	19,246			39,251
Purchase of land		47,816	900	5,760	34,000	88,476
Provision for completion of 1944 projects					3,000	3,000
General contingency fund....		60,722	900		97,763	159,385
Provision for retirements....					90,000	90,000
Stores Dept-buildings and equipment		2,250			170,000	170,000
						2,250
	\$ 245,160	\$ 557,551	\$ 173,833	\$ 16,237	\$ 338,569	\$ 1,331,350

APPENDIX "C"

INCOME STATEMENT—YEARS 1929-1944

Canadian National (West Indies) Steamships Ltd.

	16 Years to Dec. 31/1945
OPERATING REVENUE	
Freight	\$ 52,307,957 75
Passenger	12,303,361 15
Subsidies	3,273,096 47
Other Revenue	934,960 44
Charter	2,095,510 95
Total	\$ 70,914,886 76
OPERATING EXPENSES	
Closed Voyages	58,993,309 90
Lay-up Expenses	49,986 74
Management and Office Salaries.....	1,737,932 37
Rents, Taxes and Insurance.....	144,385 52
Travelling Expenses	74,611 93
Printing and Stationery.....	35,427 37
Advertising	580,326 88
Postage, Cables and Telegrams.....	90,557 26
Office Supplies and Expenses.....	294,475 81
Pensions	84,774 53
Miscellaneous	46,249 92
Inauguration Expenses	113,647 06
Interest and Exchange.....	105,941 34
Total Expenses	\$ 62,351,626 63
Operating Profit or Deficit.....	\$ 8,563,260 13
Interest on Bonds held by Public.....	6,958,611 12
Exchange on U.S. Funds.....	275,733 34
Other Interest due Public.....	505,411 15
Amortization of Discount.....	77,362 00
Surplus or Deficit.....	\$ 746,142 52
OTHER CHARGES	
Amortization of Discount.....	.....
Interest due Government.....	4,190,615 86
Depreciation on Vessels.....	4,625,588 17
Net Income Deficit.....	\$ 8,070,061 51

APPENDIX D

For the information of the Committee:

The policy of Canadian National Railways with regard to accounting for depreciation of its properties is as follows:

Equipment

Prior to 1940 the practice was followed of charging to operating expenses the loss on equipment destroyed or worn out in service at the time the units were removed from service. In 1940, resulting from consideration of the probability that under war conditions retirements would be held to a minimum, and of the desire to have the accounts for each year bear their proportionate share of equipment retirement costs irrespective of the date of retirement, the Railway adopted depreciation accounting for rolling stock and floating equipment owned by its Canadian Lines, effective from January 1, 1940. Similar practice had been in effect on its lines in the United States for some time under the accounting regulations governing U.S. railways, so that the action taken in 1940 brought the method of accounting for equipment retirements throughout the system into uniformity with the standard practice followed by U.S. railways.

The depreciation rates made effective in 1940 were established on a conservative basis with the intention that they would be reviewed from time to time and adjusted as considered necessary in the light of subsequent experience. It was soon evident that due to the heavy demands of war-time traffic there was a rapid acceleration in depreciation and the provision in the accounts for depreciation was increased accordingly. This was accomplished by establishing the relationship of depreciation charges taken up in 1940 (the base year) to the traffic for that year and maintaining that relationship to the traffic for each of the years 1941 to 1944. Under this arrangement the depreciation charges expressed as a percentage of investment in equipment for the System have been as follows:

1940	1941	1942	1943	1944
<u>2.64</u>	<u>3.12</u>	<u>3.85</u>	<u>4.31</u>	<u>4.16</u>

Since under post-war conditions there will not be the same intensive use of equipment, it has been decided that effective January 1, 1945, Canadian National would make provision for depreciation by applying to its total investment in Canadian Lines equipment the average of the depreciation rates used by Class I Railways in the United States and a rate of $3\frac{1}{2}$ per cent of investment was adopted accordingly.

The procedure when equipment is retired from service is to charge to the depreciation reserve the loss on the units retired represented by the value at which carried in the investment account less salvage recovered. In the United States, where depreciation accounting for equipment has been practised for many years and substantial reserves are available, this charging of the entire loss to the reserve is unlikely to result in any considerable depletion of the reserve in relation to the investment in respect of which it is provided. Obviously in the case of C.N. Canadian Lines, where depreciation accounting has been in effect for a relatively short period, the charging to reserve of the considerable amounts of past accrued depreciation (prior to 1940) could have a serious effect on the reserve created to provide for the depreciation which has taken place

since. It is therefore proposed that in 1945 and subsequently the proportion of loss on equipment retirements applicable to the period prior to January 1, 1940, shall be dealt with in the accounts as a capital loss and charged to the Proprietor's Equity Account (equivalent to a charge against profit and loss account in ordinary corporate accounting) and the proportion of loss subsequent to that date shall be charged to the depreciation reserve. This procedure would be on all fours with the practice followed by U.S. railroads when depreciation accounting was adopted by them i.e., the proportion of loss applicable to the period prior to the date depreciation accounting was adopted was charged to profit and loss account and the remainder was charged to the reserve account.

Fixed Property

Under the accounting regulations governing U.S. railways depreciation accounting for certain classes of fixed property became mandatory effective January 1, 1943. The classes of property include buildings, stations, shops, bridges, etc., but exclude the track structure (rails, fastenings, ties, ballast), the loss on retirement of which latter is charged to the appropriate accounts in operating expenses. Prior to 1943 the U.S. railways as a whole had strenuously opposed depreciation accounting for fixed property but their attitude was changed as a result of the sharp increase in corporate income and excess profits taxation under war conditions. The U.S. Lines of the Canadian National conformed to this accounting requirement, but on the remainder of the C.N. System retirement accounting which was followed by U.S. railways up to January 1, 1943, is still in effect. Under retirement accounting the loss on units of property retired from service is charged to operating expenses at the time the unit is permanently taken out of service. The decision not to adopt depreciation accounting for fixed property of C.N. Canadian Lines was based on the fact that the adoption of depreciation accounting for fixed railway properties constituted an important departure from a long established practice and the view that it was desirable to defer further consideration of the matter until the experience of U.S. railways became available. Another feature considered was the large amount of work on the part of technical officers of the railway that would be involved in compilation of the data necessary to enable its adoption, which it was felt should not be undertaken under the heavy demands made on railway personnel as a result of war-time conditions.

Attention is directed to the provision made in the accounts since 1940, in amount of \$34,000,000, for maintenance of fixed property and equipment which has had to be deferred due to the difficulties in obtaining labour and material. This sum includes provision for the loss chargeable to operating expense for fixed property the normal retirement of which may have been deferred under war conditions.

APPENDIX "E"

DEPARTMENT OF TRANSPORT

HUDSON BAY RAILWAY

Consolidated Income Account Fiscal Year 1944-45 and Fiscal Year 1943-44

	Fiscal Year 1944-45	Fiscal Year 1943-44
RAILWAY OPERATING REVENUES		
Freight	\$ 150,481 22	\$ 459,895 30
Passenger	42,074 39	110,045 23
Mail	3,654 22	5,204 96
Express	6,601 50	15,271 32
Telegraphs	21,704 54	27,066 42
All Other	21,713 25	30,458 67
Total Operating Revenues.....	<u>\$ 246,229 12</u>	<u>\$ 647,941 90</u>
RAILWAY OPERATING EXPENSES		
Maintenance of Way and Structures	\$ 396,331 54	\$ 371,855 57
Maintenance of Equipment	52,984 96	69,455 52
Transportation	216,307 65	329,546 91
Miscellaneous Operations	18,943 53	4,958 56
General	26,580 54	28,463 37
Total Operating Expenses.....	<u>\$ 711,148 22</u>	<u>\$ 804,279 93</u>
Net Operating Revenue.....	<u>\$ 464,919 10</u>	<u>\$ 156,338 03</u>
Taxes	\$ 3,684 38	\$ 3,010 42
Railway Operating Income.....	<u>\$ 468,603 48</u>	<u>\$ 159,348 45</u>
Equipment Rentals		
Hire of Freight Cars—Debit.....	\$ 31,058 97	\$ 67,350 73
Rent for Locomotives	43,965 25	77,825 04
Rent for Passenger Train Cars	4,807 86	15,822 73
Rent for Work Equipment	28,178 38	39,736 26
Total Equipment Rentals.....	<u>\$ 108,010 46</u>	<u>\$ 200,734 76</u>
Joint Facility Rents—Credit.....	\$ 11,510 00	\$ 12,010 00
Miscellaneous Rent Income—Credit.....	163 92	200 31
	<u>\$ 11,673 92</u>	<u>\$ 12,210 31</u>
Net Deficit	<u>\$ 564,940 02</u>	<u>\$ 347,872 90</u>

HUDSON BAY RAILWAY

RAILWAY OPERATING REVENUES AND EXPENSES

	Fiscal Year 1944-45	Fiscal Year 1943-44
RAILWAY OPERATING REVENUES		
Freight	\$150,481 22	\$459,895 30
Passenger	42,074 39	110,045 23
Baggage	447 94	624 12
Sleeping Car	3,081 35	6,749 70
Mail	3,654 22	5,204 96
Railway Express	6,601 50	15,271 32
Other passenger-train	283 69	293 32
Milk	206 16	641 61
Switching	600 60	4,000 00
Dining and buffet	1,238 90	1,172 22
Restaurants	11,019 95	.....
Station, train and boat privileges	688 58	673 33
Storage-Freight	25 14	70 05
Demurrage	131 16	3,743 06
Telegraphs	21,704 54	27,066 42
Power	541 63	7,561 00
Rents of buildings and other property	2,319 76	4,193 97
Miscellaneous	1,128 39	736 29
Total Operating Revenues	<u>\$246,229 12</u>	<u>\$647,941 90</u>

HUDSON BAY RAILWAY
RAILWAY OPERATING EXPENSES

RAILWAY OPERATING EXPENSES	Fiscal Year 1944-45	Fiscal Year 1943-44
Maintenance of Way and Structures	\$396,331 54	\$371,855 57
Maintenance of Equipment	52,984 96	69,455 52
Transportation	216,307 65	329,546 91
Miscellaneous Operations	18,943 53	4,958 56
General	26,580 54	28,463 37
 Total Operating Expenses	 \$711,148 22	 \$804,279 93
 Net Revenue	 \$464,919 10	 \$156,338 03

Maintenance of Way and Structures

Superintendence	\$ 30,057 24	\$ 32,117 52
Roadway maintenance	69,356 05	56,721 40
Bridges, trestles, and culverts	13,361 22	6,588 73
Ties	39,173 69	21,127 54
Rails	28 69	69 69
Other track material	1,180 31	1,613 62
Ballast	24,274 69	35,098 82
Track laying and surfacing	156,616 83	151,192 01
Fences, snowsheds and signs	151 46	70 59
Station and office buildings	9,253 18	6,257 64
Roadway buildings	2,843 56	1,842 59
Water stations	5,193 24	2,349 99
Fuel stations	1,207 89	73 42
Shops and enginehouses	1,195 72	1,462 53
Telegraph and telephone lines	7,855 60	7,233 72
Roadway machines	2,995 41	9,859 49
Small tools and supplies	13,048 56	14,721 17
Removing snow, ice and sand	19,925 48	17,033 13
Insurance	2,987 50	10,500 15
Stationery and printing .....	.....	87 95
Maint. jt. tracks, yards, etc., Dr.....	1,087 58	1,460 14
Maint. jt. tracks, yards, etc., Cr.....	5,462 36	6,010 00
Protective Services .....	.....	383 73
 Total Maintenance of Way and Structures	 \$ 396,331 54	 \$ 371,855 57

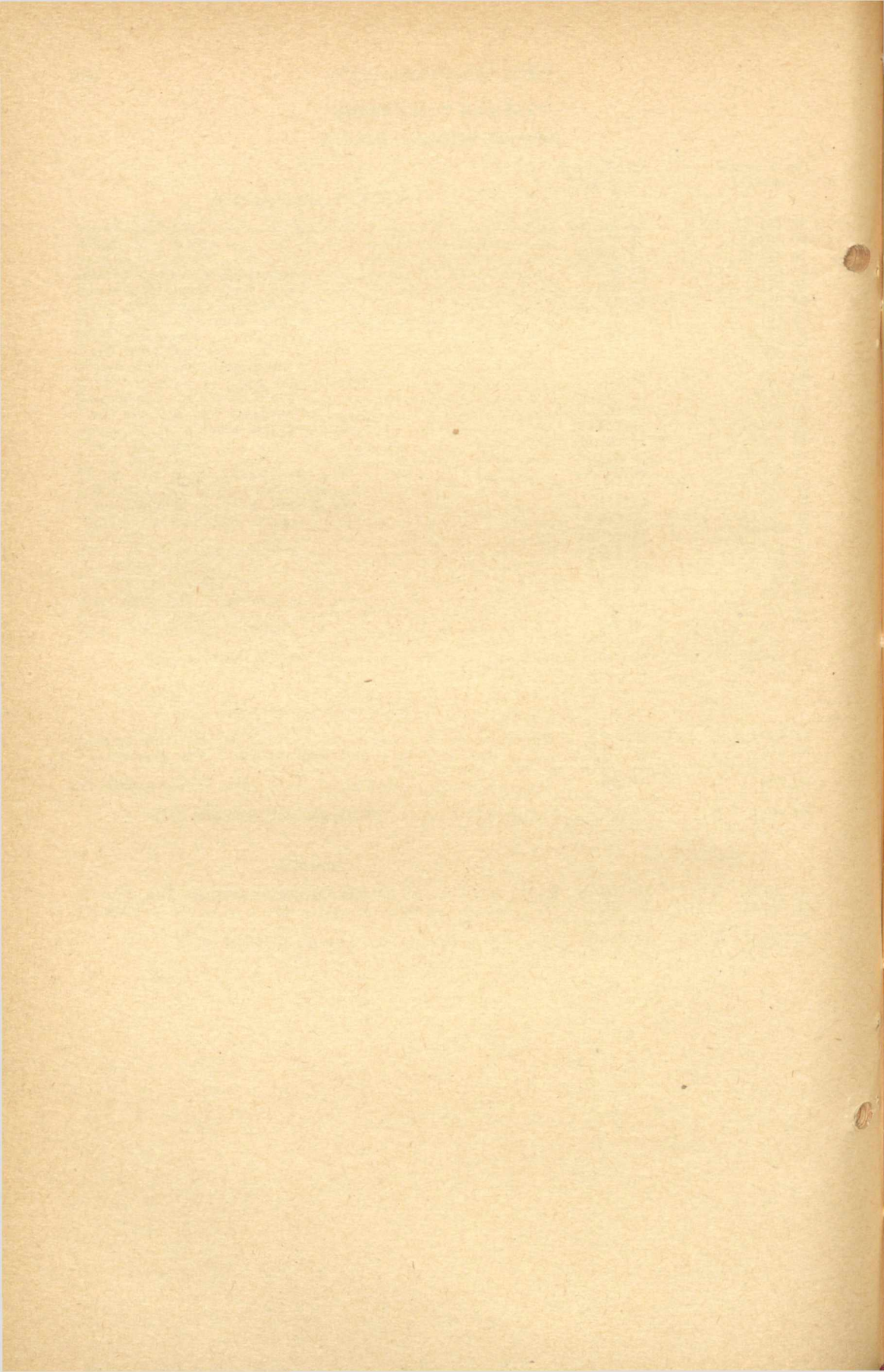
Maintenance of Equipment

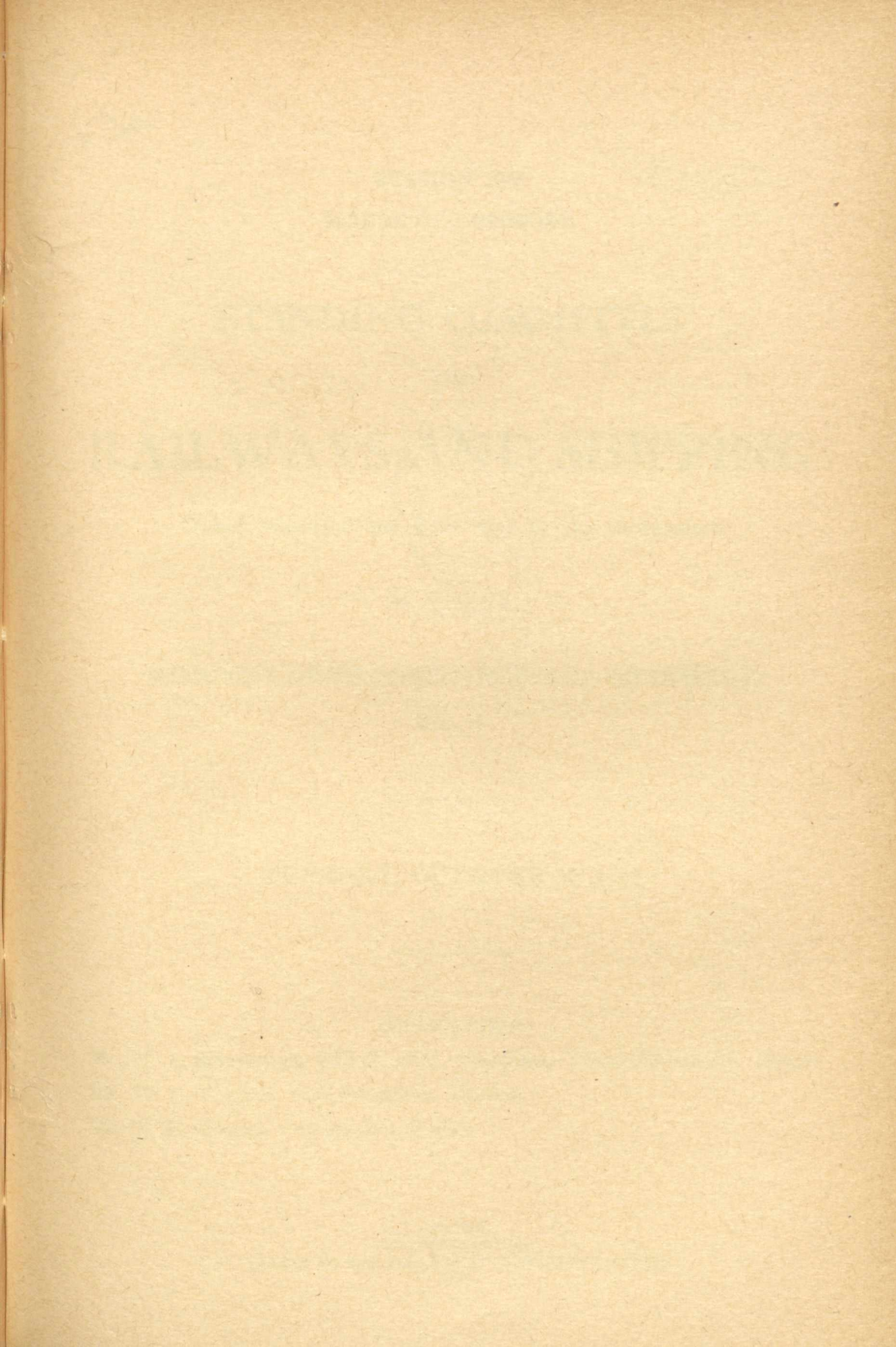
Superintendence	\$ 3,991 81	\$ 3,781 82
Shop machinery — Repairs	1,365 61	3,871 06
Power plant machinery — Repairs	16 78	2,098 74
Steam locomotives — Repairs	30,048 41	38,060 35
Freight-train cars — Repairs	1,126 69	2,724 47
Passenger-train cars — Repairs	8,790 41	3,067 53
Work equipment — Repairs	5,152 97	7,714 89
Insurance	943 42	3,355 54
Other expenses	1,548 86	4,781 12
 Total Maintenance of Equipment	 \$ 52,984 96	 \$ 69,455 52

STANDING COMMITTEE

HUDSON BAY RAILWAY
RAILWAY OPERATING EXPENSES

	Fiscal Year 1944-45	Fiscal Year 1943-44
Transportation Rail Line		
Superintendence	\$ 22,037 03	\$ 20,461 56
Dispatching trains	4,408 60	12,721 85
Station employees	19,992 77	27,975 57
Station supplies and expenses	7,216 48	8,774 65
Yardmasters and yard clerks	238 77	4,174 85
Yard conductors and brakemen	55 83	4,718 89
Yard switch and signal tenders	15 63	96 24
Yard enginemen	44 50	3,382 78
Yard switching fuel		7,257 47
Water for yard locomotives		81 74
Other supplies for yard locomotives	33 41	261 90
Enginehouse expenses—Yard		795 85
Yard supplies and expenses	31 06	130 02
Operating joint yards and terminals—Dr.	11,627 48	12,867 63
Train enginemen	16,769 17	26,814 92
Train fuel	51,278 43	90,065 00
Water for train locomotives	28,170 99	30,371 13
Lubricants for train locomotives	81 57	196 65
Other supplies for train locomotives	44 54	197 56
Enginehouse expenses—Train	8,411 73	13,023 42
Trainmen	23,388 24	34,912 60
Train supplies and expenses	20,234 99	26,994 39
Operating sleeping cars	1,179 78	1,232 03
Drawbridge operation	116 36	83 37
Stationery and printing	683 95	797 06
Clearing wrecks	31 27	781 27
Loss and damage—Freight	304 15	376 51
Total Transportation Rail Line	\$ 216,307 65	\$ 329,546 91
Miscellaneous Operations		
Dining and buffet service	\$ 1,863 89	\$ 1,906 10
Restaurants and Boarding Cars	16,402 45	2,224 16
Producing power sold	677 19	828 30
Total Miscellaneous Operations	\$ 18,943 53	\$ 4,958 56
General		
Salaries and expenses of general officers	\$ 12,000 00	\$ 12,766 00
Pensions	14,580 54	15,697 37
Total General	\$ 26,580 54	\$ 28,463 37







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SESSION 1945
HOUSE OF COMMONS

STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, OCTOBER 30, 1945

WITNESSES:

- Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines;
- Mr. W. F. English, Vice-President, T.C.A.;
- Mr. T. H. Cooper, Comptroller, T.C.A.

ERRATA

Mr. T. H. Cooper, Vice-President and Comptroller of Canadian National Railways, was inadvertently shown in previous issues of the Minutes of Proceedings and Evidence as Comptroller of the Canadian National Railways.

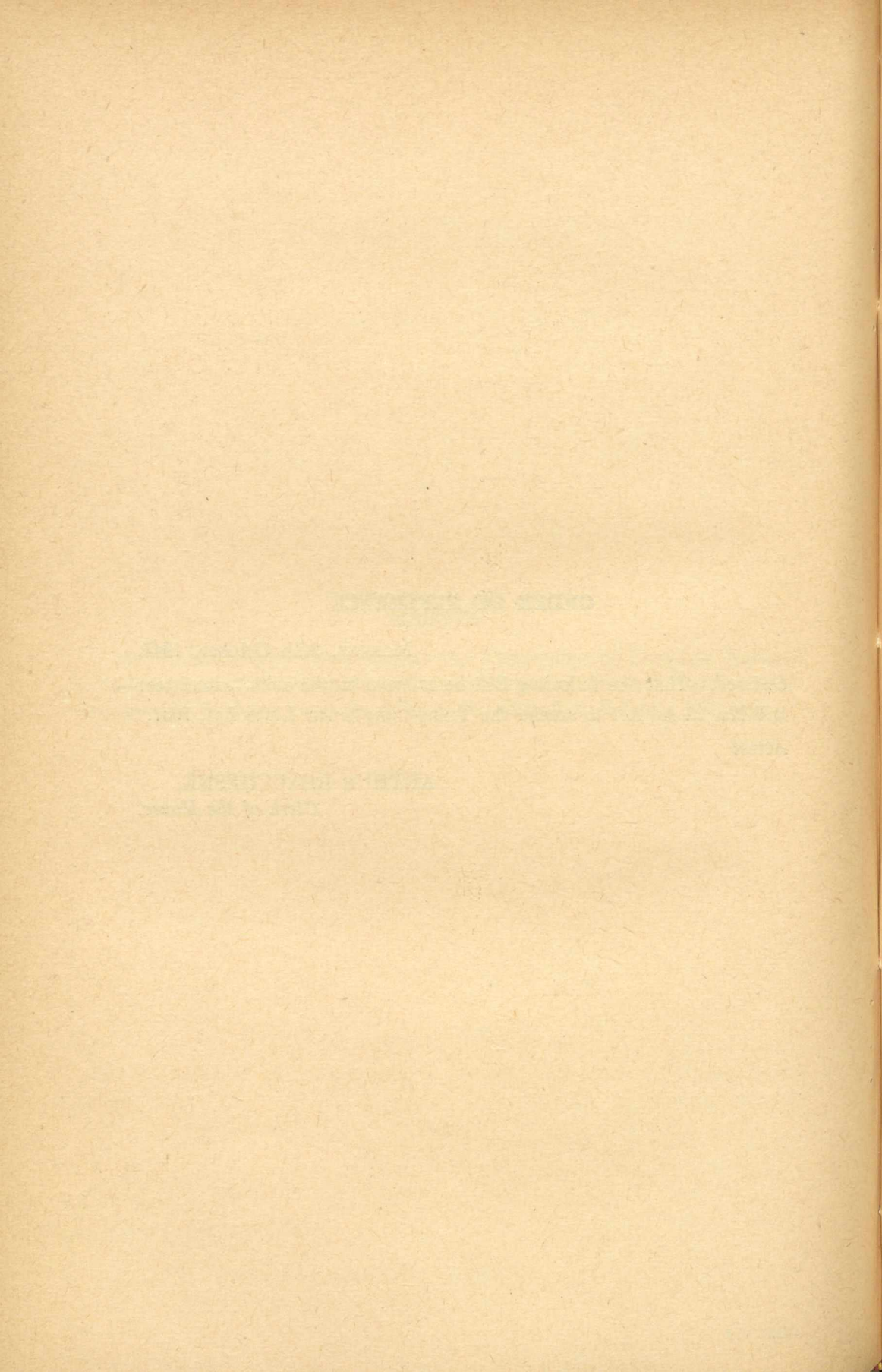
ORDER OF REFERENCE

MONDAY, 29th October, 1945.

Ordered,—That the following Bill be referred to the said Committee:—
Bill No. 21 An Act to amend the Trans-Canada Air Lines Act, 1937.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.



MINUTES OF PROCEEDINGS

TUESDAY, October 30, 1945.

ROOM 429

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

Members present: Messrs. Clark, Beaudoin, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Maybank, McCulloch, (*Pictou*), Mutch, Nicholson, Reid, Shaw.

Honourable C. D. Howe, Minister of Reconstruction, was also present and took part in the proceedings.

In attendance: Officers of Trans-Canada Air Lines: Mr. H. J. Symington, C.M.G., K.C., President; Mr. W. F. English, Vice-President; Mr. T. H. Cooper, Comptroller; Mr. W. S. Thompson, Director of Public Relations.

Auditors: Mr. O. A. Matthews and Mr. F. M. Stone of the firm of George A. Touche & Co.

Officials of the Department of Transport: Mr. C. P. Edwards, O.B.E., Deputy-Minister; Mr. R. H. Lang and Mr. A. B. Hopper.

The Committee considered the Annual Report of the Board of Directors of Trans-Canada Air Lines for the Calendar year 1944. Mr. H. J. Symington, President, was called and presented the report. Questions thereon were asked and were answered by Mr. Symington.

The discussion on the said report was adjourned to the next sitting.

At 1.55 o'clock p.m., the Committee adjourned to meet again this day at 4 o'clock p.m.

The Committee met again in the afternoon at 4 o'clock. Mr. S. Murray Clark, Chairman, presided.

Members present: Messrs. Clark, Beaudoin, Emmerson, Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Lockhart, Maybank, McCulloch (*Pictou*), Mutch, Nicholson, Reid, Shaw.

Honourable C. D. Howe, Minister of Reconstruction was also present and took part in the proceedings.

In attendance: The officers of Trans-Canada Air Lines, officials of the Department of Transport shown as in attendance at the morning's sitting with, in addition, Mr. G. Herring, of the Post Office Department.

The Committee resumed from the morning sitting consideration of the Annual Report of Trans-Canada Air Lines for the calendar year 1944.

Mr. Symington was further heard and was assisted by Mr. English and Mr. Cooper.

On motion of Mr. Reid the said Report was adopted unanimously.

At six o'clock p.m., the Committee adjourned to meet again at 4 o'clock p.m., Wednesday, October 31, 1945.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

October 30, 1945.

The Standing Committee on Railways and Shipping met this day at 11.00 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: I think at the last meeting when we adjourned it was understood that we were to take up T.C.A. matters to-day. On the other items that we have dealt with the procedure that we used was to have the president read the report. Would it be in order to have Mr. Symington read the report this morning before going into the balance sheet, and so on?

Mr. REID: Agreed.

Mr. SYMINGTON:

TRANS-CANADA AIR LINES

MONTREAL, March 15, 1945.

To the Shareholders:

The board of directors submit the annual report of Trans-Canada Air Lines for the calendar year 1944.

In its seventh year of public service, Trans-Canada Air Lines continued to mature as an instrument of national development, while devoting its energies to the immediate requirements of a wartime economy. The period was one of intensive planning for a time when the air line will not only multiply its domestic services but also, as the sole Canadian agency designated by the government to operate international air services, extend its operations beyond the nation's frontiers.

At the British Commonwealth conference in Montreal and at the world conference in Chicago, where government representatives met to draft the future of world civil aviation, the company participated directly within the frame-work of the Canadian delegations. It is too early to assess the results of those discussions as they relate to T.C.A.'s activities, but the organization stands ready to accept whatever new responsibilities may be required of it.

Passenger, mail and express traffic was close to the capacity of the air line. There was a notable expansion in the Canadian government trans-Atlantic air service, an operation conducted by the company for the primary purpose of transporting mail to and from Canada's armed forces overseas and of transporting essential and critical war materials. Work performed for the Royal Canadian Air Force and the British Overseas Airways Corporation was substantially increased during the year.

In July, flights were rerouted in the maritime provinces to bring main line operations closer to the New Brunswick cities of Fredericton and Saint John. A direct service was also provided between Halifax and Sydney, Nova Scotia.

Trans-Canada Air Lines intends to increase both transcontinental and inter-city schedules as rapidly as the availability of necessary personnel and equipment will permit.

A direct operation between Winnipeg and Edmonton waits only upon the installation of airport and airway facilities along this route. The shortening of the transcontinental line by flight across the Great Lakes awaits equipment and airway facilities.

Plans for international flight, other than the present trans-Atlantic service, are still tentative; but the West Indies, South America and the Pacific are areas of admitted interest to the company. The newly agreed on T.C.A.-operated routes between Canada and the United States will be serviced as soon as war conditions permit, these lines being: Halifax-Boston, Toronto-Cleveland, Toronto-Chicago, Port Arthur-Duluth, Victoria-Seattle, and Whitehorse, Y.T.-Fairbanks, Alaska. The T.C.A.-operated route Toronto-New York has been in operation since 1941.

Following the decision of the Canadian government to undertake the manufacture in Canada of a Douglas DC-4 type of four-engined aircraft engineered to meet special requirements, Trans-Canada Air Lines, as the intended user of the equipment, has maintained close liaison with the manufacturer and its designers.

In 1944 the number of passengers carried increased by 12%, air express volume by 4% and air mail volume by .3%. The growth was not as great as in former years, but had the company possessed the equipment and personnel, more traffic could have been handled.

RESULT OF OPERATIONS

	1944	1943
Operating Revenues	\$10,314,941	\$ 9,379,501
Operating Expenses	10,070,807	8,974,902
	<hr/>	<hr/>
	\$ 244,134	\$ 404,599
Income Charges and Interest on Capital		
Invested	236,725	256,710
	<hr/>	<hr/>
Surplus	\$ 7,409	\$ 147,889

Operating revenues totalled \$10,314,941, an increase of \$935,440 or 10% over the previous year. Passenger revenues increased \$243,168 or 6%; mail revenues increased \$286,588 or 8%; express revenues decreased \$3,848 or 1%; revenues from incidental services increased \$419,331 or 33%. The 1944 rate of compensation received from the Post Office Department for the carriage of air mail was 42.03 cents per plane mile flown, as compared with 42.90 cents in 1943, 45.57 cents in 1942, 48.16 cents in 1941, and 60 cents in 1940. Mail revenue contributed 37% of the total revenue, as compared with 37% in 1943, 44% in 1942, 53% in 1941 and 62% in 1940.

Operating expenses totalled \$10,070,807, an increase of \$1,095,905 or 12% over the preceding year. Principal factors here were the cost of additional traffic and services, increased cost of labour and materials, a major programme of aircraft and flight equipment overhaul, and development in preparation for expanding operations.

After the payment of interest on the company's capital and other income charges the surplus for 1944 was \$7,409.

ROUTES AND SERVICES

At December 31, 1944, Trans-Canada Air Lines (exclusive of the trans-Atlantic operation) was providing service—air mail, passenger

and express—over routes totalling 5,299 miles between the Atlantic and the Pacific seaboards. This was an increase in route mileage of 396 miles as compared with December 31, 1943. The routes now operated are as follows:

	Miles
Halifax-Victoria (via Moncton and Toronto)	3,303
Halifax-Sydney	201
Halifax-Blissville	172
Moncton-St. John's, Nfld	751
New York-Toronto	365
Toronto-Windsor	206
Lethbridge-Edmonton	301
	5,299

Daily scheduled miles flown amounted to 26,264 at December 31, 1944, as compared with 25,872 at the close of 1943, an increase of 392 miles. During the year, 10,034,805 miles were flown, as compared with 8,963,786 in 1943, an increase of 1,071,019 miles.

On July 1, one round flight that had previously moved between Montreal and Halifax via Moncton was rerouted to pass through Blissville, New Brunswick, an airport accessible by highway to both Saint John and Fredericton. This action was designed to bring main line operations as close to the two cities as is at present possible. Neither yet possesses the airport facilities to permit local T.C.A. stops.

Also, on July 1, daily flights linking Halifax and Sydney were inaugurated.

Atlantic Service

With the provision of additional Canadian-built Lancaster aircraft in 1944, the Canadian government trans-Atlantic air service was able to accelerate its carriage of mail to and from the armed forces overseas and of priority passengers and freight. Over one million pounds of mail were carried during the year. To cope with the expanded schedules it was necessary to enlarge maintenance staff and facilities at the Montreal terminal and to increase the number of flightcrews. A standard T.C.A. meal service was provided for passenger comfort. Over a direct route of approximately 3,000 miles between Montreal and Great Britain, operational frequency is three round trips weekly at present. More aircraft will enter the service and schedules will be further developed.

Passenger Service

Revenue passengers carried by Trans-Canada Air Lines, apart from the Atlantic service, numbered 156,884 in 1944, as compared with 140,276 in 1943, an increase of 16,608 or 12%. The average passenger journey was 538 miles, as compared with 560 miles in 1943.

Passenger revenue per revenue passenger was \$28.41 and per revenue passenger mile 5.28 cents, as compared with \$30.04 and 5.37 cents respectively in 1943.

Air Mail Service

The volume of air mail carried by Trans-Canada Air Lines in 1944, apart from the Atlantic service, was approximately the same as in 1943. During the year, 3,739,105 pounds of mail were moved as compared with 3,726,607 pounds in 1943. Mail revenue per pound mile was 1.08 mills, the same as in 1943.

Air Express Service

Pounds of air express carried increased from 821,606 in 1943 to 856,016 in 1944 but the average haul was shorter. The carriage of cargo by air continued to be vital to the nation's war effort.

Airway Facilities

Despite wartime scarcity of labour and materials, the Department of Transport continued throughout 1944 to improve the runways, field facilities, airport lighting and navigational aids required for the safe and scheduled conduct of air operations.

PROPERTY AND EQUIPMENT

The company's plant and equipment have been well maintained and are in good condition.

Flight equipment (exclusive of the Canadian government aircraft used in trans-Atlantic Service), as of December 31, 1941, consisted of:

Twelve Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1200 horsepower.

Fourteen Lockheed Lodestars, equipped with two Pratt and Whitney Twin-row Wasp engines, three of which were purchased in August.

A heavy programme of major overhauls was carried out in accordance with the company's policy of keeping all T.C.A. aircraft at the height of operating efficiency.

New flight procedures were adopted after extensive surveys and studies with a view to reducing fuel consumption and prolonging the life of equipment.

With modification of the Lodestars' heating systems completed, a similar programme was extended to the 14-08 aircraft.

At Winnipeg the company occupied a new building, a hangar and an office annex. These provided much-needed additional accommodation for the company's operations headquarters.

An extension to the Moncton hangar, completed in 1944, doubled the floor space.

The first frequency-modulated radio circuit to be applied to commercial operations in Canada was installed by the company between Vancouver and Victoria. Two-way voice contact is provided, with the simplest of operation and without static.

For the better servicing of passengers, T.C.A. ticket offices were established in Moncton, Lethbridge, Saint John and Sydney.

To effect an improvement in reservations service, the western reservations control office was moved from Winnipeg to Edmonton. The Atlantic reservations control office was transferred to new and enlarged Halifax premises.

PERSONNEL

As of December 31, 1944, 263 male employees and 16 female employees of Trans-Canada Air Lines had enlisted in the armed forces. Of these, 14 had lost their lives.

Total personnel of the company, as of December 31, 1944, was 2,790. Women comprised 33% of all employees engaged in the domestic services, as compared with 35% at the end of 1943. Thus, for the first time since the outbreak of war, the proportion of female employees showed a decrease. Women continue to perform with efficiency many duties within

dispatch and station service were furnished for the operations of the the company, but they are being gradually replaced by men released from the air force and other services.

As a result of its agreement with the R.C.A.F., the company continued to receive air force flight personnel who had completed their tours of operational duty overseas. For these men, T.C.A. conducted six training classes during the year and thirty-eight pilots graduated and were posted to T.C.A. service. The programme will continue at an accelerated pace.

Instruction is also being carried on by T.C.A. of discharged air force personnel as radio operators, dispatchers, station and traffic agents and in other capacities.

SPECIAL WAR ACTIVITIES

At Montreal, a large T.C.A. staff continued to maintain, service and convert the Liberator aircraft employed by British Overseas Airways Corporation on the north Atlantic return ferry service, as well as the aircraft of the Canadian government transAtlantic air service. Increased frequency of operation by both of these services in 1944 made it necessary to procure and train additional personnel. There were 553 employees engaged in this work at Montreal at December 31, 1944, as compared with 286 at December 31, 1943.

War contract work in the Winnipeg shops included overhaul of military aircraft, engines, propellers, instruments and accessories. With the close of the commonwealth air training plan this work has now been terminated.

T.C.A. facilities were, throughout the year, placed at the disposal of military aircraft in need of servicing. In particular, radio coverage, dispatch and station service were furnished for the operations of the R.C.A.F. communication squadrons.

THE STAFF

The directors again record their appreciation of the loyal and efficient services of the company's officers and employees, who have made it possible for Trans-Canada Air Lines to continue its vital services to the nation at war. They record their pride in the devotion and battle achievements of the members of the staff in the fighting forces. To the families of those who have lost their lives in the service of their country they extend their deep sympathy.

Then follows the balance sheet and the expense items which I suppose you want to discuss rather than read, Mr. Chairman?

The CHAIRMAN: That is right. Gentlemen, have you any general questions to ask Mr. Symington before we go into the detailed financial reports?

Mr. REID: If you will go back to page 5 there are some questions I should like to ask Mr. Symington. In the third paragraph it speaks of the British Commonwealth conference in Montreal and the world conference in Chicago. How many countries attended the world conference? How many countries were represented?

Mr. SYMINGTON: In Chicago?

Mr. REID: Yes.

Mr. SYMINGTON: Fifty-three.

Mr. REID: May I ask if Russia was represented?

Mr. SYMINGTON: Russia was not represented. They had representatives there but they were not members of the conference. Russia, as you know, proceeded as far as Winnipeg and turned back, but they sent observers there. I saw a good deal of them, including their reporters, and in reporting that conference they sent two million words direct to Russia relative to the conference, but they were not members of it.

Mr. REID: This has nothing to do with the question but one is always afraid to ask any question about Russia in case he be called anti-fascist. There has developed in this country a feeling on the part of some people that if you ask any questions about Russia you are against it, but I am interested in Russia because I understand that no planes are allowed to land there?

Mr. SYMINGTON: That is correct.

Mr. REID: I am wondering if the same concession is granted her by other countries and why she refuses. If there is going to be co-operation there should be co-operation all around.

Mr. SYMINGTON: There are only two ways in which, as at present advised, they can fly into other countries. Either they come into the conference, sign the convention, get the rights that every nation gets and give the rights that every nation gives or else they must enter into a bilateral agreement between themselves and any other country. Perhaps I am getting out of my sphere but I would assume that no country would agree to let Russia fly in unless Russia agreed to let other country fly in, but that is the position at the moment. They have rights in no country and no country has rights in their country.

Mr. SHAW: Did Russia give any specific reason for not participating officially?

Mr. SYMINGTON: They gave no reason whatsoever.

Mr. SHAW: And there has been no follow-up information that might indicate the reason for it?

Mr. SYMINGTON: I think everybody has been trying to find out. I think there probably have been discussions in state departments and that sort of thing, but so far as I know no reason has ever been given.

Mr. HARRIS (*Grey-Bruce*): Do I understand you to say they have not entered into an agreement with any country at all?

Mr. SYMINGTON: That is my understanding.

Mr. HARRIS (*Grey-Bruce*): Since the Chicago conference?

Mr. SYMINGTON: They are not flying into and no foreign country is flying into their country.

Mr. JACKMAN: As a result of this conference in Chicago, and I suppose the present conference in Montreal, what more does Canada want that we have not got yet by international agreement?

Mr. SYMINGTON: When you ask me what Canada wants I do not know. I know what I want, and that is that the points, which were very narrow, upon which we failed in Chicago to bring about what was to my mind the finest of achievements by getting a universal convention of these nations, should be cleared up. We missed out by reason of a very narrow difference between two countries of which I need not speak. I thought those two countries stood to gain more than any other but at any rate they could not quite reconcile their differences.

Mr. JACKMAN: That is in regard to this escalator clause?

Mr. SYMINGTON: Partly the escalator clause; the escalator clause combined with the fifth freedom. The result was that they formed a provisional conference which is now permanently situated in Montreal with instructions that they should

consider a permanent convention and make reports upon it to the assembly when it meets. That is what they are doing. My view is that they should complete the convention as they think it ought to be irrespective of whether it will pass one parliament, one congress, or another, that they are representing the world, not each country, and that they should prepare a convention that they think is right. Then let any nation stand at the bar of public opinion and reject it or accept it, but whether that is too high a hope I do not know. They are working on it.

Mr. JACKMAN: The members attending this conference in Montreal are all government representatives, not representatives of private companies?

Mr. SYMINGTON: Quite so, but it is a permanent organization. It is really not a convention in Montreal. It is a permanent organization. These people are twelve months of the year people. There is a council of twenty representing the world.

Mr. JACKMAN: Are they in continuous session?

Mr. SYMINGTON: Continuous session, yes, and they have sub-committees of all sorts of a technical character because they have got a very big job to do.

Mr. JACKMAN: There will be twenty representatives of other countries permanently resident in Montreal for the purpose of discussing aviation matters as they arise. Is that the understanding?

Mr. SYMINGTON: Not only discussing; there is what is called a provisional convention now under way which has a lot to do with any air line which operates internationally. They have not got any teeth to control frequencies or rates.

Mr. JACKMAN: But there is enough work to do? The field is so big that it requires their permanent attendance?

Mr. SYMINGTON: Yes, and it will grow. I suppose there are only perhaps two hundred people there now and I should say that there will be a thousand without any question.

Mr. JACKMAN: It is a big show, is it not?

Mr. SYMINGTON: It is a big show, yes. The air is a big show.

Mr. JACKMAN: If Canada is to consider going into the international field, particularly the trans-Atlantic service, I wonder if you would explain to the committee this provision which I read something about in a little booklet published by Wartime Information Board entitled "Canada and International Civil Aviation." I understand that once a line is operated to 65 per cent of capacity then it may apply to put on additional planes. Is that the way it works?

Mr. SYMINGTON: That is one of the points that was not settled. There is no convention about that yet. The way we will run on the North Atlantic is that unless they do get a multilateral convention we will sit down with England bilaterally and arrange whether each shall have 5, 10, 20 or 100 frequencies. If we provide the means for increasing it it will have to be by bilateral agreement with Britain unless we get a universal convention.

Mr. JACKMAN: We cannot increase our planes on the service to Great Britain unless we accord a similar privilege to Great Britain to increase her planes. That is what you mean by a bilateral agreement?

Mr. SYMINGTON: I would not say that is the result but the minds must meet on an agreement. Britain might say, "Yes, you can run 20; we will only run 5." I do not know what they will do, but the minds must meet because now we have no right to land there unless they let us and they have no right to land here unless we let them.

Mr. JACKMAN: The right to land and to discharge and perhaps pick up passengers refers not only to a general right but also to the number of planes that may land and pick up?

Mr. SYMINGTON: We have all signed a two freedom agreement which means that if a plane is in trouble or has to land for gas it can land, or they can fly over your country but they have no commercial rights whatsoever. There are no commercial rights whatsoever as between one country and another at this moment. Commercial rights consist of what were termed a number of freedoms, one to seven. They all have agreed on the first two. As to the balance, which are commercial rights, there is no agreement on them at all, except there is recommended a standard form of bilateral agreement in which, among other terms, they agree that they will not endeavour to bar any other country or any other line, that everybody must be treated the same. Some people use the standard agreement; some people use it with some changes required for the particular state of existing affairs, and some do not use it at all. They use one of their own, but as far as your question is concerned for us to pick up or put down passengers in Britain or for Britain to pick up or put down passengers in Canada there are no rights at the moment. What the rights will be is a meeting of the minds of the British government and the Canadian government in a bilateral agreement that will settle all the terms, whatever they may be, that the two parties want to settle.

Hon. Mr. HOWE: It does not necessarily mean there will be no agreement on frequencies. For instance, we have made a bilateral agreement with the United States. Certain routes have been allocated to each country, and each can fly as many frequencies as they like.

Mr. HAZEN: What do you mean by "frequency?"

Hon. Mr. HOWE: So many planes a day.

Mr. JACKMAN: Are there any other countries besides Russia which are not parties to the convention where they might interfere with our future plans? For example, if we had a Pacific service we might want to use the northern route and have rights in Russia. In regard to the other routes contemplated, the Atlantic and South America routes, are all the countries where we might need a landing field parties to the convention?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Russia is the only hold-out at the moment?

Mr. SYMINGTON: The only one I recall. Enemy countries, of course, were not allowed in. They only get in under certain terms, but they are not in now. Italy, Germany, and so on, are not in.

Mr. REID: A person going to Russia must go by Russian plane if they are flying?

Mr. SYMINGTON: He cannot go at all.

Mr. JACKMAN: You would be undesirable.

Mr. SYMINGTON: You might go in by train and you might fly in Russia by a Russian plane but you cannot fly in from any other country now except it is a special trip arranged through the state department, but at the moment nobody can buy a ticket into Russia.

Mr. REID: In other words, it is a closed country.

Mr. SYMINGTON: It is a closed shop at the moment.

Mr. HARKNESS: In the second paragraph you say:

"The period was one of intensive planning for a time when the air lines will not only multiply its domestic services",

and so on. What are your plans for multiplying domestic services in the immediate future?

Mr. SYMINGTON: Our plans for multiplying domestic services in the immediate future are first, I think, a fourth trans-continental flight from ocean to

ocean, a line through Winnipeg to Edmonton via Saskatoon which may go on to the coast. Remember, when I talk about these things I am only telling you what I have in mind. I cannot get these things unless the Minister for Air and the Postmaster General recommend them to council and council passes them. Otherwise, I cannot do anything about them. But the character of the routes that I visualize in main line operation in Canada are those lines, plus a line from Montreal down the lower St. Lawrence to St. John, because I feel that there are centres of population in the older sections down there—Riviere-du-Loup, Mont Joli, Rimouski—which are entitled to air access. There may be one or two others as developments go. Then, of course, we hope to fly, under what we think is a fairly long-headed agreement we have made with the United States—we have got the right to fly into their distribution centres where airlines meet. We want to put these services in, not only for bringing more people into this country from the points where American airlines concentrate, but we hope as well to develop traffic for our service across the north Atlantic and across the Pacific; that is what we would like to do. That is what we have in mind. As to when; it has been simply impossible up to this minute to get planes. We are now converting war planes into commercial planes. It is a tough job but it is the only way which we will get planes.

Mr. HARKNESS: What kind of planes are you using?

Mr. SYMINGTON: We have three C49's which were transports, DC3's—we now can only get C47's which are a cargo version of the DC3's. We are converting and hope to convert a considerable number of these types almost immediately, and to have them coming off the line we hope fairly regularly, so that we can put them on the line once the airfields are ready on the routes I mentioned, plus our routes into the United States and into Alaska.

Mr. HARKNESS: And I suppose work is being done on the domestic lines now; for instance, the one from Winnipeg through Saskatoon to Edmonton, and the one along the lower St. Lawrence?

Mr. SYMINGTON: And the additional trans-continental line, yes; that is about what I envisaged as mainline operation for Trans-Canada, and that is all I am interested in.

Mr. NICHOLSON: What about the line from Toronto to Sault Ste. Marie and Fort William?

Mr. SYMINGTON: Yes, there is that one. We will cut off a considerable distance by flying across the lakes and at the same time serve Sault Ste. Marie and the cities at the head of the lakes; and when traffic justifies it, which I think it will almost immediately, we will fly directly across Montreal-Ottawa to Winnipeg, instead of turning down to Toronto and running from there across the lakes. By flying direct from Montreal to Ottawa to Winnipeg we would save a jog of from 190 to 200 miles, just by that change.

Mr. NICHOLSON: How soon will that service be ready?

Mr. SYMINGTON: I do not like to make any promises about that. We are ready but it is a matter of airfields and communications.

Mr. HAZEN: Did I understand you to say that you could not pick up and put down passengers in Great Britain and that Great Britain could not pick up or put down passengers here at the present time?

Mr. SYMINGTON: At the present time we are running what is known as a military operation.

Mr. HAZEN: Yes, I know.

Mr. SYMINGTON: Apart from that, Trans-Canada as a commercial airline is not doing it. We are simply conducting an operation for the Canadian government; we merely carry people they tell us to carry, whom they want us to carry, and the freight they want us to carry. It is recognized military operation. There is no commercial operation between Britain and Canada to-day.

Mr. HAZEN: Will that condition have to be changed within the near future?

Mr. SYMINGTON: Oh, undoubtedly; I should think both countries are very anxious to meet and will meet to try and arrange a bilateral agreement.

Mr. HAZEN: Has any time been fixed for such meetings?

Mr. SYMINGTON: That is a matter between the two governments.

Hon. Mr. HOWE: Yes, meetings have been arranged.

Mr. NICHOLSON: I have three or four questions I wanted to ask, but before I ask them I would like to refer to a part of the last paragraph in your report in which you express appreciation of the loyal and efficient service of the company's officers, etc. Having used the T.C.A. service to a considerable extent I want to endorse those sentiments. I would like to inquire about the service in the east. I understand you have two planes flying over Charlottetown every day of the year to Moneton and Sydney, and in view of the very unsatisfactory transportation conditions into Prince Edward Island I wonder if consideration has been given to having the T.C.A. planes stop at Charlottetown. I know that the Maritime Central Airways are giving a very good service; it is very difficult to get reservations on their ships; and in view of the fact that your planes are passing over and that Prince Edward Island is a very important part of Canada, I think they might be linked directly with T.C.A.

Mr. SYMINGTON: All I can say is that we have not been asked to do it. Certainly we do fly over on the way to Newfoundland; and I believe you are right, that people are having difficulty in getting seats on the planes going across to Charlottetown. Of course, we do fly planes over the Island, as I said, to St. John's, Newfoundland, but that was established as and was required because of extensive war operation, flying direct to Newfoundland. We had to fly a service of that kind.

Mr. McCULLOCH: They are getting very good service into Charlottetown.

Hon. Mr. HOWE: Yes, and it is planned to expand that service to take care of Charlottetown. That is a point that needs to be well taken care of.

Mr. McCULLOCH: I understand that Maritime Central Airways have two or three planes carrying passengers. I think one of them carried 10 passengers and the others carry 6 passengers each.

Hon. Mr. HOWE: And they are getting some better planes too.

Mr. McCULLOCH: I know that they are always pretty well filled up.

Hon. Mr. HOWE: Yes.

Mr. NICHOLSON: How about the service between Fredericton and St. John? You have to drive as far as 30 or 40 miles there to get to the airfield.

Mr. SYMINGTON: That is the service of which we are not so proud, but we cannot help it. Any airline that has to operate in foggy country, where the passengers have to drive 50 miles, cannot be satisfactory. It is costing us a lot of money. We lose on it because you may get ready and drive out all the way to the airport and find that the plane is down and you cannot fly. It is a most unsatisfactory service, but it does give mail service, and those who want to take a chance on the traffic do get service. However, it is a thing about which nothing can be done.

Mr. NICHOLSON: Is there any chance for improvement in the near future?

Mr. SYMINGTON: Not unless, as I say, they can find an airfield in the vicinity, which they seem to have great difficulty in doing, which will allow us to land closer.

Mr. HAZEN: Might I ask you there about the proposed landing field at Clover Valley, I think it is called? What is the position at the present time so

far as T.C.A. is concerned? I understand that the municipality has expropriated the land and acquired property for a field in the belief that the T.C.A. would use it.

Mr. SYMINGTON: I can only say this. We have nothing to do with getting fields; that is a matter for the department. Of course, when a field is furnished we will be only too glad to go in there. We do not furnish these airfields. The Department of Transport does that, or the municipality—whatever the agreement happens to be. We are not in the airfield business at all. Certainly if an airfield is provided the T.C.A. will land there.

Mr. REID: There are one or two questions on page 1. I notice in the third last paragraph you speak about plans for international flight, other than the present trans-Atlantic service, and you say that they are still tentative; and you go on, "but the West Indies, South American and the Pacific are areas of admitted interest to the company." I was wondering what research or investigation you had made insofar as the Pacific areas are concerned?

Mr. SYMINGTON: We have given a great deal of study to these routes. I might state quite frankly to this committee that I believe they will be losers for some time to come and require financial aid. We would prefer to run to Australia and New Zealand via Fairbanks, China, India and Australia, or I should say China-Australia. But that is now not open because of Russia. Therefore we expect to land at Hawaii and on down to Australia and New Zealand under a joint agreement with Australia and New Zealand. That operation depends upon when you can get the equipment with which to run it. Because they are long hops you have got to be sure that you have the proper equipment. What the financial result will be I cannot prophesy at all. It depends upon how many people are going to travel and how much mail is carried, but I would not want to invest my money in it, if I had any to invest.

Mr. REID: You are reserving this field for the future I suppose.

Mr. SYMINGTON: Of course, there are trade connections, prestige, and that sort of thing involved which will probably command that certain lines be run. But do not make any mistake about it—I hope I am not too pessimistic—for some time these lines will not, in my opinion, produce a return.

Mr. HAZEN: Would you conduct international lines which do not pay?

Mr. SYMINGTON: We will naturally conduct such international lines as the government tell us to, because they are our bosses.

Mr. JACKMAN: These external lines, apart from the ones going down into the United States, do not carry much hope of a commercial return, as you see it?

Mr. SYMINGTON: I think the north Atlantic run will; I think it will come reasonably close to it. I think the north Atlantic will give a return because, it is by all odds the big traffic area. I think also that traffic on the West Indies-South American route will increase more quickly than it will in the Pacific, unless we get a right to go through Russia-China. That is the route which I think traffic might go up. But to hop 3,000 miles to Hawaii from Canada and hop from there to Australia, makes it a rather difficult-proposition to expect to make any money on, I think.

Mr. JACKMAN: I would say so.

Mr. REID: Have you surveyed the possibilities of routes between the Pacific and South American countries?

Mr. SYMINGTON: The west coast?

Mr. REID: Yes.

Mr. SYMINGTON: No. We have surveyed them to this extent, that we have surveyed all the territories and what the travel between countries is likely to be and so forth, what the freight return might be, and what the populations of the

countries are and what the standard of living is. You can get a great population with standards of living of a kind that they cannot fly and do not fly because they have no money to fly with and that makes it a pretty tough proposition. These countries have services which are somewhat similar to what we know as bush lines in our north country at the moment—Costa Rica, Salvador, etc.—you get into a plane there and you may have a cow next to you, and you do not have a nice stewardess to wait upon you. The operation is a practical operation designed to meet the conditions of the country in which the operation is taking place; but it is not what is known as a high-grade airline operation, although it does meet the requirements of the country.

Mr. REID: I have just one other question relating to the operation of the service on the west coast there. I notice you have a run between Victoria and Seattle, and I was wondering if you are extending that run to take in Fairbanks, Alaska?

Mr. SYMINGTON: We will be running to Fairbanks via Edmonton.

Mr. REID: At what points will that touch? Will you start from Victoria and then go to Seattle, and come back by way of Vancouver and then on up?

Mr. SYMINGTON: We ran into Vancouver because we wanted an entrance on the Pacific coast, Seattle; and the only way in which we could get that was Victoria-Seattle—Victoria-Seattle-Vancouver; so that now we have an entrance to the traffic producing territory in the state of Washington, because we can beat any airline from there to New York, I think.

Mr. REID: These planes will take your passengers to Vancouver, will they?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: They take the Seattle passengers up to Victoria, or Vancouver, and then take them to New York more cheaply?

Mr. SYMINGTON: I do not know about more cheaply, but more quickly, and more comfortably I think.

Mr. JACKMAN: I think in one of the previous sittings of this committee we were told that the run between Vancouver and Seattle, or to put it the other way, the Seattle-Vancouver run, was not a profitable one.

Mr. SYMINGTON: The Seattle-Vancouver route was not a profitable one. It belonged to Canadian Airways originally and they gave it up. It was not a profitable route, and it would not be a profitable route yet. No route that short is a profitable route; but it is a feeder to our traffic and it is an originator of traffic.

Mr. McCULLOCH: Is there any chance of Yarmouth-Greenwood-Truro being connected?

Mr. SYMINGTON: I should think that Yarmouth might be connected with the Halifax-Boston run. That appears likely. I do not know much about it. It looks as though it might, I cannot tell.

Mr. JACKMAN: Is it appreciably shorter from Seattle to New York via Vancouver than over the U.S. lines?

Mr. SYMINGTON: It is some shorter, yes.

Mr. JACKMAN: Is that a factor in our situation there?

Mr. SYMINGTON: It is some shorter, but there is another factor, and that is our smaller population, which is an advantage. We have fewer stops. It places them at a disadvantage in that they have to make more stops. Of course, but, if they operate a through express route, flying non-stop, our advantage might be lost. Up to date we have undoubtedly been getting a lot of traffic from Seattle.

Mr. REID: Can you tell me if the fog at Sea Island is delaying your planes very much, the fog out there at Sea island airport?

Mr. SYMINGTON: I think the answer to that is that it delays at certain times of the day; that is we have difficulty very often in getting in there before 11 or 12 o'clock, until after the fog rises. Apparently there is some fog there in the early part of the day but most days it rises by noon.

Mr. REID: It would have been better if in the first instance an airport free of fog had been chosen rather than the one you have there now. That, of course, was chosen by the Vancouver city council and now it has grown up—millions of dollars have been spent on that airport. I suppose that if an airport were being chosen to-day you would look for one free of fog, and such a location could be found closer to the city.

Mr. SYMINGTON: As I say, we have nothing to do with airports. Well, we do give what information we can to the department as to the characteristics along technical lines. What you say about the Vancouver airport is, of course, a matter of concern for the Department of Transport.

Mr. REID: I want to ask one or two questions about passengers. There has been considerable complaint during the past few months by men who want to travel on business, for strictly business purposes, between Vancouver and west coast points and Ottawa, that they have not been able to get space, that people on pleasure trips are booking as far ahead as three months. I do not suppose there is any way to control that. If you wanted to get a seat on one of those planes you could not get it within three or four weeks. At one time I think they were booked as far ahead as three months, not by business people, but by people looking ahead for a pleasure trip; and people calling up the T.C.A. and saying that they wanted to book a party for three or four months ahead—as much as 25 or 30 per cent of the seating capacity of the plane being booked by passengers of that type, pleasure-seeking passengers.

Mr. SYMINGTON: That complaint is perfectly justified. The question of remedy, the basic remedy, is that we get the new planes, more planes, and you have met your trouble. Otherwise the problem is a difficult one to handle for a public service corporation. Business men, particularly in the west, come in any time, just a day or two before they want to make a trip, and then complain because they cannot get accommodation at the moment they want it.

Mr. REID: That is right.

Mr. SYMINGTON: They have to make up their minds a couple of days ahead, and then they come in and say; why these planes are full of women and children and school teachers and all that sort of thing; what good are they doing for the business of the country, they should not be allowed to interfere with business this way. Well, I don't know. The doctors now recommend women with small babies to travel by air, if they have to move; that is found to be the quickest and least harmful way to move infants. Then, take school teachers. They work the greater part of the year and then they say they want to get away for a vacation on such-and-such a date and they make their reservation. Take the case where a man would come into us and say: you ought to give us a reservation three days ahead. You could not expect us to work even on that narrow margin. No one knows what traffic will offer within a short time such as three days, and you can hardly afford to hold your space open to business men on a short notice basis of that sort, particularly when you realize that as a rule the business man who travels by air only makes such trips twice or three times during the year; and that kind of traffic does not fill your aeroplanes. I have not been able to bring myself over to the view that such an arrangement would be fair to the travelling public. What I am interested in is the economic proposition, the operation of the airline. The lines have not done so badly, I do not think, all the circumstances being considered. We are now getting new planes, and that will remove some of the objections; and then I do not think you will hear much more about it.

Mr. McCULLOCH: How about a passenger at Halifax, who buys a return ticket on Monday to go from Halifax to Montreal and he wants to come back on a Wednesday—

Mr. SYMINGTON: He wants to which?

Mr. McCULLOCH: He wants to return on Wednesday.

Mr. SYMINGTON: Yes.

Mr. McCULLOCH: And when Wednesday comes he probably cannot get a seat on the plane.

Mr. SYMINGTON: Unless he has reserved it. He can reserve it at the time he buys his ticket.

Mr. McCULLOCH: Even if he reserves it he cannot get it.

Mr. SYMINGTON: I am afraid that is a condition that will continue as long as you have not sufficient planes to meet the demand, we have the odd deplanement for priority.

Mr. McCULLOCH: Do you not think that a man who buys a return ticket should have a preference?

Mr. SYMINGTON: Well, I don't know. We give them a 10 per cent reduction on the rate to buy a return ticket, you know.

Mr. JACKMAN: Your rates are now fairly comparable with lower berth rates on the railway, are they not?

Mr. SYMINGTON: Well, they are coming down a bit. I would say that they are about the equivalent to a room rather than a berth, plus your railway rate.

Mr. JACKMAN: May I ask whether or not you have entered into any negotiations with any of the countries with whom you have to negotiate in order to complete arrangements for your West Indies-South America services?

Mr. SYMINGTON: We have not yet got down to actual negotiations. We have had a lot of talks with them, and they are all waiting to receive us with open arms; but there is no use in arousing people's hopes of getting things going until we are in a position to deliver the goods. We are not yet, either in the matter of planes or in the matter of personnel, although our personnel situation is improving tremendously. I expected to answer questions as to why we had not made a little more money. There are many reasons in addition to the personnel item of which we have spoken. We have now taken 750 returned men on to be trained, and we start them at proportionately higher rates than we would if they were not returned men. You cannot take a man who has been overseas and give him a probationary rate of pay such as you would give to one who comes to you as a young fellow just wanting to learn. And it is taking longer to make commercial air pilots out of war pilots than it does of a fellow who has never been in the war at all; oddly enough these men themselves want to stay on the right hand seat until they feel they are qualified to become captains.

Mr. JACKMAN: Why would that be? That is very interesting.

Mr. SYMINGTON: Well, largely because these fellows during the war have been flying by the seat of their trousers and they have a lot of bad habits which take a lot of curing for commercial air purposes.

Mr. McCULLOCH: Are you getting many of those from the schools?

Mr. SYMINGTON: No, we are taking nothing but returned men. We have taken 750 of them. We have 205 of our own coming back too.

Mr. HAZEN: Did you say that you have 205 pilots?

Mr. SYMINGTON: These are not all pilots.

Mr. HAZEN: How many pilots have you at the present time?

Mr. SYMINGTON: About 250.

Mr. HAZEN: Including co-pilots?

Mr. SYMINGTON: Yes.

Mr. HARKNESS: As far as these two routes to the United States are concerned, you do not show anything about flying from the prairie areas, such as from Winnipeg to Minneapolis, or from Lethbridge to Grand Falls; have you it in mind to develop the routes in that area?

Mr. SYMINGTON: We are trying to get Chicago-Winnipeg. We may get it, I do not know; we could not get it then. You see, under the present agreement the territory was divided. It was a territorial division and for a long time the United States operators have run the line from Winnipeg to Minneapolis, and they also had the Lethbridge-Grand Falls run. They also had the Vancouver-Seattle, and we were able to get into Seattle as I explained primarily as a source of traffic. With respect to what is of greatest advantage to us, through routes to the largest centres, Chicago, New York and so on, non-stop is very valuable.

Mr. JACKMAN: You mean, you have fewer stops along your route between Seattle, Vancouver and New York? There are fewer stops on your line than there would be between Seattle and New York as United States operate?

Mr. SYMINGTON: Yes, I think even now there are fewer because we have not the large populations. That will be particularly true when we get our new big equipment.

Mr. JACKMAN: Why do not the American lines put on an express service?

Mr. SYMINGTON: They will do that as soon as they get their big equipment; although, mind you, there are competing lines in these western cities with which they have to divide traffic. They can only go so far and operate on a paying basis.

Mr. JACKMAN: If they had an express line then the advantage we have at the moment in a faster service would disappear, would it not?

Mr. SYMINGTON: No, our express line would still have to meet their competition; but there is more to it than speed. You'd be surprised at the letters I get from people from as far away as California who come up and travel by T.C.A. in preference—

Mr. JACKMAN: Is that on account of better service?

Mr. SYMINGTON: Yes, better service, and smiling service, you might say; and they like the scenery. It is really surprising.

Mr. JACKMAN: Is our equipment as modern as their?

Mr. SYMINGTON: Our equipment is smaller than their, but it is faster and as comfortable; and it is what they call a "heads-up" service, and things like that.

Mr. SHAW: I understood you to say, Mr. Symington, that the T.C.A. have nothing to do with the construction and maintenance of airports, is that correct?

Hon. Mr. HOWE: That is correct.

Mr. SHAW: Probably then my question should be directed to the minister: Is there any way by which we can determine the cost of construction and the maintenance of airports for T.C.A.? Otherwise we cannot get a complete and correct picture of the cost of operating the T.C.A. I find in connection with government enterprises that this is so frequently the case. Take the post office, for example. You can get a statement of the postal revenue and expenditure at a particular office, but the capital expenditure comes under the Department of Public Works, with the result that you cannot get a complete and correct picture of operations of a government enterprise in so very many cases. Could we possibly get something regarding the cost of maintenance of airfields?

Hon. Mr. HOWE: There is no trouble in giving you the cost of the construction and operation of any airport in Canada. The airports are maintained for other than T.C.A. services. T.C.A. pays landing fees just the same as the others; but the facilities operate for other purposes than merely T.C.A., particularly for military purposes. There is no airport that I know of used exclusively for T.C.A.

Mr. SHAW: There must be some emergency fields.

Hon. Mr. HOWE: Oh, yes, but the emergency field maintenance is practically nothing; that is simply a place to get down in in case you have trouble.

Mr. SHAW: But it involves an original capital outlay?

Hon. Mr. HOWE: Oh, yes.

Mr. SYMINGTON: The same thing applies in the United States. There is no operating airline which I know that could possibly pay its way that had to earn the cost of building and maintaining air fields in addition to its other operating costs.

Mr. SHAW: I am not criticizing the answer given, but it is awfully hard for us to take a statement of this character and accept it as a complete statement of revenues and costs of the enterprise.

Mr. SYMINGTON: The situation is this, that we pay a landing fee to the government on their fields, plus certain other services, the same as any other air line.

Mr. SHAW: That is true, but as Canadian taxpayers we pay more as a consequence of expenditures made by the other department of government which is responsible?

Mr. SYMINGTON: Air fields are undoubtedly built and they do not get a return in landing fees commensurate with their cost, but that is true the world over.

Hon. Mr. HOWE: That is a situation which is very much confused at the moment, owing to the fact that practically all of these new fields were built for the army, which pays no landing fees, but we are starting a study now to put these fields on a commercial basis. It should be possible. Many fields in the United States pay their way in landing fees and concessions of various sorts. For instance, La Guardia field, which cost \$42,000,000, has I am told turned out to be quite a profitable field. That is a matter that will come but at the moment the situation is so confused by war use, and by airports built wholly for war that have no commercial traffic, that it will take a year or two to sort that out.

Mr. BEAUDOIN: You do not own Dorval airport?

Mr. SYMINGTON: No.

Mr. BEAUDOIN: That belongs to the government.

Hon. Mr. HOWE: It belongs to the Department of Transport.

Mr. BEAUDOIN: You do not have to defray the expenses of the upkeep of the airport?

Mr. SYMINGTON: We have our own facilities there and we pay landing fees and certain other fees. We have our facilities there, our hangars where we do our jobs, and all that sort of thing.

Mr. BEAUDOIN: You also have repair shops there?

Mr. SYMINGTON: Yes, we have maintenance shops.

Mr. BEAUDOIN: How many employees do you have there?

Mr. SYMINGTON: There are 553 engaged in the trans-Atlantic operation where all the planes are taken care of with respect to the trans-Atlantic operation for the government. I should say there are 750 to 800 people out there.

Mr. BEAUDOIN: Is that number of employees likely to be subject to decrease in the near future?

Mr. SYMINGTON: I would think it is subject to increase. Montreal will be an international airport and, of course, it will be subject to increase.

Mr. SHAW: Mr. Chairman, possibly my next question should be directed to the minister. In a case like the Penhold Airport where you have an emergency landing field for the T.C.A. and buildings, and so forth, does that operate independently of the air station which has been operating under the commonwealth air training scheme? The reason I ask is that if it does not then in the disposal of buildings, equipment, and so forth at Penhold you would have to have a prior claim upon certain essentials in connection with the operation of your emergency landing field. I was wondering if they did operate independently.

Hon. Mr. HOWE: Penhold was a purely military field. It was built for military use for the military. It happens to be a field that is on the trans-Canada line and is a good emergency field.

Mr. SHAW: You have a separate strip there and separate buildings operating for T.C.A.?

Hon. Mr. HOWE: Where is Penhold?

Mr. SHAW: North of Calgary about eighty miles.

Hon. Mr. HOWE: It is only an intermediate field. It is not a field we use. There was a strip there before, and then we built the airport for the military.

Mr. SHAW: I do not think there was any strip there before.

Hon. Mr. HOWE: Perhaps not. There was a radio range and a strip as part of the original line from Edmonton to Lethbridge. Then the military went in and chose that as a spot for an air training school and built an airport there. When the military get through with it they will declare it surplus and it then goes to the Department of Transport. The Department of Transport decide whether there is anything useful to them in their operations and then they declare the balance surplus to War Assets Corporation. War Assets Corporation disposes of such surplus to the public.

The CHAIRMAN: I might suggest that perhaps the questions of Mr. Shaw and Mr. Beaudoin will be answered when we get over to the detailed reports. I think some of the questions asked will be answered on page 13 under ground operation, maintenance and depreciation.

Mr. JACKMAN: May I ask Mr. Symington a general question as to paragraph 7 on the first page?

A direct operation between Winnipeg and Edmonton waits only upon the installation of airports and airway facilities along this route.

You are not concerned with the cost of those facilities? That is the Department of Transport entirely?

Mr. SYMINGTON: We are concerned in them being fit to land on. We naturally try to get along with what we can so as not to cause too much cost, but the Saskatoon air field, which is the one in question, is a well known development that has been under way for some time. It is only a matter of getting it completed.

Mr. NICHOLSON: How about the intermediate stations at Yorkton and Daffoe? Are they satisfactory?

Hon. Mr. HOWE: They are all right. They are just intermediate stations.

Mr. JACKMAN: Do you pass upon fitness as representing the T.C.A. or does the Department of Transport do that?

Mr. SYMINGTON: The Department of Transport under the method prepare plans for an air field, and before they go on with them they submit them to the operating department and say, "This is the direction of the ranges and the runways. Will it meet your situation?" Our people go over it and say that it will or it will not, it should be changed here or there in order to accommodate the planes.

Mr. JACKMAN: But the Department of Transport have inspectors just for this purpose, have they not? I see a large appropriation on that account in the estimates?

Mr. SYMINGTON: Of course they have. They build them. We have nothing to do with that at all.

Mr. JACKMAN: They merely consult you?

Mr. SYMINGTON: Just for advice; we are going to have to land the planes there. "Is this runway a degree off or on according to your experience in the prevailing winds", and so on, as to whether it is right, but we have nothing to say about it. It is only the fact we are going to use it and it is naturally wise to avoid any possible errors.

Hon. Mr. HOWE: The Department of Transport inspects all aviation lines. Trans-Canada Air Lines is just another air line to them. Any air line that operates is subject to inspection by the Department of Transport, and any field that is used is subject to inspection by the Department of Transport.

Mr. HAZEN: Mr. Symington, when I asked you if you would operate an air line that did not pay if I understood you correctly you said that depended on the government, that the government was your boss. I should like, if I could, to get some idea of the set-up or relationship between the government and the company. For instance, does the T.C.A. select the routes it will operate or does the government decide on the routes and tell the T.C.A. to operate them under the Trans-Canada Air Lines Act?

Mr. SYMINGTON: It might be either. What happens is T.C.A. applies to the government for a route. What they do is they write the Minister for Air and the Postmaster General and say, "We would like to put another frequency on this route" or "We consider this route should be set up". These two ministers must recommend it to the governor in council who passes it. Then we can run it. Until then we cannot.

Mr. HAZEN: Do you have to get a licence from the board?

Mr. SYMINGTON: Yes.

Mr. HAZEN: That is the one side. Take the other side. You apply for a route. Does the government ever come to you and say, "You are to run a line between this point and that point?"

Mr. SYMINGTON: I do not recall any such case happening.

Hon. Mr. HOWE: We could. For example, the government has the power to make treaties with other countries. We made a treaty with the United States and accept responsibility for operating certain services. Among them are the services from Toronto to Chicago and Toronto to Cleveland. We instruct T.C.A. to operate these international services.

Mr. HAZEN: Where is the authority for that under the Act?

Hon. Mr. HOWE: It is a part of the T.C.A. contract. The Act provides for a contract.

Mr. JACKMAN: Do T.C.A. have to accept that instruction or can you put your own price on the cost of that service?

Mr. SYMINGTON: Under the present arrangement if we run it we just get the remuneration which is provided for in the Act. We are protected under the present Act. If we make a profit the mail rate goes down; if we make a loss the mail rate goes up, so we are really protected as a company from having to operate at a loss. That is all being changed, as I understand the legislation, but that has been the situation up to now.

Mr. JACKMAN: But you will be guaranteed as representing the T.C.A. against loss?

Mr. SYMINGTON: Which?

Mr. JACKMAN: If the government orders you to operate a certain route?

Mr. SYMINGTON: Under the present contract.

Mr. JACKMAN: Apparently that is going by the board.

Mr. SYMINGTON: I do not know whether it is or not but there is power for it to go by the board in the amendment which we will come to in due time.

Mr. JACKMAN: You picture yourselves in the position of being ordered to operate a route which may show a loss and which will not come out of the consolidated revenue fund?

Mr. SYMINGTON: I have not pictured myself in that position. I have not really considered whether I could be put in that position. Certainly as far as I am concerned personally if domestic T.C.A. ever has to be subsidized I am out. I would not do it because I think it can be made to pay.

Hon. Mr. HOWE: Of course, we are very careful to see that these routes are potentially profitable routes.

Mr. JACKMAN: Mr. Symington was careful to qualify his remarks by saying domestic T.C.A. routes.

Mr. SYMINGTON: Yes. If the government of Canada enters into an agreement whereby they are going to run the North Atlantic and they say to T.C.A., "You are to run it", as they have said, T.C.A. overseas limited, or some such name—not T.C.A. domestic—will run it and, of course, they will run it under a contract with the government. What that contract will be remains to be seen, but if I am in T.C.A. I will be protected against loss. Do not make any mistake about that.

Mr. JACKMAN: Suppose Great Britain or any other large population country where traffic arises insists upon operating planes bearing the same ratio to the total as their population at the point of traffic origin bears to the total traffic; it may be that T.C.A. overseas lines will always be very small and perhaps for that reason will not be profitable whereas the country which has the large population may have a great number of planes and that increased volume can make them profitable at the same rate which would show us a considerable loss?

Mr. SYMINGTON: If the government were stupid enough to agree to that they ought not to be the government because nobody would agree to any such proposition.

Mr. JACKMAN: I understand that is a point at issue in the escalator clause?

Mr. SYMINGTON: Not at all, not for one minute. The escalator clause had nothing to do with that at all.

Hon. Mr. HOWE: It had nothing to do with that at all.

Mr. JACKMAN: Why is it then that there is this point of difference between the United States, Great Britain and ourselves, if you like, as to the provision whereby after effective use is made of 65 per cent of the line you can add planes?

Hon. Mr. HOWE: That provision gives permission to do so.

Mr. SYMINGTON: It is a pretty long story to try to explain that to you.

Hon. Mr. HOWE: It might never be operative.

Mr. JACKMAN: Is there not a point in issue in regard to where the traffic originates?

Mr. SYMINGTON: None at all. We are all agreed to operate on a 50-50 basis. The United States had to be persuaded to this, and it was a gesture on their part because they are the biggest travelling country in the world. If a passenger has origin in the United States and flies to England, gets off and then gets on a plane in England, England gets credit for that passenger just the same as if it were an English person. The United States does not get credit two ways; it only gets credit one way.

Hon. Mr. HOWE: It is on the basis of traffic embarked.

Mr. SYMINGTON: Traffic embarked in the country no matter where they come from.

Mr. JACKMAN: The point of origin is not of importance?

Mr. SYMINGTON: Not a bit of importance.

Mr. BEAUDOIN: On page 6 you list the principal factors which were responsible for an increase in your operating expenses. Do we find a breakdown of those elsewhere in this report?

Mr. SYMINGTON: On pages 13 and 14; they are all pretty well broken down. I can discuss them with you shortly now or when we get to these accounts.

Mr. NICHOLSON: Before we leave page 6 in connection with the operating expenses I wonder if Mr. Symington has any information to give us as to the weather factor? What difference does it make in your operating expenses when you have a month of bad weather?

Mr. SYMINGTON: Of course, if you have bad weather and you either cannot run or you run part way and have to take care of passengers, switch them into hotels and get them accommodation, and so on, it costs you money, of course, but year in and year out it evens up although last year was not a good year.

Mr. McCULLOCH: You have to take an average over the year?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: In terms of dollars and cents have you any way of knowing what a bad September this year would mean as compared with a good September last year?

Mr. SYMINGTON: We might for the month but the factors are so many that it is pretty hard to say that weather cost so much or anything else cost so much.

Mr. NICHOLSON: You are not worried very much about weather in your future plans?

Mr. SYMINGTON: No, it is becoming less troublesome all the time because of scientific improvements.

Mr. REID: There are two questions on page 5. At the foot of the page you mention air express volume and air mail volume. Are they two distinct types of trade? What I want to know is does the air mail volume, which has increased by 3 per cent, include all air mail parcels or parcel post?

Mr. SYMINGTON: Anything that pays air mail rates.

Mr. REID: That is different from the air express?

Mr. SYMINGTON: Oh yes.

Mr. REID: My next question has to do with the fourth paragraph on that page where you said there was a notable expansion in the Canadian government trans-Atlantic air service. That is mail service, transporting mail?

Mr. SYMINGTON: That is transporting mail plus cargo plus everything.

Mr. REID: Is the mail being transported overseas for the Canadian government included in the volume of mail as outlined in your statement?

Mr. SYMINGTON: No. While the T.C.A. operates it it is not a T.C.A. commercial operation. Everything is charged to the government and the government pays everything. We cannot take anything. The government says whom you shall carry. It is a war service.

Mr. JACKMAN: What happened to the Atlantic service that C.P. Air Lines or the C.P.R. were operating in one way or another? They were taken off that job, were they not?

Mr. SYMINGTON: I never knew they were operating one.

Hon. Mr. HOWE: They had an organization ferrying planes for British government account. The British government changed the arrangement. It was nothing to do with Canada.

Mr. JACKMAN: That was done away with entirely?

Mr. SYMINGTON: It was done away by the British, not by us.

Hon. Mr. HOWE: The military took it over. I think, as a matter of fact, the R.A.F. ferry command took it over from the C.P.R.

Mr. JACKMAN: Mr. Symington, in the fourth paragraph, the first line, you say that passenger, mail and express traffic was close to the capacity of the air line. What was your percentage of occupancy or whatever figure you use?

Mr. SYMINGTON: I think our percentage of occupancy was 89 per cent.

Mr. JACKMAN: 89 per cent?

Mr. SYMINGTON: I think so.

Mr. JACKMAN: That is extremely high.

Mr. SYMINGTON: I am sorry, it is 84. That is really 100 per cent capacity because where you are dropping somebody from Vancouver at Lethbridge and you have to pick up all the way along the line if you do not have a passenger between two points that comes off your occupancy.

Mr. JACKMAN: This figure is higher than the average of the trans-continental lines in the United States?

Mr. SYMINGTON: No, I do not think so on their figures for 1944. We were always higher but since the war down there I think they are equally as high or higher.

Mr. JACKMAN: Have you any figures which could be given to the committee indicating the regularity of air service? For instance, if one is going west one has to allow a day extra to make sure you are going to keep your appointment. I find it that way, and I think that is pretty general. Have you any figures showing how often you hit your time table?

Mr. SYMINGTON: We have month by month but, of course, our performance is much better since we got the alternative route by Windsor through the United States. But there is a great change this fall.

Mr. NICHOLSON: How often do you use that route?

Mr. SYMINGTON: Last month I think we used it twenty times. It was a very bad month north of Lake Superior.

Mr. JACKMAN: That is going down to Minneapolis and Milwaukee?

Mr. SYMINGTON: Through Milwaukee into Winnipeg.

Mr. NICHOLSON: How is the time between Montreal and Winnipeg via the United States?

Mr. SYMINGTON: It is a little longer but not very much.

Mr. JACKMAN: Do you have to pay anything extra apart from the landing fee?

Mr. SYMINGTON: No.

Mr. JACKMAN: Is there any comparable route for the Americans? They would have no use for it?

Mr. SYMINGTON: They have comparable routes. They fly over Ontario and they fly over New Brunswick.

Mr. JACKMAN: Is Canada much more difficult to fly over because of weather conditions than the border states?

Mr. SYMINGTON: I would think so. The difficulty in the northern Ontario region is that the wind blows up from the south, hits the cold waters of Lake

Superior and seems to form very heavy wet clouds for a while, or in cold weather the kind of thing that approaches catastrophic icing. For instance, in the northwest prairies a storm may be just temporary and pass over. Then it hits the lake and the cold water and our whole northern Ontario area is covered by this bad flying weather. That is one thing plus the character of the ground there. There is so much water and muskeg that it is a bad flying area, difficult air fields.

Mr. JACKMAN: I have heard it said we have not been able to get certain new instruments on account of military necessity during the war. Are there any instruments which are likely to be available to us which will make it possible to fly during bad weather?

Mr. SYMINGTON: I hope so. As a matter of fact, we are now engaged in blind approach landing tests, but it is a question whether we will ever get a complete blind landing. I think we will. When I do not know. It is a very extraordinary performance, very dangerous and difficult at the moment, but it is on its way. On the blind approach landing you can lower your ceilings considerably and increase your percentage of performed operations a good deal, but naturally you have got to train your people for it. You have got to have your radio equipment and you have got to have wider runways.

Mr. JACKMAN: Do they use this blind approach landing in the United States or other countries?

Mr. SYMINGTON: They are in the same position as we are. I think we are doing a little more than they are. I think in regard to these scientific matters we have always been a little more progressive. The T.C.A. are ahead on most of them. They certainly are not ahead of us.

Hon. Mr. HOWE: It is in the development stage. I do not think it is used commercially.

Mr. JACKMAN: How low can the ceiling be before you cannot bring a plane in under present instrument facilities?

Mr. SYMINGTON: Well, three hundred feet is our absolute minimum. I think with blind approach landings you will get that down to one hundred feet. Then if you get a complete blind landing your problem is solved and you can make an engagement to be there at a certain time and be there.

Mr. JACKMAN: Were you going to give us some figures on the adherence to schedules?

Mr. SYMINGTON: Ninety-five per cent of all schedules were completed in 1944.

Mr. JACKMAN: You mean you were on time on take-off?

Mr. SYMINGTON: No, that does not mean necessarily that we arrived on time, but they were commercially flown. I cannot give you the figures now but there are a certain number routine. That is on time. There is a certain group from 5 to 30 minutes late, and then 30 to 60 minutes late. That is the way they are classified. I cannot give you now how many were 5 minutes late and how many were 30 minutes late.

Mr. JACKMAN: Suppose we give you a couple of hours. One does not mind that so much but it is when you have to stop over-night at North Bay or Winnipeg or some place like that that it really disrupts the service.

Mr. SYMINGTON: That is true, but then you cannot beat the weather. There is no use trying. There is no use telling people you can because you cannot. The test is what has happened to your passengers.

Mr. REID: Have you your own meteorological service?

Mr. SYMINGTON: We have our own meteorological department. Of course, it cooperates with the meteorological service of the dominion government but as to meteorology we have our own people in it, of course.

Mr. HAZEN: In the statement Mr. Vaughan made to this committee on the C.N.R. he said:

"I feel it is necessary, however, to sound a note of caution. It is probable that with the war emergency over traffic will recede from its wartime levels."

Do you feel that any vote of warning should be sounded in connection with the post-war business of Trans-Canada? Do you expect there will be any recession from wartime levels?

Mr. SYMINGTON: Not a recession from wartime levels because we never did reach what we could have done had we had the equipment. Really I cannot see the optimist who tells you that everybody is going to fly. I wonder who is going to work, but when you ask me whether or not peace time flying will be as great as we had in war I will say "Yes, I think it would be at least double because we could not furnish the facilities." We did not have them, but when they talk about increasing ten and twenty times frankly I do not see it, and I hope I am not a pessimist. There is no word of caution necessary in so far as the immediate future operations of T.C.A. are concerned.

Mr. HAZEN: They propose to double, but here we are not talking about doubling the capital stock, but rather of increasing it by four times.

Mr. SYMINGTON: But you are talking about an entirely different thing. We are talking about a complete new inter-ocean service, you see. Let us not have any doubt about this. I am discussing here the domestic airlines. When you come to the international, of course you need—why \$25,000,000 is nothing, nothing at all, in this game. There is not an airline in the United States which has not increased its capital spending by at least \$100,000,000, not \$25,000,000. If you could see the money that is being expended in this international game, it would give you pause. It gives me pause. Certainly I am not going to spend money the way those fellows have been spending it. When you look at their balance sheet, I am not in the same class with them.

Mr. HAZEN: I suppose on the money you spend you want to be able to make a return; that is your policy?

Mr. SYMINGTON: That is my policy.

Mr. HAZEN: And money spent at that rate would be bound to show a deficit, no matter how you look at it?

Mr. SYMINGTON: Exactly.

Mr. NICHOLSON: On the basis of the results you have obtained during the war period, and are obtaining presently, do you anticipate that you will have a considerable increase in air travel?

Mr. SYMINGTON: Yes, there will be considerably more.

Mr. NICHOLSON: Do you expect that that will be more than double the peak during the war?

Mr. SYMINGTON: Yes, on your domestic air. The older people may perhaps hesitate, being a little slower—although it is surprising the number of old people we carry—but the young people want to travel by air; and when they have some place to go to they want to get there.

Hon. Mr. HOWE: There is no doubt that when the new equipment arrives it will be found that a lot of people want to travel by air. Certainly I can say, speaking personally, that I much prefer to travel by air. If I have to go any distance, I certainly prefer to travel by air.

Mr. NICHOLSON: And you think that this increase in air travel will have an effect on rail travel?

Mr. SYMINGTON: Of course.

Mr. HAZEN: Perhaps that is one reason why Mr. Vaughan sounded his note of caution.

Mr. SYMINGTON: It may be; but just take the Montreal-New York—Colonial, away before the war were right up against it with 2 or 3 frequencies a day; to-day they are running 19, and you cannot get seats; and everybody flies. The trains are out in that particular line.

Mr. HARKNESS: It's looks bad for the C.N.R.

Mr. SHAW: On page 7 there is a reference made to revenue passengers, which would indicate that there might be non-revenue passengers. Will you give us some details of the percentage of increase? I was going to suggest that you might later include a statement as to those who travel on a non-revenue basis.

Mr. SYMINGTON: I can give you the full list. First, might I say that there are no passes.

Mr. SHAW: Not even to employees?

Mr. SYMINGTON: Trips, but no passes. To T.C.A. employees on business or vacation, 1,602; dependents T.C.A. employees, 555; employees of the Department of Transport on business, 268; furnishing transportation to the press, Canadian Broadcasting Corporation, etc., 16; employees of the post office department on business relating to the air mail service, 10; employees of other airlines, 15; total, 2,466.

Mr. REID: Nothing about giving transportation to members of parliament?

Mr. SYMINGTON: And those are all on "space available" basis; that is, if there are passengers they cannot go.

Mr. SHAW: Would these Department of Transport employees travelling by T.C.A. be paid for by the department?

Mr. SYMINGTON: If they are on business they do not pay.

Mr. NICHOLSON: Just referring to the observations Mr. Reid made, when you get your new planes some revision of the Railway Act might be made so that the privilege of travelling on planes might be extended to members.

Mr. SHAW: And if you are going to consider that, then I suggest that members coming from the western provinces should be given a priority.

Hon. Mr. HOWE: And then you would have members week-ending in Vancouver every week or so.

Mr. SHAW: If you were to give us two trips a year, we would be satisfied.

Hon. Mr. HOWE: Members get paid for two trips a year, and can spend it on the airlines if they want to.

Mr. SHAW: We cannot do that, we have to travel by train in order to get that.

Hon. Mr. HOWE: No, you can travel by airlines just as well, if you want to.

Mr. JACKMAN: Referring to paragraph 9, the second from the last on the first page, is there any line in United States converting war types of planes to passenger or commercial use, especially to passenger use?

Mr. SYMINGTON: Oh, yes.

Hon. Mr. HOWE: We are doing a big business here in Canada by converting planes for other lines.

Mr. JACKMAN: For American lines?

Hon. Mr. HOWE: Other lines; American, British, French, Norwegian, Spanish and so on.

Mr. NICHOLSON: How many passengers will this type of plane carry?

Mr. SYMINGTON: They are designed to carry 21.

Mr. NICHOLSON: And how soon are they to be available?

Mr. SYMINGTON: To start November 1, on the New York run.

Mr. NICHOLSON: You mentioned the flight from Edmonton to the Pacific; will that be a direct route to Vancouver?

Mr. SYMINGTON: I do not know that. We have not filed on that, but I think it is a logical main line development myself; the government may or not agree with my view. I do not know.

Mr. NICHOLSON: Are there landing fields in between?

Mr. SYMINGTON: I have not gone into that yet. We have only got the rights as far as Edmonton so far.

Mr. JACKMAN: What is the cost of converting the planes for use by the T.C.A. as passenger planes?

Hon. Mr. HOWE: You mean the Dakotas?

Mr. JACKMAN: It says here, "Following the decision of the Canadian Government to undertake the manufacture in Canada, of a Douglas DC-4 type of four-engined aircraft engineered to meet special requirements, Trans-Canada Air Lines, as the intended user of the equipment, has maintained close liaison with the manufacturer and its designs."

Mr. SYMINGTON: That is not conversion, that is new planes.

Mr. JACKMAN: And may I ask in regard to them, what is the relative cost of producing a Douglas DC-4 in Canada as compared with purchasing it from an American plant? Would it be cheaper?

Mr. SYMINGTON: It certainly would be cheaper. I just, out of necessity, would like to call your attention to what this thing means. I had to consider within the last few days, within the last week, the purchase, or the possible purchase, of consolation aeroplanes—

Mr. JACKMAN: That is the Douglas DC-4?

Mr. SYMINGTON: No, that is Lougheed; and purchasing some of them is a temporary measure, purchasing them from the United States, and the United States price on that plane was \$775,000. When I came to figure out what it was going to cost me, it was going to cost me \$1,262,473.

Mr. JACKMAN: I suppose that is because of duty, taxes and exchange added?

Mr. SYMINGTON: Duty, taxes and exchange; and \$42,000 of modifications—namely, more powerful heating plant for this climate. This is what we have been up against right along, you see in comparing us with the United States costs—which means that if I bought that plane, or ten of them (as I would have had I bought any) I would have had to have written off against operating expenses per plane each year \$124,732 more than my competitor in the United States would have had to have written off. Of course, if we could build that plane in Canada we could build it for about half that cost or less.

Mr. HAZEN: Are the Douglas DC-4's being manufactured in Canada?

Hon. Mr. HOWE: Yes, they are in the course of manufacture.

Mr. HAZEN: Who are manufacturing them?

Hon. Mr. HOWE: Canadair Ltd. at Montreal.

Mr. HAZEN: How many do you expect to take delivery of?

Mr. SYMINGTON: Well, I don't know. I have ordered 20 and have a call on 50.

Mr. HAZEN: What do they cost?

Mr. SYMINGTON: We don't know yet.

Mr. HAZEN: What is the life of a plane of that kind?

Mr. SYMINGTON: Well, when you get talking about the life of a plane, the depreciated life—we depreciate them in four years or five years; but your obsolescence in a fast moving, fast changing line, the fastest moving and fastest changing line in the world, may be terrific.

Hon. Mr. HOWE: We are operating planes we bought in 1936.

Mr. HAZEN: What would be the life of one of these Douglas planes? How long would you use it if you could not get a better one?

Mr. SYMINGTON: I cannot answer that. What I can say is that we depreciated it in our accounts in four years, but we would expect to use it for six or seven.

Mr. HAZEN: When do you expect to know the cost of them?

Mr. SYMINGTON: We have a general idea, but we will not know until the plane is completed.

Mr. NICHOLSON: Did I understand the minister to say that we were still using planes that were made in 1936?

Hon. Mr. HOWE: Yes, they were made in 1936, or 1937.

Mr. HAZEN: When do you expect to receive the first of your new planes?

Mr. SYMINGTON: I am hoping, December 1, 1946. I may be over-optimistic.

Mr. SHAW: And where did you say that these are being built in Canada?

Hon. Mr. HOWE: At Canadair Limited, Cartierville, near Montreal.

Mr. JACKMAN: This plane we are making is the Douglas DC-4?

Mr. SYMINGTON: To give its correct designation, the Douglas DC-4-M.

Mr. JACKMAN: And how much are they going to cost us?

Mr. SYMINGTON: That is what I say we cannot tell exactly yet.

Mr. JACKMAN: But in any event it is safe to assume that the price is going to be lower than the price of the same plane bought in the United States if we have to add to the purchase price the duty, sale tax and difference in exchange?

Mr. SYMINGTON: I would expect it to be considerably lower.

Mr. JACKMAN: Do you think the aircraft manufacturing industry in Canada can compete on a cost basis considering the limited volume we are likely to have as compared to the United States?

Mr. SYMINGTON: I would not say that, but there are other factors which enter into it. For instance, there is the cost of the conversion of the plane to Canadian conditions. Another thing, I am not going to try to compete with the United States in 100-passenger plane types. We haven't got anything like the population. In my opinion the volume of traffic we have here will be better served by the 40-passenger type of plane; that with speed, is, from our standpoint, what we need, and will serve our purpose better than the 100-passenger models; and, as I say, my reason for that view is that we have not got the density of population. Now, in that estimate of the situation I may be wrong. But I would say roughly that we can build the 40-passenger type of plane in Canada at about the same figure as we could have it built in the United States, and certainly if we had to pay duty and other charges, we should be able to build it for ourselves a lot cheaper.

Mr. REID: What would be the cost of the larger type of plane which you are intending to use on your overseas runs?

Mr. SYMINGTON: The type of plane we are building for that purpose is the one which has a cruising range of 3000 miles or more, they have to make long hops over the ocean, and that is an operation which is somewhat different

from one where you have a chance to land every 100 miles or so and refuel and service your plane. On these long hops you have to carry a tremendous weight because of the quantity of fuel and other items that have to be carried.

Mr. JACKMAN: And the fact that volume does not enter into the picture of aircraft production as it does in the production of motor cars, for instance; consequently, in your opinion, planes could be built here at or below the cost at which they could be built and brought over from the United States.

Mr. SYMINGTON: May I correct that, for less than we can buy them in the United States—volume certainly plays a large part, undoubtedly it does.

Mr. JACKMAN: How much is the duty on a plane going to be?

Hon. Mr. HOWE: I think it will work out at around 35 per cent for all ordinary purposes.

Mr. HAZEN: Where do you get your engines from?

Mr. SYMINGTON: The engines for use on the Canadian planes are the Rolls Royce, which are of course brought over from England. You see, we combine what we consider the best design in the plane with the greatest power in the engine, and our craft are unique in that respect.

Mr. JACKMAN: Would you not speed up the supply of new planes for T.C.A. if you take some of these reconverted planes that you were speaking about a moment ago—

Mr. SYMINGTON: All our converted planes are two-engine machines for use on our domestic lines. These four-engine machines are the ones which have the 3,500 mile range. There is no conversion in connection with them at all.

Mr. JACKMAN: But we are talking about more reconverted planes for the Canadian service?

Mr. SYMINGTON: We are getting them from the R.C.A.F. and converting them for use on our mainline service; they are the Douglas DC-3's.

Mr. JACKMAN: That is what are called Dakotas?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: And I presume the cost of converting them is lower than would be the case if you were to build new planes?

Mr. SYMINGTON: Yes, I think they will be considerably cheaper. Up to date, particularly in the United States, the converted planes have cost as much as new planes. The conversion job in a plane is a whale of a job because there are so many interlocking parts that when you come to change one part it affects others and the result is that you find yourself facing a pretty expensive problem. But there is no doubt that it will be cheaper, particularly with the number that we are going to do. What is more important, we at least can get them and we cannot get any new planes. One of the members asked something about what these C-47 planes were like that we are converting. I rode up here to Ottawa in one of them just the other day and we brought along with us the president of Chile. It is a very fine plane, a very handsome plane, and a very comfortable plane; and it cost us less than a new plane. The next one will cost less than that one, because the first always costs more. Our theory is that these planes will do us until there is a new design of a more satisfactory and more economical type of two engine plane, which does not exist anywhere in the world to-day; one that will meet the requirements of certain types of operation. The DC-3 was the greatest advance in aeroplane construction ever made to date, but it will only hold its place until the drawing boards turn out a plane—which they all have on them—which will compete favourably with it in range, cost of operation, and so on, and that cost of operation will have to be away below what the DC-3 is. It is bound to come.

Mr. HARKNESS: But so far as you are concerned you will be able in that way to get a fairly cheap plane suitable for domestic use?

Mr. SYMINGTON: Yes. I would not like to say how cheap, but cheaper than we can buy a new one. Yes, I would think so, and it will all be spent in the country.

Mr. HARKNESS: And is the C47 a Dakota?

Mr. SYMINGTON: Yes, it is a Dakota.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. JACKMAN: In connection with the paragraph to which you just referred, do you pay any royalties on these DC-4's?

Mr. SYMINGTON: Yes, Douglas gets a royalty on it in the agreement with the Canadian government.

Hon. Mr. HOWE: We could not possibly design a 4 engine transport plane and go into production on it ourselves; it is much cheaper to buy the design and modify it than rather than to start from scratch.

Mr. JACKMAN: What is the royalty basis, do you recall?

Hon. Mr. HOWE: No. I do not recall the terms exactly, and I thought them reasonable.

Mr. JACKMAN: I presume it is a percentage on cost?

Hon. Mr. HOWE: No, it is a flat sum, plus something—I don't recall the details at the moment.

Mr. HAZEN: On page 6 you show the result of operations, and I observe there that while your revenue is up your operating expense is also considerably higher and that is so despite the fact that there is an increase of almost \$1,000,000 in your operating revenue. Could we have an explanation as to that?

Hon. Mr. HOWE: I think Mr. Symington could explain that; last year we had a major repair job on these planes, the increased cost of labour and materials incidental to that repair work was the principal factor in raising the item of operating expenses. It was a major maintenance responsibility.

Mr. SYMINGTON: I can answer that.

Mr. HAZEN: In spite of the increase in revenue of practically \$1,000,000 this year, there does not seem to have been any reduction in operating expense. Is that accounted for by the increase in wages and cost of materials?

Mr. SYMINGTON: For 1944, yes; particularly in relation to the rise in material costs and wages. We had to get most of our parts and equipment from the United States, and there is no ceiling price on things of that kind and there is a very heavy demand added to that. I have it here, our wage increase was \$400,000 for the same number of people, and our material cost was up by \$465,000. And, as the minister has said, the big reason behind all that was that we had a major overhaul to do, what we call a number seven overhaul; which means rebuilding the wings and struts—practically rebuilding your plane—which used up a lot of materials and a lot of labour. We got the advantage, of course, that we prolong the life of the plane and therefore your depreciation charge goes down. But the item of expense, as I say, to answer that question, would be a million dollars. When I first saw it it appeared to me to be too high but when I went into it I found, as I said, that wages had increased \$400,000, materials were up \$460,000; and in addition to that was the training expense for new personnel, the expansion over 1943, and that cost us \$235,000; and so that makes up the million dollars in added expense there, practically; and that is the way it came in. I do not like to see in this or any operation where we are doing a million dollars more business and making less money than we had the year before.

Mr. JACKMAN: Did you apply for an increase in rates?

Mr. SYMINGTON: No, we did not apply for any increase in rates.

Mr. NICHOLSON: What has happened during the eight months of the present year, has your ratio remained about the same?

Mr. SYMINGTON: We are doing better this year.

Mr. JACKMAN: Why did you not apply for an increase in rates when you saw your margin disappearing, particularly where an increase in your rates would not cause any increase in the cost of living?

Mr. SYMINGTON: As it has been pointed out on many occasions, Mr. Jackman, this operation could not possibly make any more money unless we extended our mileage and in that way got an increase in return. Unless we extend our mileage we do not get any increase in return and we do not make any more money. We are not supposed to make money, we are supposed to do the job as cheaply as possible and not make money. You cannot make money under the agreement as it stands at present, because the minute you make a profit down goes your mail rate. As we went along adding new mileage to our routes we showed a rising income figure. Last year there was no practical increase in our mileage and we had to expend a lot of money overhauling our equipment, as has been explained. We have reached our maximum. We are not earning any money from new territory.

Mr. JACKMAN: I wonder if anyone from the Department of Transport could say whether any of the private lines asked for an increase in rates owing to this unusual rise in the cost of wages and materials.

Hon. Mr. HOWE: I do not know whether they asked for an increase on account of those factors. They have their postal rates fixed under the mail contracts, possibly they asked for an increase in mail rates.

Mr. SYMINGTON: There was no control over passenger rates, although a board has now been set up.

Hon. Mr. HOWE: There is now.

Mr. SYMINGTON: Yes, there is now, but the board has only recently been appointed.

Mr. JACKMAN: The passenger rate could have been raised without in any way affecting or causing any increase in the general cost of living.

Mr. REID: On the same page, page 6, I notice that the 1944 rate of compensation received from the post office department for the carriage of air mail was 42·03c per plane mile as compared with 42·90c in 1943, 45·57c in 1942, 48·16c in 1941 and 60c in 1940: then over on page 7 I notice that passenger revenue per revenue passenger was \$28.41 and per revenue passenger mile 5·28c, as compared with \$30.04 and 5·37c respectively in 1943, or it was a little lower in 1944 than it was in 1943.

Mr. SYMINGTON: You see, in this statement we have the operating net; we get paid according to the number of miles we fly, not according to the amount of mail we carry at all. As we put in no new mileage last year we did not get any more payment from the post office, it was just the same. We carried a little more mail for the same amount of money and the cost factor went down although the revenue factor was a little larger; but it did not matter whether we carried a thousand pounds of mail or one pound, we get paid for the plane miles we fly.

Mr. NICHOLSON: Are you working out a new arrangement with the post office? I understand you are. Could you tell us something about that?

Mr. SYMINGTON: I do not know that I could, Mr. Nicholson; we have had some discussions with the post office.

Mr. NICHOLSON: And that will be based on the result of the experience you have had in the past?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: And have you been able to reach any decision yet as to what would be a more satisfactory arrangement?

Mr. SYMINGTON: Well, the matter is under discussion at the present time and I would not like to say more than that at the moment.

The CHAIRMAN: Well, gentlemen, it is 1 o'clock; and, perhaps with the approval of the committee, we could meet again at 4 o'clock and possibly take up the balance sheet item by item.

The committee adjourned at 1 o'clock p.m. to meet again at 4 o'clock p.m. this day.

AFTERNOON SESSION

The committee resumed at 4.00 p.m.

The CHAIRMAN: Questions were being asked on the report given by Mr. Symington. Perhaps there are a few more questions and then we can go on with the balance sheet.

Mr. JACKMAN: I wonder if Mr. Symington can tell us on page 6 which of these routes and services are paying for themselves and which are still running at a loss?

Mr. SYMINGTON: Which do you mean?

Mr. JACKMAN: Under routes and services; there are seven of them outlined there.

Mr. SYMINGTON: They are really all one.

Mr. JACKMAN: You do not have a breakdown of the cost of individual lines?

Mr. SYMINGTON: I should not think so, no. You see the operation is a 3,900 or 4,000 mile operation with the only real side line being Lethbridge, Calgary, Edmonton. I think that is the only one that you might say is a little bit detached from the others. The Halifax-Sydney operation, of course, is a part of the circular run to Halifax and back to Moncton, and so on.

Mr. JACKMAN: This morning you did say something about St. John's, Newfoundland.

Mr. SYMINGTON: On the question of space St. John's, Newfoundland was very heavily patronized, particularly in the army days. It was full up.

Mr. JACKMAN: Will that have enough traffic to show a profit in the future?

Mr. SYMINGTON: I think it will undoubtedly have enough for one operation. We are running two now and they are still full.

Mr. JACKMAN: Two a day?

Mr. SYMINGTON: Two a day, but if it falls off we will reduce it to one, but it is a very well patronized line at the moment.

Mr. JACKMAN: How does the passenger rate of 5.28 cents on the average compare with American rates? I noticed there was an article in the *Saturday Evening Post* a few weeks ago on "What We Want Is A 3 Cent Air Line."

Mr. SYMINGTON: I read that with great care and I had a conversation with Mr. Smith about it. He is looking several years ahead. He is a great optimist. He thinks he is going to carry most of the people in the United States by air and not by rail. He is a tremendous optimist and a very far seeing energetic man. With respect to a comparison with the present rates as between the United States and ourselves we figure they are just about the same, but they are based on different principles. As you know we have air travel cards under which we give a better percent discount to holders of air travel cards

who make a deposit, and they must have a certain number attached to a card. It was originally to promote the idea of air travel, building it up in a country where it was not known. We also give a 10 per cent reduction on return fares. They have no discount, no air travel cards, and while their quoted rate is a little below ours as far as we can figure there is very little difference by the time you take the thousand air cards that are out in Canada plus the return fare discount. There is very little difference between them. If anything I would say we were a fraction of a cent higher.

Mr. JACKMAN: Can you make any comparison between the effective air mail rate in Canada that is paid you by the post office and the rate in the United States?

Mr. SYMINGTON: I can only make you this comparison. Under the American act the rates are fixed by the civil aeronautics board. The post office have nothing to do with it, the government has nothing to do with it, the air line has nothing to do with it. When I say that I mean that any one of them can complain to the board. Under the Act they are directed to give a rate which will allow cost and a reasonable profit over the whole operation of any line which is reasonably well operated. This is in comparatively recent times so that we cannot quite see what the result is yet, but I was looking over the rates they pay and on the big air lines which have been more prosperous through war carriage they reduced their rates down to something like 34 cents per ton mile. It has now been raised. They decided they were wrong and it has been raised as a temporary measure to 45 cents per ton mile. That applies to the four big air lines. Then when you get into the smaller ones they run all the way up to \$2 and \$3. It depends upon what the board allows them in the area they operate, what they require to permit them to operate at cost plus a fair profit, and the board sees they are reasonably well operated.

So it is a very difficult thing to compare. There is not any doubt that on the big air lines the air mail rate is lower than ours. Take, for example, the run between Boston and New York. I think there are now something like 80 frequencies a day with the four lines running them. With an average spread over each plane where they can put 300 or 400 pounds in each they carry a tremendous tonnage of mail and yet it is small enough not to interfere with their capacity to carry passengers and other cargo whereas it is a different thing where you only have two or three frequencies and you have to take 1,200 pounds of mail and take passengers off in order to carry it. A comparison really cannot be very satisfactorily made, but I would say with their tremendously large cities, and the large volume of mail they carry, that their rates are lower than ours.

Mr. JACKMAN: I suppose we are leaving the post office contract until later on?

Mr. SYMINGTON: I presume the post office contract comes up under the new bill.

Mr. NICHOLSON: Air mail has priority over passengers?

Mr. SYMINGTON: Yes. That is one of the things that also comes under the bill. They not only have a 1,200 pound priority but they control the times we can run which is a great disadvantage because they always want a midnight flight to clean up the late postage of mail. That destroys our passenger business. People will not travel and get home at 4, 5 and 6 o'clock in the morning. If we were running that show—I will go into this on the bill—we would have a plane leaving Montreal at 4 and getting to Toronto in time for dinner and Windsor in time for bed. People will not travel when they are going to get in at 3 or 4 o'clock in the morning. All these things come of necessity into the question of higher mail rates.

Mr. REID: What would the effect be on the system from a financial point of view if you were not carrying air mail?

Mr. SYMINGTON: I do not think we could operate successfully without it. It is a steady filler load.

Mr. REID: You do not visualize in the future the use of mail planes alone in Canada?

Mr. SYMINGTON: Of course, you cannot form a conclusion on that. That will be a matter of trial and error. If, as some of us expect, some day all first class mail will be carried by air it may be then that you will have special mail ships. I do not think you would ever have special mail ships to carry it all. You would want to leave some leeway to fill in on the weight you could carry in your other planes to contribute to the cost, and get your full load wherever you could.

Mr. REID: Personally I think all mail should be carried under the modern system, but I was wondering when that day comes if it would interfere with your present system of passengers and mail?

Mr. SYMINGTON: I cannot answer that. Of course, naturally if we put on mail planes and got a rate which would pay for it that would always leave us the ability to fill up full with passengers if we had to, but in an ordinary air line in ordinary times you do not expect to have 100 per cent passengers. On one trip you may and on the next one you may have 65 per cent or 60 per cent. We take that mail because the plane can lift it and take it. We put it in so as to try and get the maximum result out of the operation.

Mr. REID: The thought I had in mind was whether one could compare it with railroad operation. You have passengers and freight handled by railroads, and if one looks over the statement of a railroad one comes to the conclusion that were it not for the freight the railroads could not operate on passenger traffic alone. That is the heavy end of expense. I am wondering if the same situation has not already developed in the airplane whereby you are depending on freight, express or mail, and that the passenger is a dead loss?

Mr. SYMINGTON: No, not in the air. Your cubic space to fill is such that you cannot possibly carry anything except very high grade freight, and you would charge for passengers, of course, per pound a great deal more than you can charge for freight.

Mr. REID: The thought of how you charge enters into it if you are depending on mail to carry on your operations successfully. Then how do you set the fares for passengers and the rate for mail? How do you differentiate? Which is paying and which is not? Which part is paying and which is not?

Mr. SYMINGTON: It would be difficult to demonstrate it to a nearer conclusion or a dollar and cents basis, but there is not any doubt that until you have sufficient mail to fill a plane plus sufficient passengers to fill a plane then there is an advantage in filling in the space which you can get up and get down with. For instance, it is obvious from the records of this company, I think, that when we started out about 80 per cent of our revenues came from mail because we did not have any passenger business. That has been reduced to 30 odd per cent because we have carried passengers. So that the two combined to work in naturally. It is a flexible operation. People, for instance, do not understand it when sometimes, depending on the weather partly, we have a heavy mail load and we refuse people space to carry them. The rest of the passengers get in and they see two or three empty seats. They say, "What kind of an airline is this? They would not take my friend so-and-so and here are three empty seats." The answer was we had a mail load and we could not take a full passenger load. We had to take the mail.

Mr. NICHOLSON: You have not any leeway there?

Mr. SYMINGTON: No, except weather leeway. In perfect flying weather perhaps we could have operated all full or with one vacant seat but where you have bad weather and are bucking winds, and all that sort of thing, or one or two air fields may be out, you have to proceed accordingly.

Mr. LOCKHART: Cancellations are made because of air load?

Mr. SYMINGTON: Oh yes. People have not understood that but that is a fact. If, for instance, we could run a plane and knew we were going to have every seat filled we could make money on it without the mail.

Mr. McCULLOCH: Very few people know that.

Mr. SYMINGTON: I know that.

Mr. McCULLOCH: I think it should be put in the press.

Mr. SYMINGTON: It has been, and there have been articles, and I will bet I have written thousands of letters on it to people complaining.

Mr. MUTCH: I would suggest to you that it is not always as tactfully explained as it might be at your own airports. People are dropped. I have a concrete case in mind of a person who was dropped off and there were two additional empty seats. It is understandable if you know, but not only was no attempt made to explain it but so bad an impression was given that I have had considerable communication about it. I think you might stress that a little more.

Mr. SYMINGTON: We have tried to, and we will try to again. Of course, the trouble is at the time the plane is leaving and people are being deplaned and you are trying to get new accommodation for them you can understand that a couple of people at the airport are busy and perhaps have not time or do not explain it as well as they might.

Mr. MUTCH: It is hard to be good-humoured at 4 o'clock in the morning.

Mr. SYMINGTON: That is quite true.

The CHAIRMAN: Any other questions?

Mr. JACKMAN: Under the heading of equipment we were talking about the new plane that is coming on the service. In view of the fact that so much of the travelling on the T.C.A. is across Canada and by night is anything being done to allow you to stretch your legs out without bending the knees as you have to at the present time?

Mr. SYMINGTON: The new planes are much roomier.

Mr. JACKMAN: It is very difficult to sleep in the present ones because you cannot stretch your legs out.

Mr. SYMINGTON: It is all right if your conscience is clear.

Mr. JACKMAN: It depends how tired you are.

Mr. SYMINGTON: They are much roomier.

Mr. JACKMAN: It is not just roomier. If you get a seat right where the cross beam is—

Mr. SYMINGTON: There is no cross beam in these.

Mr. JACKMAN: No cross beam at all? That is too bad because on the present ones there is room to park your feet underneath and stretch right out without half sitting up. You can reach a real reclining position, not flat, of course, but on a real angle. Is anything being done because of our peculiar situation in Canada where so much of it is an all-night journey to allow one to have a full stretch out?

Mr. SYMINGTON: We have got the most comfortable seats that can be bought. They are the seats that are used on the best American air lines with some improvements of our own.

Hon. Mr. HOWE: We will sell you a bed when we get our new planes.

Mr. MAYBANK: Is that right? Are there going to be sleepers?

Hon. Mr. HOWE: I think so.

Mr. SYMINGTON: That remains to be seen. Theoretically if a person wants to go to bed he should pay double fare because you can only carry half as many people. It is a thing yet to be demonstrated but I would suspect, knowing that it is only a one-night trip, that people with a good reclining chair, where you can stretch out at a pretty good angle with plenty of room, would probably sooner do that for one night than pay double fare to go to bed. If you have a bed it takes up more room and you can only carry half as many people.

Mr. REID: And if an accident happened most people would like to meet St. Peter fully dressed.

Mr. SYMINGTON: Yes.

Mr. MUTCH: How about your trans-Atlantic service? That will involve sleepers?

Mr. SYMINGTON: That also still remains to be seen. My own theory at the moment is—I may be wrong and there is no finality about it—that we have an advantage over our very powerful friends to the south in that we can fly non-stop from Montreal to London over night and they cannot.

Mr. REID: Did you say from Montreal to London non-stop?

Mr. SYMINGTON: I would anticipate that we would get more traffic at a rate for sit-up passengers with a good stretch-out chair than we would get with double fares or two-thirds more or anything else for the purpose of going to bed for one night. I may be wrong. That is a thing you have to develop, but our first ones will be a reclining chair.

Mr. McCULLOCH: You cannot get sleepers going to New York today on the train.

Mr. SYMINGTON: No.

Mr. JACKMAN: I am not suggesting double fare for a bed but it does seem to me that a good interior architect could design a passageway down one side part way and then down the other side for the rest of the way so that you could rest your legs on a foot stool or something of that sort. When you get your legs up you can sleep much better. I find you can. It is very tiring to have them dangling all night.

Mr. SYMINGTON: I am sorry you did not go into the plane used by the president of Chile and then you could have decided whether we have met your ideas. I might say that you can get a lot of money if you can improve them because it has been the subject of very serious study by at least fifteen or twenty firms in the United States all of whom will tell you they are the best designers of comfort in aircraft, send you beautiful pictures, and so on. However, you generally find they cut your pay load down very much. They might suit a tall man and not a short man or suit a short man and not a tall man. It is not a subject that has not been given the greatest study by really expert designers. If any good designer can create one extra seat in an airplane so that it earns that much more money every day he is worth a lot of money.

Mr. JACKMAN: Some place reference was made to meals served by the T.C.A. that they were not quite up to the standards of corresponding American lines.

Mr. SYMINGTON: You take the longest trip you have of the T.C.A., you get your breakfast, and possibly also your lunch. It is called "lunch", it is not a hot lunch, it is cold; and you get your dinner on some runs. The situation of course is that on the planes we are running there is not the accommodation to serve a hot meal.

Mr. JACKMAN: I read that some of the American planes have much better meals and a better variety than you serve on the T.C.A.

Mr. SYMINGTON: Well, the American lines have been using the planes that we are now getting which permits room to have a fairly good commissariat; and we have had to redesign the whole thing because of conditions of climate and temperature. As I say, with the equipment they have they are able to serve hot meals which we could not serve in Canada at all.

Mr. MUTCH: The meals are free, aren't they?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Free—well, you pay for them in your ticket.

Mr. SYMINGTON: Oh no, they are free.

Mr. MAYBANK: If you did not have them you would not expect to receive any cut in the bill for your ticket.

Mr. SYMINGTON: It all depends—it does not really matter—I receive lots of letters, I brought some of them with me, about our airline from operators of other airlines; and on this question of meals are letters from women who say that our meals are tastily served, neatly served; and one of them says that so far as she is concerned she prefers a good cold meal to a bad hot meal such as she gets on the American lines.

Mr. JACKMAN: Oh well, maybe those are people who are only making their first or second trip by air.

Mr. SYMINGTON: These are from air travellers. Lots of them say that, that they prefer salads to a lukewarm hot meal. On the other hand you may run into somebody who prefers to have his meal hot, particularly dinner. I am not saying for one minute that our meals are perfect; but I do submit that if you will go into these letters here, if you care to examine them, you will be interested in what they contain. Considering the facilities that we have at our disposal, the type of plane we are using, I think we are doing pretty well.

Mr. JACKMAN: I might say that the last time I was in one of these places there happened to be an American talking about the situation in the United States. I was asking questions about comparisons with their own line. On some points he thought our facilities compared very favourably but one of the points of comparison where he thought we were deficient was our airport facilities, that they were certainly lacking in comparison with some of the American lines. I am not referring to the larger ones, but to the smaller centres.

Mr. SYMINGTON: I would agree with you perfectly from that angle of it, but if we were to go and spend anything like the same amount of money they have spent on those facilities—

Mr. JACKMAN: Of course, a point comes up there; would our traffic justify it the same as the American traffic does?

Mr. SYMINGTON: No. I have not heard any complaints from any of the airline men who have gone over our airlines about that feature of it. What counts is how you handle things at an airport; and not the particular building of the airport, I mean the administration centre, it is the people who count in an airline.

Mr. JACKMAN: I would be a little critical of the housekeeping in some of these airports.

Mr. SYMINGTON: Maybe. I said that I wasn't going to quote these things, but it is really quite extraordinary, the letters you get, and not letters from any one country or any one person. I do not know whether you gentlemen realize it or not, but there is hardly an air country that has not asked for the privilege of sending somebody to study T.C.A.'s operations—Holland, Belgium, Norway,

Sweden, Great Britain, Spain, Czechoslovakia—all of them experienced people and all write letters saying what they think about us and of the great service it has been to them; and these are all people who operated airlines long before we did.

Mr. JACKMAN: I think you could improve a little bit on some of the house-keeping around the airport stations. Sometimes the water fountains do not work. I recall that at Lethbridge the last time I was there there was trouble with the fountain and the water in the men's room at Malton was out of order, full of air bubbles, bubbling all over the place you know. I understand they had some trouble with wells there. Generally, I think your housekeeping arrangements could be better.

Mr. SYMINGTON: Well, I quite agree on that, and if we had—

Mr. JACKMAN: I think if we had a little more routine inspection, some of these things would not occur.

Mr. SYMINGTON: That is very possible. I do not submit for one minute that the thing is perfect, perhaps some of that is my own particular fault because as I have always told you I do not want to operate a line at a deficit, and our people are trained that money counts together with courtesy. It may be that at Lethbridge, where I will admit that the station facilities are a combination—a place for passengers and a hangar are all in one building, and the customs house officers, because it is an international port—that the accommodations is not particularly good. It is a long way from town; it may be that the water did bubble up. Sometimes these things will happen and you cannot help them, particularly when you are operating out on the prairies some distance from a town. I do not say that in the way of excuse. It is not a very serious thing.

Mr. NICHOLSON: There will not be many casualties from that sort of thing.

Mr. SYMINGTON: No, there will not be many casualties.

Mr. HAZEN: From the report I note that you carried 156,884 revenue passengers in 1944?

Mr. SYMINGTON: Yes, sir.

Mr. HAZEN: What percentage of the passengers carried suffered injuries through accident while being carried?

Mr. SYMINGTON: None, I think. I would say off hand, none.

Mr. HAZEN: What damage to equipment did you have as a result of accidents in 1944?

Mr. SYMINGTON: I will give you that: in 1944 in Winnipeg, January 28, there was a forced landing and the damage to the plane was \$62,000. There was no damage to passengers. On February 9 at Kapuskasing, a plane taxied off the airstrip; no damage to passengers, \$15,000 damage to the plane. April 17 in Winnipeg—

Mr. MAYBANK: Taxied off coming down?

Mr. SYMINGTON: Yes. Belly landing, Winnipeg—\$7,000. So there was no damage to persons in 1944.

Mr. HAZEN: \$84,000 damage to property?

Mr. SYMINGTON: \$94,000.

Mr. EMMERSON: There is one item I would like to refer to here; unfortunately I was not in the committee earlier and so perhaps this point may have been

covered, but on page 1 you are speaking about international flights and proposed flights; I just wanted to know if there will be a direct flight from Halifax to Boston, or Halifax to St. John.

Mr. SYMINGTON: It will be over the water. Whether it will be a Halifax-St. John-Boston, or St. John-Halifax-Boston, will depend. Under the agreement we can land at as many points in Canada as we like, but we can land at only one point in the United States, and vice versa. I would expect though that that might well be a feeder, from Boston up into Newfoundland to connect with our trans-Atlantic flights. That is, as you know, a very short direct flight from Boston, along what is known as the great circle route. We had that in mind when we asked for that route.

Mr. NICHOLSON: You say that they can only land at one point? How about that Winnipeg-New York route?

Mr. SYMINGTON: You can land at only one point for commercial purposes. You can land at as many points as may be necessary on account of emergencies.

Mr. MAYBANK: That means that you can only drop or pick up passengers at one point.

Mr. SYMINGTON: You are in bond all the way.

Mr. MAYBANK: You are in bond to your destination, and that would be New York.

Mr. SYMINGTON: No, that is an alternative route. Ordinarily we would leave Winnipeg and run through Milwaukee and on down to Windsor and then to New York.

Mr. MAYBANK: And you are in bond. I thought the question related to Toronto.

Mr. SYMINGTON: No, to the New York run.

Hon. Mr. HOWE: We did that under the two freedoms agreement. It is not a commercial arrangement.

Mr. SYMINGTON: You cannot do anything there, except to come down for gas and get up again.

Mr. REID: Then new landing fields would not be of any great assistance between Vancouver-Victoria-Seattle. Where do you land in Seattle?

Mr. SYMINGTON: I do not know the name of that field, it is the field they all use.

Hon. Mr. HOWE: It is the municipal airport.

Mr. JACKMAN: Does T.C.A. have offices in C.N.R. premises?

Mr. SYMINGTON: Not as a rule, although at Halifax the office is in the Nova Scotia hotel, just the same as the situation here at the Chateau Laurier.

Mr. JACKMAN: I notice that with respect to personnel you say,

Total personnel of the Company, as of December 31, 1944, was 2,790. Women comprised 33 per cent of all employees engaged in the domestic services, as compared with 35 per cent at the end of 1943. Thus, for the first time since the outbreak of war, the proportion of female employees showed a decrease. Women continue to perform with efficiency many duties within the Company, but they are being gradually replaced by men released from the air force and other services.

Is it contemplated that there will be further reductions in your staff that way?

Mr. SYMINGTON: We hear a great deal about reduction of the number of women employed; naturally the rate of change is very great. I think that we are probably the biggest matrimonial bureau in Canada, and that makes it easier for us. But as a matter of policy, we are interested in a certain number of lines where we recognize their superiority; for instance, it is much nicer to have a stewardess to smile at you when you get angry at being put off a plane. It is much more difficult to be angry when a nice looking girl with a pleasant smile faces you at a time like that. However, we are replacing everything with men, except for a few key positions of that type; and stewardesses, of course.

Mr. MAYBANK: There has been a great deal of discussion about the superiority of men in some fields and women in others. We had a great many of them during the war at manual labour. What is becoming of them? Can they do a job of manual labour as well, or will it only be for an emergency such as war that you could use them.

Mr. SYMINGTON: In manual labour I think we figured they were perhaps costing us 15 per cent more.

Mr. MAYBANK: In all these jobs around airports, however, they would not come up to the standard—

Mr. SYMINGTON: Not up to a good man.

Mr. MAYBANK: Yes—of the stronger sex.

Mr. SYMINGTON: Exactly.

Mr. JACKMAN: There are a lot of jobs that women can perform as efficiently as men. This talk of getting rid of women may not be so important after all.

Mr. SYMINGTON: We have a big job to do. There is the duty taking back our own people, our own men whom these women replaced, I suppose we have—I don't know how many thousands of applications. Naturally, Canada is air-minded; it has had a lot of people in the air and they look for jobs. We are giving as many of these people jobs as we can, and in certain types of traffic positions, stewardesses, some stenographic positions, and even teletype positions, there will be women who have been trained and made very good, they will be retained. But I would say that our policy at the moment is, equal efficiency, we try to find a place for a returned man.

The CHAIRMAN: Now, gentlemen, shall we go on to the balance sheet? With the other statements I think Mr. Cooper gave us the explanations. Would that meet with the approval of the committee, to have Mr. Cooper discuss the balance sheet, and then you can ask him any questions along with Mr. Symington.

Hon. Mr. HOWE: There is one thing to which I would like to call attention, and that is the capital of the air lines is represented by cash in the balance sheet. It is liquid position. There are not many balance sheets in that happy position.

BALANCE SHEET AT 31st DECEMBER, 1944

ASSETS

Current Assets:

Cash	\$ 666,554 64	
Working Fund Advances.....	14,202 41	
Special Deposits	522 50	
Accounts Receivable	1,337,083 28	
Traffic Balances Receivable.....	195,404 36	
Balances Receivable from Agents....	47,136 58	
Material and Supplies.....	1,200,686 47	
Interest Receivable.....	11,250 00	
Other Current Assets.....	15,944 20	\$3,488,784 44

Deferred Charges:

Prepayment—Rents	\$ 937 96	
Prepayment—Group Life Insurance..	11,630 20	
Research and Development Expense.	37,480 91	
Other Deferred Charges.....	9,835 02	59,884 09

Insurance Fund.....		881,798 00
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Investments:

Investments—Dominion of Canada		
Bonds	\$ 749,062 50	
Investments in Affiliated Companies.	2,761 00	751,823 50

Capital Assets:

Property and Equipment.....	\$6,661,488 25	
Less Accrued Depreciation.....	3,025,594 90	3,635,893 35
		<u>\$8,818,183 38</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 958,808 14	
Traffic Balances Payable.....	4,225 85	
Air Travel Plan Deposits.....	342,975 00	
Salaries and Wages.....	167,394 52	
Other Current Liabilities.....	153,068 74	\$1,626,472 25

Reserves:

Insurance	\$ 881,798 00	
Inventory	218,000 00	1,099,798 00

Capital Stock:

Common Stock Subscribed—		
Par Value	\$5,000,000 00	
Less Uncalled Subscriptions to		
Common Stock.....	400,000 00	4,600,000 00

Supplies:

Balance at 1st January, 1944.....	\$1,484,503 84	
Surplus for Year 1944.....	7,409 29	1,491,913 13
		<u>\$8,818,183 38</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, 1944, and subject to our report to Parliament, 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, 1944, and that the relative Income Account for the year ended the 31st December, 1944, is correctly stated.

15th March, 1945.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Mr. HARRIS (*Grey-Bruce*): Rather a dangerous one, in respect of any application for a reduction of rates.

Hon. Mr. HOWE: It is a nice position to be in, anyway.

Mr. SYMINGTON: You have got to have that because of rapidly changing equipment requirements which force you to go out and buy equipment of a very expensive type.

Mr. HARRIS (*Grey-Bruce*): Quite so. I entirely agree.

Mr. SYMINGTON: We have built up an insurance fund of \$881,000 for our self-insurance, which has lowered our insurance rates even below what we can insure for outside. I have been very anxious to build up to a safe figure, because if we go to very large four-engine planes with 40 people in them, if anything did happen it would be very large affair.

Mr. REID: Does this cover the planes only, or does it include the passengers?

Mr. SYMINGTON: Both.

Mr. MAYBANK: Could you give us the total cost, in round figures, of your one bad crash, the one at Armstrong, a few years ago?

Mr. SYMINGTON: I don't recall exactly what it was; of course, it was a complete plane, which costs us \$185,000. At that time, however, we were insured and we did not have anything to do with it.

Mr. MAYBANK: But to-day it would be your responsibility?

Mr. SYMINGTON: Yes. \$160,000, I think was the total amount of the claims settled as a result of that crash.

Mr. MAYBANK: And the plane?

Mr. SYMINGTON: And the aeroplane as depreciated, the depreciated value of the aeroplane.

Mr. MAYBANK: That would be?

Mr. SYMINGTON: I think that was the total of the two, the total loss was \$160,000.

Mr. MAYBANK: That covered it all?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: And what did you say your insurance fund is now?

Mr. SYMINGTON: \$881,000.

Mr. MAYBANK: You cannot have that kind of a crash very often with that kind of a fund.

Mr. SYMINGTON: No.

Mr. MUTCH: Were all these claims settled, there were none outstanding?

Mr. SYMINGTON: There were none outstanding. Two or three of them were fought by the insurance company and subsequently settled before they went to the Privy Council.

Mr. MAYBANK: They did get to the courts?

Mr. SYMINGTON: Yes, Mrs. Moss, I remember was a particular one.

Mr. JACKMAN: Do you carry all your own insurance?

Mr. SYMINGTON: All except the planes when in the hangars, and the hangars. We felt that our loss would be too great if a fire occurred in a hangar with ten planes. We have not yet felt justified in view of the prevailing rate of insurance in assuming that risk ourselves.

Mr. MAYBANK: If you had a complete loss of a 40-passenger plane it would make an awful dent in your insurance fund.

Mr. SYMINGTON: It would, there is no doubt about that. But at any rate we have \$881,000 saved up, and that is what we would not have had if we had not insured ourselves, and it is a nice backlog.

Mr. MAYBANK: I suppose \$50,000 or \$100,000 is not very much in the way of damages?

Mr. SYMINGTON: That all depends, of course, upon who is responsible for the accident, you see. At any rate, I hate to talk about these things—I may be superstitious in a way, if you like—but no airline in the world has had the record we have had, not any of them.

Mr. MAYBANK: You mean, from the accident standpoint?

Mr. SYMINGTON: No, not any of them.

Mr. JACKMAN: I think you will find that the one disaster which you had was in relation to a line of your size much greater than losses on some of the commercial operators, some of the American lines, who have a much higher number of miles flown and consequently a higher percentage of loss; I suggest to you that possibly your ratio loss is greater than theirs is.

Mr. SYMINGTON: If anybody tells you that, they do not know what they are talking about; that is not so.

Hon. Mr. HOWE: It is not so.

Mr. JACKMAN: One substantial crash means more to us in a personal and property damage—

Mr. SYMINGTON: We have only had one crash in seven years.

Mr. JACKMAN: I realize that.

Mr. SYMINGTON: The leading American line had 8 in 6 months.

Mr. MAYBANK: That is what I was going to ask you about. Have you any other comparisons?

Mr. SYMINGTON: You can compare it with any line in the world; there is not any question about it, none of them can show as small a loss ratio as we have. As I say, I hate to talk about it, because I always think something is going to happen if you start to brag about those things.

Mr. MAYBANK: Of course, not everybody else is as superstitious as you are, Mr. Symington. That is why these questions are being asked.

Mr. JACKMAN: I sometimes feel that the extreme care of T.C.A. in not setting out if the weather is not pretty near perfect is one of the reasons this loss ratio is so low. That is merely a surmise on my part.

Mr. SYMINGTON: Well, you may be right. I would propose to continue it if so. But I do not think that your conclusion is correct. If you want to know my reason for it, it is that at the initial stages and ever since, Trans-Canada Air Lines have spent more money per man training pilots than any other air lines. It gave the original pilot group a tremendously high standard and they were proud of it; and they have seen to it that the fellows who followed lived up to the standard. That is the reason, if you ask me.

Mr. MAYBANK: We cannot afford to have any losses at all. The policy that has done so well should be kept up.

Hon. Mr. HOWE: Our operating ratio is as good as that of anybody, 95 per cent to 96 per cent.

Mr. JACKMAN: What do you mean by operating ratio?

Mr. SYMINGTON: Completed trips, you mean.

Hon. Mr. HOWE: Completed trips, yes.

Mr. SYMINGTON: I can say to you that, having travelled through the sunny climes of the south, the operation of an air line in Canada is a tough proposition compared to what they have.

Mr. JACKMAN: You have a very commendable record.

The CHAIRMAN: Are there any other questions, gentlemen, on the balance sheet or can we proceed to the next table?

Mr. REID: What is this item of air travel plan deposits, \$342,975?

Mr. SYMINGTON: With regard to these travel cards, they have to make a deposit. That is one advantage of the travel card. If you have a travel card—and I have one here—you can go into any airlines office in America or any place else, and if you produce that and give them your number, you can get your ticket. You do not have to have any money in your pocket or anything else. But in order to do that, every firm which get a travel card has to make a deposit so as to insure that those charged tickets will be realized on. That is the amount deposited under the air travel plan system.

Mr. McCULLOCH: Do these firms get a special discount of 15 per cent?

Mr. SYMINGTON: Yes, they get 15 per cent.

Mr. REID: With reference to that item of investments in Dominion of Canada bonds would that be surplus of profits invested in dominion bonds, \$749,062.50?

Mr. SYMINGTON: That is theoretically, I suppose, profits. It is not so much profits as it is depreciation that we write off each year, off our planes, thus giving us cash which we invest until we buy new planes.

Mr. Mutch: Is any of your insurance fund invested in bonds?

Mr. SYMINGTON: Yes, all of it. Of course, the insurance fund is a separate fund, a trust; and the same way with the investment fund.

Mr. REID: What is the item of investments in affiliated companies? It is a small amount.

Mr. SYMINGTON: To get into New York you have to buy a \$100 share in the air field or something like that. It is that type of thing. Then there is a company that looks after meteorology or some of those things. But the whole amount is around \$2,000; all the things you have to hold in order to operate, that is all.

Mr. JACKMAN: I suppose in another year, after you get your equipment, there will be quite a change in the current position and the capital assets will be up substantially?

Mr. SYMINGTON: I expect that would be the natural thing.

Mr. REID: Is not that a large amount for salaries and wages at the end of the fiscal year for your company, \$167,000?

Mr. SYMINGTON: Which item is that?

Mr. REID: On page 11, salaries and wages.

Mr. SYMINGTON: Current liabilities, salaries and wages?

Mr. REID: Yes.

Mr. SYMINGTON: That is the current month; that is about all.

Mr. MAYBANK: What is the projection for an increase in wage costs in the next year, if you have estimated it?

Mr. SYMINGTON: I do not know.

Hon. Mr. HOWE: It depends.

Mr. MAYBANK: I thought perhaps you had made some projection.

Hon. Mr. HOWE: It depends on the number of flights, depending directly on the number of aeroplanes we have in the air.

Mr. SYMINGTON: You mean wages?

Mr. MAYBANK: Lower salaries.

Hon. Mr. HOWE: Let us not discuss that.

Mr. MAYBANK: I know it is not easy to discuss; but there is an upward tendency and I thought perhaps you were taking it into consideration. Maybe it is not desirable to answer that.

Mr. SYMINGTON: Oh, I do not mind answering it. I feel—in fact I know—that our salaries are below par. I know men we have got in our organization that have been offered double their salaries to go elsewhere. But they were in this company at the start and they have made it their life's work; and yet we do not want to take advantage of that. We naturally, desire to keep the same staff, people who are there a long time, in a high position, and to see that they receive fairly adequate salaries. But I tell every man that comes for a position that he must recognize—and this is one of the weaknesses of the system which you attack—that I do not think that salaries in a government company can ever be as high as in a private company. I think in the very nature of things they cannot be.

Mr. REID: How long would a pilot last, in number of years, in the service? How long would you reckon his efficiency would be 100 per cent, as far as age is concerned?

Mr. SYMINGTON: It varies a good deal with the pilot; but I should think with some of them, 15 or 20 years.

Mr. REID: 20 years?

Mr. SYMINGTON: We take nobody new above 28.

Mr. REID: What happens after that?

Mr. SYMINGTON: They get a ground job until their pension time arrives.

Mr. REID: Is there a superannuation fund?

Mr. SYMINGTON: We have a pension fund. We started that at the start, I am glad to say.

Mr. MAYBANK: Is it similar to the C.N.R. fund or better?

Mr. SYMINGTON: Yes. It is a little better, but it is similar.

Mr. MAYBANK: 5 and 5?

Mr. SYMINGTON: Yes. They can put in any amount they like. We match it up to 5.

Mr. MAYBANK: You match it up to 5?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: Can they go any higher than that?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: The C.N.R. takes 10?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: But you take more?

Mr. SYMINGTON: Up to 10.

Mr. MAYBANK: If the man wants to?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: And it rests at whatever the rate of interest is?

Mr. SYMINGTON: Yes. It buys an annuity for him at whatever is in his deposit.

Mr. MAYBANK: Your rate of interest on that fund would probably be rather low, would it not?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: On the long term?

Mr. SYMINGTON: Yes.

The CHAIRMAN: Could we now turn to income account, statistical data and the other items?

STANDING COMMITTEE

INCOME ACCOUNT

	1944	1943
Gross Revenue:		
Passenger.....	\$ 4,456,767 45	\$4,213,599 09
Mail.....	3,802,395 26	3,515,807 14
Express.....	326,236 18	330,084 12
Excess Baggage.....	50,279 72	60,078 97
Incidental Services.....	1,679,262 55	1,259,931 19
Total.....	<u>\$10,314,941 16</u>	<u>\$9,379,500 51</u>
Operating Expenses:		
Aircraft Operation, Maintenance and Depreciation.....	\$ 5,213,447 62	\$5,004,764 00
Ground Operation, Maintenance and Depreciation.....	2,872,546 79	2,520,600 75
Incidental Services.....	1,122,419 03	854,827 02
Traffic and General Administration.....	813,541 24	572,904 24
Tax Accruals.....	48,852 76	21,805 85
Total.....	<u>\$10,070,807 44</u>	<u>\$8,974,901 86</u>
Interest Income.....	<i>Credit</i> 19,160 96	
Income Charges.....	25,885 39	26,709 78
Interest on Capital Invested.....	230,000 00	230,000 00
Total.....	<u>\$10,307,531 87</u>	<u>\$9,231,611 64</u>
Surplus.....	<u>\$ 7,409 29</u>	<u>\$ 147,888 87</u>

STATISTICAL DATA

	1944	1943
Route Mileage Operated.....	5,299	4,903
Plane Miles Flown—Revenue.....	9,110,474	8,254,819
Plane Miles Flown with Mail.....	9,046,866	8,194,962
Plane Miles Flown—Non-Revenue.....	924,331	708,967
Revenue Passengers Carried.....	156,884	140,276
Percentage of Passenger Occupancy.....	84	83
Average Passenger Journey—Miles.....	538	560
Air Mail Carried—Pounds.....	3,739,105	3,726,607
Express Carried—Pounds.....	856,016	821,606
Excess Baggage Carried—Pounds.....	261,731	292,600

Since the inception of operations the company has flown a total of 39,601,158 plane miles in revenue service and a total of 306,460,139 passenger miles.

AIRCRAFT OPERATION, MAINTENANCE AND DEPRECIATION

	1944	1943
601 Flying Personnel.....	\$ 842,053 25	\$ 732,051 58
602 Flying Personnel Supplies and Expenses.....	118,001 67	117,196 18
603 Aircraft Engine Fuels.....	1,147,161 09	1,097,210 83
604 Aircraft Engine Oils.....	39,515 42	53,529 61
605 Passenger Supplies and Expenses.....	22,754 04	26,949 15
605 Passenger Meals (Aircraft).....	212,871 18	161,639 59
605 Passenger Interrupted Trip Expenses.....	42,668 79	39,298 17
607 Clearance Fees.....	18,567 35	15,201 76
608 Servicing—Labour and Supplies.....	561,972 60	473,700 88
611 Aircraft Repairs.....	642,842 33	417,337 79
612 Aircraft Propeller Repairs.....	44,185 64	32,473 16
613 Aircraft Instrument Repairs.....	2,097 10	90,683 62
614 Aircraft Engine Repairs.....	570,084 24	332,269 38
615 Aircraft Communication Equipment Repairs.....	49,932 73	50,025 04
616 Miscellaneous Flying Equipment Repairs.....	28,680 26	40,896 65
617 Flying Equipment Insurance.....	177,981 25	297,020 98
618 Liability and Compensation Insurance.....	105,879 83	140,629 30
620 Other Flying Expense.....	4,574 39	5,380 46
625 Aircraft—Depreciation.....	304,230 21	490,737 20
625 Propeller and Hub—Depreciation.....	29,016 17	49,104 86
626 Aircraft Engines—Depreciation.....	223,520 59	292,347 70
627 Aircraft Communication Equipment—Depreciation.....	23,715 46	47,911 55
628 Miscellaneous Flying Equipment—Depreciation.....	1,142 03	1,168 56
Total.....	<u>\$5,213,447 62</u>	<u>\$5,004,764 00</u>

GROUND OPERATION, MAINTENANCE AND DEPRECIATION

631	Superintendence	\$ 315,021 66	\$ 225,225 97
632	Airport and Hangar Employees.....	812,191 97	559,794 23
633	Communication Operators	241,530 13	241,658 53
636	Travelling and Office Expenses.....	385,596 77	288,694 33
637	Light, Heat, Power and Water.....	79,718 62	67,313 88
638	Rent of Fields, Buildings and Offices.....	106,383 91	116,589 84
639	Rent and Expense of Motor Vehicles.....	24,419 43	23,265 64
641	Communication Equipment Repairs.....	59,270 29	48,789 64
643	Hangar Equipment Repairs, Supplies and Expenses.....	23,977 28	28,058 60
644	Shop Equipment—Repairs	39,325 80	20,828 15
645	Motor Vehicles—Repairs	29,345 89	22,112 59
647	Furniture, Fixtures and Office Equipment—Repairs.....	22,771 86	13,109 82
648	Miscellaneous Ground Equipment Repairs.....	10,093 69	6,529 09
649	Buildings and Other Improvements—Repairs.....	76,748 47	70,447 04
650	Shop Expenses—Indirect Labour and Material.....	189,792 83	107,098 52
651	Stores Expense	103,181 33	77,208 82
652	Stores Expense—Inventory Adjustments.....	7,138 65	230,717 52
653	Buildings, Material and Ground Equipment—Insurance....	10,826 54	9,388 68
654	Ground Liability and Compensation Insurance.....	27,303 01	21,105 20
656	Other Ground Expenses.....	90,576 67	67,929 36
656	Express Expenses	121,080 37	123,433 21
660	Depreciation on Ground Facilities.....	110,528 92	151,302 09
		<u>\$2,872,546 79</u>	<u>\$2,520,600 75</u>

INCIDENTAL SERVICES

	1944	1943
671	Buffet and Restaurant Service.....\$ 9,896 33	\$ 10,378 00
672	Airport and Other Privileges.....	148 88
675	Fuel and Oil—Sales.....	110,267 73
676	Repairs and Service—Sales.....	1,002,106 09
	<u>\$1,122,419 03</u>	<u>\$ 854,827 02</u>

TRAFFIC AND GENERAL ADMINISTRATION

681	Salaries and Wages—Traffic.....\$ 234,306 67	\$ 156,679 30
682	Travelling and Office Expenses—Traffic.....	67,922 66
683	Rent of Traffic Offices.....	29,413 25
684	Agency Commissions	27,632 28
685	Advertising	64,285 69
687	Other Traffic Expenses.....	10,286 05
691	Salaries and Wages—General.....	155,851 34
692	Travelling and Office Expenses—General.....	27,249 66
693	Office Rentals—General	625 50
694	Administration Charges from Affiliated Companies.....	45,000 00
695	Pensions	133,220 14
696	Insurance	1,876 35
698	Other General Administration Expenses.....	15,871 65
	<u>\$ 813,541 24</u>	<u>\$ 572,904 24</u>

GENERAL TAXES

699	General Taxes	<u>\$ 48,852 76</u>	<u>\$ 21,805 85</u>
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Mr. HARKNESS: What is this item of income charges, the second last item under income accounts?

Mr. SYMINGTON: Exchange.

Mr. HARKNESS: That is exchange as against American funds?

Mr. SYMINGTON: Yes.

The CHAIRMAN: Are there any other questions on income account?

Mr. HAZEN: Just a minute. Where does this pension plan come in? Where is it set up in your statement here? Is it in the balance sheet?

Mr. SYMINGTON: It is not in the statement at all. That is a separate trust. The only place you will find it is in the expenses. That is what we are charged up each year.

Mr. REID: What is this item of interest on capital invested? I see interest on capital invested, \$230,000. What capital do you invest?

Mr. SYMINGTON: That is \$4,600,000. That is, the company instead of paying dividends has charged as operating expenses interest at 5 per cent upon its investment; and that is all the shareholders can ever get. So it is 5 per cent upon \$4,600,000 capital of this company.

Mr. LOCKHART: Could we have a break down of incidental services? Does that include your pension plan?

Mr. SYMINGTON: What is that?

Mr. LOCKHART: These incidental services?

Mr. SYMINGTON: What page is that?

Mr. LOCKHART: In the income account, under gross revenue—incidental services.

Mr. SYMINGTON: I can give you that. That is made up of repairs and service, sales; B.O.A.C., R.C.A.F., C.G.T.A.A.—that is Canadian Government Trans-Atlantic Air Service—then fuel and oil sales; buffet and restaurant service; airport and other privileges; commissions; hangars storage; rents. For instance, we had from B.O.A.C. the return ferry service, 1944, \$610,000; R.C.A.F. contract, \$445,930; Canadian Government Trans-Atlantic Air service, \$265,042; other than government contracts, \$40,000; a total of \$1,361,962.

Mr. LOCKHART: Then you have income for incidental services in income account?

Mr. SYMINGTON: Yes.

Mr. LOCKHART: Then you have incidental services in operating expenses?

Mr. SYMINGTON: Yes.

Mr. LOCKHART: What is the break down of that?

Mr. SYMINGTON: The break down in that is the same thing. That is what those services cost us. They were all on the basis of cost plus. Do you want a break down of them?

Mr. LOCKHART: Yes.

Mr. MAYBANK: You made about \$500,000 did you not?

Mr. SYMINGTON: About \$300,000. B.O.A.C. contract expenses, \$563,180; R.C.A.F. contract, \$198,066; C.G.T.A.C. contract, \$215,804; other than government contracts, \$25,056, a total of \$1,210,000.

Mr. JACKMAN: It is a little better than a cost basis; it is cost plus quite a bit. If the real profit is the difference between the income from this incidental service and the outgo to provide it. There is \$500,000 or \$600,000 odd?

Mr. SYMINGTON: Yes. It is purely absolute out-of-pocket expense in addition to that in those contracts, naturally you get a certain proportion of your overhead, your superintendence and so on, your stores, all those charges that inevitably arise as a purely increment cost. That is all.

Mr. JACKMAN: Would it be a fair assumption to say that if the revenue for these incidental services disappeared, as I presume it will be doing, on account of their special nature, that there would be a difference in the net operating figure, a difference between those two figures of \$600,000 odd.

Mr. SYMINGTON: It would not be such an amount as to disturb me.

Mr. JACKMAN: \$557,000.

Mr. SYMINGTON: It requires a tremendous amount of attention and energy in running those services. I do not know anything that has been more difficult.

Hon. Mr. HOWE: I do not see where you get that figure.

Mr. JACKMAN: \$1,679,000 is your revenue.

Hon. Mr. HOWE: The incidental services is shown as \$1,122,000 is it not?

Mr. SYMINGTON: \$1,122,419.

Mr. JACKMAN: That is \$557,000 difference. It would shoot your operating account into a cocked hat if that were so.

Hon. Mr. HOWE: Where do you get the cost of those services? That includes buffet and everything else.

Mr. JACKMAN: Incidental services.

Mr. HARKNESS: Where is that shown here?

Mr. JACKMAN: Under gross revenue.

Hon. Mr. HOWE: Oh, I see. These incidental services are apt to grow rather than otherwise. Every airline that stops in Canada requires service, and we will have many more in a couple of years than we have today.

Mr. JACKMAN: Mr. Symington is pointing out you have flights of British Overseas Airways.

Hon. Mr. HOWE: British Overseas Airways will still be very much a factor.

Mr. SYMINGTON: It will cost a lot more than that has cost, because they are doing war services now. Do not make any mistake about that.

Mr. JACKMAN: I rather gathered from what you said, although I may not have heard it distinctly, that incidental services that you provided were on account of war.

Mr. SYMINGTON: Yes. They gave service. They brought back the returning pilots who fly over the planes. It was a war service purely.

Mr. JACKMAN: And it will disappear, will it?

Mr. SYMINGTON: No.

Hon. Mr. HOWE: It will not disappear. There will be just as much flying, but it will be peace time service instead of a wartime service. The war service will disappear and be replaced by peace time operations, which will be more profitable, we hope.

Mr. JACKMAN: Yes. The revenue services will be as large or larger?

Mr. SYMINGTON: Yes. What I want to impress upon you is this, that because the amount of money they paid us exceeds the cash we paid out, that we have made a profit—we have not made that profit at all. We have given them space and we have given them superintendence. We have given them the time of our staff, all experts. We have organized the thing. The ordinary cost plus basis is in many cases cost plus 150 per-cent of the wages and so forth, to cover your overhead. This is a contract that was prepared on the basis of cost, and was a contract, for instance that B.O.A.C. themselves offered us and thought that we were more than generous in accepting it. You cannot take your cash out-of-pocket and say you have made the difference between that and the cash you got.

Mr. LOCKHART: You would think, in future, that this proportion would stay about the same?

Mr. SYMINGTON: Yes; at least.

Mr. LOCKHART: That is what I mean, to give us the general idea.

Mr. SYMINGTON: Yes.

Mr. JACKMAN: What I was suggesting, Mr. Symington, was that it is quite true that the overhead and everything else may go into the servicing, the earning of that money, and may not be exactly measured by the \$1,122,000; yet, in order to maintain the T.C.A. you will be spending that much money. \$1,122,000 will have to be spent in order to maintain the overhead anyway, and if you lose a substantial part of the incidental revenues, you would be out of pocket. In other words, it is a great thing to get extra business, because you have your overhead anyway.

Mr. SYMINGTON: We naturally, I think, would have less superintendence, for instance, if we were not doing this service.

Mr. JACKMAN: Yes. As the minister states, you probably will be able to find other sources of incidental revenue and you are not worrying on that score anyway.

Mr. SYMINGTON: No, not a bit.

Mr. JACKMAN: You are not suggesting that you are going to run into a loss because you lose gross incidental revenue.

Mr. SYMINGTON: No. I do not anticipate that.

Mr. REID: You have an item there in your income account for incidental services of \$1,679,262 as against an expenditure of \$1,122,419 in the income. In the income account, under gross revenue, there is shown incidental services.

Mr. SYMINGTON: Quite true. That is right.

Mr. REID: How did you arrive at the profit for incidental services. You have your incidental services as \$1,122,419 and you have incidental services, revenue, \$1,679,000. How did you arrive at that profit?

Mr. SYMINGTON: Well, we did not arrive at the exact profit, because in your expense accounts there is some of that difference between \$1,122,000 and \$1,679,000 or whatever it is included. You see, we might have a high grade, expensive superintendent. He would give part of his time supervising this particular service, organizing them and all that sort of thing, which would be in his ordinary salary but no charge to that service.

Mr. REID: What particulars are included in the incidental services to bring in a revenue of \$1,679,000?

Mr. SYMINGTON: Well, we have converted and maintained all the planes of B.O.A.C. running across the ocean. Their plane comes in. We take it. It goes into our hangar. It is inspected. The maintenance jobs are done, or any new parts necessary are supplied. They pay us under the contract cost plus some percentage to make sure that our costs are covered, because in that same hangar, in that same operation, we are servicing planes that run on the trans-Atlantic service.

The CHAIRMAN: I think Mr. Lockhart had a question.

Mr. JACKMAN: In view of the possible expansion on the Atlantic both eastward and southward does Winnipeg still seem to you to be the logical place for the head office of T.C.A.?

Mr. MAYBANK: Certainly.

Mr. MUTCH: Certainly; why raise that?

Mr. SYMINGTON: I do not want to get into the discussion. Certainly as an operating centre for the domestic airlines it is the logical place because it is right in the middle.

Mr. MUTCH: The air centre of the world.

Mr. REID: Have you an office in New Westminster?

Mr. SYMINGTON: Not that I know of.

Mr. REID: It is as close to the airfield as Vancouver. You had better look into it the first time you are out.

Mr. JACKMAN: You are spending money on the head office in Winnipeg right along. I was wondering whether you were thinking of changing it.

Mr. SYMINGTON: As a matter of fact, we have spent too little. I am ashamed of it. Do not upbraid me with that because you do not know. The conditions they have been working under out there are not good. We have been too stingy about it.

Mr. LOCKHART: Mr. Chairman, do not let us get too parochial.

Mr. MAYBANK: These remarks need to be emphasized.

Mr. JACKMAN: Mr. Symington has not yet committed himself as to whether or not Winnipeg is the logical place. I might say I am not suggesting that Toronto would be. Do you think it is the logical place if the company is going to go into the Atlantic field?

Mr. SYMINGTON: All I will say is that as long as I am there the head office will be where I think it is doing the company the most good. If conditions change so that it should be moved from Winnipeg it will be moved from Winnipeg, if I am there.

Mr. MUTCH: In that case we will have to fire you.

Mr. SYMINGTON: That is right. I am courting it all the time.

The CHAIRMAN: Any other questions?

Mr. JACKMAN: Under operating expenses how much do you pay the C.N.R.? Could we have a copy of the contract between the C.N.R. and the T.C.A.?

Mr. SYMINGTON: I do not think there is any. There are letters but I can tell you what we pay them. We have given the figures each year. We pay the C.N.R. for administrative services performed by departments of the railroad, \$45,000. That was raised from \$40,000 to \$45,000 because the services they were giving us grew.

Mr. REID: Mr. Chairman, are we going to deal with the mail contract later on?

The CHAIRMAN: I think under the bill. That was the idea.

Mr. JACKMAN: May I ask Mr. Symington exactly what are included in the administrative services?

Mr. SYMINGTON: There is legal department, medical department, publicity department.

Mr. JACKMAN: You pay for your own advertising, of course, according to the balance sheet?

Mr. SYMINGTON: Oh yes. Purchasing, architecture, accounting. We have our own staff on accounting but this is under the railway.

Mr. LOCKHART: Have you a breakdown of those?

Mr. SYMINGTON: I have a breakdown. I can give it to you exactly. Architecture, \$5,000; insurance, \$1,000; law, \$6,000; medical, \$6,000; publicity, \$8,500; secretary, \$4,500; stores and purchasing, \$11,000; treasurer, \$3,000; making \$45,000.

Mr. JACKMAN: There have been no transfers of physical equipment between the C.N.R. and T.C.A.?

Mr. SYMINGTON: None at all.

Mr. JACKMAN: I raised the question in the House one day. I happened to notice a safe in the T.C.A. office at North Bay was a C.N.R. safe. One wonders just how much of that type of transferring goes on?

Mr. SYMINGTON: We bought it originally.

Mr. JACKMAN: You bought it?

Mr. SYMINGTON: Bought it from the company.

Mr. JACKMAN: There have been transfers of physical property between the C.N.R. and the T.C.A.?

Mr. SYMINGTON: Certainly; for instance, we bought that safe, sure. You are not suggesting we paid too much or too little for it, are you?

Mr. JACKMAN: I might have thought you would get it for nothing. I am just inquiring. What other property has been transferred from the C.N.R. to T.C.A.?

Mr. SYMINGTON: None that I know of; there may be some.

Mr. JACKMAN: It is odd I should happen on the only item.

Mr. SYMINGTON: It was odd but I know of none. There may be some. I do not say there is not but you can take it from me that if there is it is on a bargaining basis.

Mr. JACKMAN: A good bargain for the T.C.A.

Mr. SYMINGTON: Bargaining between the two companies, one trying to get all it can for it and the other to pay as little as possible.

Mr. MUTCH: Would that not be a natural place to buy this equipment if there was a surplus? It is convenient. There is nothing particularly remarkable about the fact.

Mr. SYMINGTON: I think so.

Mr. McCULLOCH: That is small stuff.

Mr. JACKMAN: It all depends on the extent of it. What about stationery and envelopes which are used by Trans-Canada Air Lines? Do they use C.N.R. envelopes?

Mr. SYMINGTON: No, they use their own. I have two grades of paper, one cheap and one good, both T.C.A. depending on whom I am writing to.

The CHAIRMAN: Any other questions?

Mr. LOCKHART: What was the chief item covered in the \$5,000 increase? Was that made up of several items or one item?

Mr. SYMINGTON: There was an item of insurance, \$700, and there was secretarial department, \$3,000.

Mr. LOCKHART: That is an increase?

Mr. SYMINGTON: That is an increase over last year, yes.

Mr. JACKMAN: Can you tell me how much was paid for that safe by the T.C.A.?

Mr. SYMINGTON: No, I cannot. I did not even know we had bought it except Mr. English tells me we did when we opened the North Bay office which was some four or five years ago. I really do not charge my mind with those things.

Mr. JACKMAN: Of course you understand what I want to find out. I think that the committee is entitled to know whether or not there are some expenses of operation or of capital equipment which are borne by the C.N.R. and which might properly be borne by the T.C.A. in which case there is a difference in accounts.

Mr. SYMINGTON: If you ask me that question I will answer it very specifically and categorically, no, not a thing. There are no dealings between Trans-Canada and the Canadian National Railways that are made for the benefit of the one or the other company. If there is any dealing it is on a straight bargaining basis.

Mr. NICHOLSON: The C.N.R. will not take a reservation for you on their telegraph lines without payment, will they?

Mr. SYMINGTON: No, of course not. I will categorically answer your question without going into safes. You can take that as right.

Mr. JACKMAN: That is all I want to know.

Mr. REID: What particularly would be non-revenue miles flown by planes, 924,000?

Mr. SYMINGTON: Training pilots and trying out ships, working in a ship after repairs and all that sort of thing.

Mr. NICHOLSON: In connection with the statistical data at the bottom of page 12 the percentage of passenger occupancy appears to be a very good performance. Have you a record for the previous years? It appears to be 83 for 1943 and 84 for 1944. Have you other years?

Mr. SYMINGTON: 1942 was 74 and 1941 was 67. That is as far as I can give them to you. In other words, it is naturally a better operation as we learn more about it.

Mr. JACKMAN: Mr. Symington, do you think you could provide the services yourself which you get from the C.N.R. for \$45,000?

Mr. SYMINGTON: Candidly, I think I made a pretty fair bargain on it. We have raised it each year about \$5,000. We started off earlier down below. Mr. Vaughan and myself meet each year to discuss these increases. I do not know whether it is a good bargain on our part or a good bargain on their part. I think it happens to be a situation where with their organizational set-up we save money and they save some money.

Mr. JACKMAN: Probably a good agreement for both?

Mr. SYMINGTON: I would think so.

Mr. JACKMAN: There are then certain reasons why an air service can be run more economically in conjunction with a railway than on its own feet?

Mr. SYMINGTON: Yes, that is true, particularly with respect to an air line up to a certain size. I would not say that if our traffic doubles or triples that we would not be better off having some of these departments as our own because they will be big enough to support a real department. I am not saying that will or will not occur. There are views on it. Naturally a lot of the air line people have the view that the mind of the railway man is not the same as the air man and that we could do it better, but these are individual views. On logic and reasoning I think it is a particular service which saves each company something.

Mr. JACKMAN: I rather gathered from some of your remarks this morning that you felt that your service would attract a very large volume of the passenger traffic, particularly the longer haul traffic which the railways now haul?

Mr. SYMINGTON: I think it will attract some undoubtedly, and they will be in competition. There is no doubt about it because the railways have committees looking for improvements and how to meet this competition. Let me give you an example. Say there is a two-hour train to Ottawa from Montreal which there will undoubtedly be. I do not know that the airline will hold full planes between Ottawa and Montreal. By the time you drive out to the airport, go down, and take 25 minutes coming in again from the airport, it may be that a two-hour train will take the business. It might. I do not know. It is competitive.

Mr. JACKMAN: But speaking generally as it affects the whole Canadian situation?

Mr. SYMINGTON: I would expect that the airline will take considerable passenger traffic from the railways.

Mr. JACKMAN: There will be an increasing tendency that way.

Mr. SYMINGTON: I would think so.

Mr. REID: Might it not well be the case that if employment keeps at the peak level that the railroads will not suffer much even though T.C.A. increases?

Mr. SYMINGTON: Mind you, the railroads mostly live on freight, not on passengers, except in wartime.

Mr. JACKMAN: But it is a very nice extra to get.

Mr. SYMINGTON: It is but if I had to give up one or the other I know what I would give up quickly as a railroad operator.

Mr. REID: Does your organization come under the Board of Transport Commissioners for increased fares?

Mr. SYMINGTON: We come under the Air Transport Board.

Mr. HARKNESS: There is a question I wanted to ask. I do not know whether it came up in the half hour before I came in. Who sets these rates? Is it entirely in your own hands? Are they set in competition or are they comparable to the American rates?

Mr. SYMINGTON: Under the Act we must set rates comparable to the American rates. That is the Act at the present time. I think it will be changed under the new Act.

Mr. HARKNESS: Apart from that the setting of the rate is in your own hands?

Mr. SYMINGTON: It was before the aeronautics board was appointed. Now we have to get the approval of the aeronautics board for the rates.

Mr. HARKNESS: Have these rates varied materially during the course of the war or have they been more or less the same?

Mr. SYMINGTON: No, they have gone down a little.

Mr. HARKNESS: That is one of the chief reasons for the passenger revenue per mile being 5.28 cents this year as compared with 5.37 cents last year? That is due to reduction in rates?

Mr. SYMINGTON: That is due to reduction in rates.

Mr. JACKMAN: Do you feel then in view of the competition between the railway and the air service that some time in the future it will not be feasible to have T.C.A. ticket offices on C.N.R. premises? I am not speaking of the hotels but the ticket offices such as the one at King and Yonge streets in Toronto.

Mr. SYMINGTON: I do not know that my personal views are of much interest to the committee. I do not want to get into a discussion of government policy. That is a matter for the government to decide. I do not want to advocate or oppose.

Mr. JACKMAN: Government policy is coming up under this bill which we are going to discuss very shortly?

Mr. SYMINGTON: I am not going to discuss whether the government was wise in bringing it in or not. That is not my function. I will simply explain as far as I can what the amendments mean. I am not the government. I cannot tell you whether or not government policy is correct. I would lose my job pretty quickly if I did.

Mr. JACKMAN: I might say that in the sittings of the committee last year I find this:

Hon. Mr. HANSON: Yes, I know, but Mr. Howe is the boss; is that not right?

Hon. Mr. HOWE: No.

The CHAIRMAN: I am not so sure about that.

Hon. Mr. HOWE: The only boss is Mr. Symington.

Mr. SYMINGTON: We were discussing the operation of the air line and that still stands.

Mr. JACKMAN: And that affects ticket offices, too. You would expect that it would not be feasible to continue competitive ticket offices in the same premises as the C.N.R.?

Mr. SYMINGTON: As a matter of fact, on the question of ticket offices my own judgment and experience has shown that even though we are a part of the C.N.R. we do not want our ticket offices in theirs. You see we wet-nurse all you people from the time we think you want to fly. We pamper you, we telephone you, we look after you, the stewardess pets you. The railroads have not been brought up that way. It is entirely a new selling proposition. It has been our experience that railroad ticket sellers do not make good air men, and we have very few of them.

Mr. JACKMAN: You would expect eventually then that there will be a complete separation?

Mr. SYMINGTON: That does not necessarily follow. There will be a complete separation even though we remain under the C.N.R. There will be very few C.N.R. ticket offices we use for T.C.A. tickets. That is, they will be there to sell but all the promotional selling, all the organizational selling will be done through T.C.A. ticket offices. That is the experience all over. It is a new art. It is an entirely different thing. The man who has been thirty years in a railroad ticket office is no good as an air salesman. You can count on that.

Mr. JACKMAN: Or a bank clerk either.

Mr. MUTCH: It simply means that while you may be divorced there is no reason why you may not still be friends.

Mr. SYMINGTON: We can still be friends although we are not divorced.

Mr. MUTCH: You can have your offices in the same building without necessarily cutting each other's throat.

Mr. JACKMAN: Mr. Symington, was one of the principal reasons why the American government compelled the separation of air lines from other transport companies, other forms of transport, because they felt that railway or shipping companies would not push the air service as much as it would be pushed if it were under independent operation and ownership?

Mr. SYMINGTON: I really could not answer what moved them. I might know what moved one individual man but you know just as much about it has I do reading in the paper.

Mr. JACKMAN: It is not my particular field.

Mr. SYMINGTON: I have not studied it because I was not interested. I did not care whether the United States separated them or not.

Mr. JACKMAN: You do not know.

Mr. SYMINGTON: That is a matter of policy for the government. I keep out of that. If you ask my private opinion, that is one thing; but as president of the T.C.A., I do not want to get mixed up with matters of policy.

Hon. Mr. HOWE: It may be they wanted to see some new names on the list of shareholders.

Mr. JACKMAN: I am only asking you as an operator whether you think that the T.C.A., or an airline, can be operated more economically, more efficiently, give better service, in conjunction with a railway or other means of transportation, or when it is entirely on its own feet. Naturally, it is a difficult question. It is high policy, but you are the man who carries it out.

Mr. HARRIS (*Grey-Bruce*): It is not a matter of policy in this case, is it: as far as the T.C.A. is concerned?

Mr. SYMINGTON: Well, it is a matter of policy. The line will be efficiently operated whichever way it is done, I can say that.

Mr. HARRIS (*Grey-Bruce*): An airline can be good whether dependent or independent.

Mr. SYMINGTON: This line can, because we have had the experience.

Mr. LOCKHART: I see they have increased the amount of secretarial fees by \$3,000.

Mr. SYMINGTON: Yes, sir.

Mr. LOCKHART: What is the total amount paid in the way of secretarial fees?

Mr. SYMINGTON: That is the total amount.

Mr. LOCKHART: The total is \$3,000?

Mr. SYMINGTON: \$4,500.

Mr. LOCKHART: The airline is not sufficiently large to have its own secretarial staff?

Mr. SYMINGTON: We haven't got it and we use—

Mr. LOCKHART: The other?

Mr. SYMINGTON: —the other.

Mr. LOCKHART: That does not apply to the ticket sellers?

Mr. SYMINGTON: No, that is really a head office matter. The T.C.A. have no head office really, except the office of the secretary. That is about the size of it.

Mr. LOCKHART: You do not agree that there is justification for the T.C.A. setting up an independent secretarial staff?

Mr. SYMINGTON: That may be. If we see the need for it we will undoubtedly have our own secretarial staff.

Mr. LOCKHART: But at the present time you do not feel this would be justified?

Mr. SYMINGTON: We have been trying to run the airline just as economically as we possibly could, perhaps more economically than we should have under the circumstances. We have been very careful about it. We have not wasted any money and we have been getting on up to date with this arrangement. It may change at any time, it just depends upon what circumstances dictate as to the wise thing to do. It is perfectly flexible. We can set up our own secretarial staff to-morrow.

Mr. LOCKHART: \$4,500, paid to the C.N.R.; you feel that is a wise thing to do for the moment?

Mr. SYMINGTON: Yes, but when I come to a consideration of this matter of secretarial staff, adding \$1,500, I had to admit that wasn't enough. While there looks to be a large increase for one year, our secretarial staff over the last six years has really been entitled to more than they got because the work has grown very rapidly.

Mr. HARKNESS: How does your cost per mile flown compare with the American airlines, and with C.P.A.?

Mr. SYMINGTON: I cannot compare it with the C.P.A. I do not think I have seen any of their figures. Our cost per mile flown will of course be higher than the American for the reason which I indicated to you this morning. I did not see you here then, sir.

Mr. HARKNESS: Yes, I was here all morning.

Mr. SYMINGTON: The U.S. average figure is 86·21. The T.C.A. figure is 96·89, and the American lines range quite widely. And now, as I pointed out to you, the cost of our aeroplanes for the comparative line is practically double,

nearly double, because of duty and so on and so forth for instance; we have to charge up to our costs of flying that mile double depreciation; and in the instances I cited it meant \$100,000 per plane. There are three major items of cost: there is the gas; gas in Canada is expensive because of transportation and tax. We pay 28c for gas as opposed to an equivalent of 18c on the same gallon in the United States. That made a difference to us of \$417,000 in extra gas in comparison with the operating expense of the United States lines. In other words, 8·56 of the American expenses were for fuel, and 13·1 was our expense for fuel, due to the difference in price between 18c and 28c per gallon.

Mr. HARKNESS: I can readily see that your expense would be higher, taking those two items alone into consideration. Have you got the figures for C.P.A.?

Mr. SYMINGTON: No, I never had.

Mr. MAYBANK: They are not published.

Mr. SYMINGTON: No they are not published. I do not think it would be fair to compare them because they are in entirely different operations.

Mr. JACKMAN: Have you got a percentage breakdown of the dollar revenue, or the dollar operating cost, or both?

Mr. SYMINGTON: I haven't got that, but I have got a breakdown showing wages, salaries, fuel, taxes, insurance, depreciation, and so on.

Mr. JACKMAN: Could you give us that in percentage of dollars?

Mr. SYMINGTON: Yes, I suppose I could. This is the percentage of total expense—I could give you a comparison of that and the United States.

Mr. JACKMAN: Could you table that for us?

Mr. SYMINGTON: It is in a book here, I can get it tabled off it for you.

Mr. MAYBANK: Is it lengthy?

Mr. SYMINGTON: It is not lengthy.

Mr. MAYBANK: Why not answer the question then?

Mr. SYMINGTON: In answer to the question as to a comparison in 1944 between United States line and Trans-Canada: United States salaries and wages were 49·13 per cent, T.C.A., 44·6; fuel, United States, 8·56 per cent; Canada, 13·1 per cent; taxes, insurance, and depreciation, 11·71 per cent United States, 11·7 per cent in Canada; travelling expense, passenger supply and miscellaneous, 22·42 United States, Canada, 18·7; advertising, United States, 3·07, Canada, 0·7; repairs and materials, United States, 5·11, Canada, 11·2. The answer of course being that all our materials for repairs carry about 44 per cent duty. That is a division of the operating expenses.

Mr. HAZEN: How do you buy gasoline, who do you buy it from?

Mr. SYMINGTON: We buy it from all the companies I think, depending upon the facilities that they have near the airfield.

Mr. HAZEN: Do you call for tenders?

Mr. SYMINGTON: Oh yes.

Mr. REID: What do you do with the old oil, the residue oil?

Mr. SYMINGTON: We sell it. It is a very small item of revenue because it is run too thin under high operating temperatures. We sell the residue oil.

Mr. JACKMAN: Unlike like crown companies, T.C.A. is subject to all local taxes?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: The only difference between private companies and yourselves in the matter of taxation is that they pay a larger income tax?

Mr. SYMINGTON: We are no different from any other company.

Mr. HAZEN: You do not have to pay provincial tax on the gasoline you use, do you—like the owner of an automobile does?

Mr. SYMINGTON: Yes.

Mr. HAZEN: You pay the same tax as an automobile?

Mr. SYMINGTON: Yes. We have made an arrangement whereby we pay one cent tax.

Mr. JACKMAN: You do not pay provincial taxes?

Mr. SYMINGTON: Yes.

Mr. REID: And the provincial tax is a road tax. Why would you pay a road tax where your vehicles use the air? You do not pay the tax in British Columbia. You do not pay a road tax. You do not use the road.

Mr. SYMINGTON: I will ask Mr. English to explain it. We pay the regular tax and get a rebate from the provinces and that brings it to one cent per gallon.

Mr. REID: What tax do you pay in British Columbia? Do you pay a road tax?

Mr. ENGLISH: They claim we use the road for our vehicles going to and from the airport.

Mr. REID: But not your aeroplanes?

Mr. ENGLISH: We get a refund and that brings it down to one cent per gallon.

Mr. HAZEN: Does that apply to every province?

Mr. ENGLISH: I think it applies to every province. For a while Quebec insisted on our paying the full tax.

Mr. REID: I think that is something which should be looked into. Even the farmer does not have to pay that tax if he does not use the road.

Mr. ENGLISH: It is called a gasoline tax, it is not called a road tax.

Mr. REID: That is what it is called.

Mr. ENGLISH: Definitely for that?

Mr. MAYBANK: It is just an ordinary revenue tax.

Mr. ENGLISH: We got it reduced to one cent a gallon.

Mr. JACKMAN: They do not charge on gasoline for use on launches in Ontario.

Mr. SYMINGTON: At any rate they try to tax us on it, rightly or wrongly. We have made an agreement whereby we pay in each province one cent per gallon.

Mr. JACKMAN: Do you use some of the Alberta gasoline on T.C.A.?

Mr. SYMINGTON: Not raw.

Mr. JACKMAN: I was wondering why your gasoline costs should be so much higher than the American lines.

Mr. SYMINGTON: It is a case of sales tax and transportation. It is the regular price.

Hon. Mr. HOWE: Why is the gasoline you use in your automobile more expensive than it is in the United States?

Mr. MUTCH: That is what we would like to know.

Mr. JACKMAN: What is wrong with the Alberta gasoline? Is the octane rating not high enough?

Mr. SYMINGTON: I do not know that I could explain that to you.

Hon. Mr. HOWE: You can buy gasoline cheaper in the United States anywhere than you can in Canada. It is produced in the States in volume and it is not produced in anything like the same volume in Canada.

Mr. BEAUDOIN: Did you say that Quebec insisted on your paying the road tax?

Mr. ENGLISH: In Mr. Godbout's time.

Mr. BEAUDOIN: And they stopped this thing in Mr. Godbout's time?

Mr. ENGLISH: Yes. I saw Mr. Godbout personally, we had a deputation.

Mr. BEAUDOIN: Did you ever pay the full tax?

Mr. ENGLISH: We paid it for one or two months and then we got a refund, and then after that they agreed to the same arrangement as the other provinces.

Mr. BEAUDOIN: When you made the agreement with them, was it the same as the agreement you negotiated with the other provinces?

Mr. ENGLISH: No, it did not exist in some of the provinces. The tax did not come into effect in all the provinces at the same time. Arrangements were made with each province separately. I think arrangements were made first with Manitoba, and then the other provinces fell in line. At that time we were using more gas in Manitoba than in any of the other provinces.

Mr. BEAUDOIN: Did you have any difficulty in getting in touch with the province of Quebec?

Mr. ENGLISH: No, we had very pleasant negotiations.

Mr. HAZEN: Do you call for tenders on your engine oils?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Do they vary in price?

Mr. SYMINGTON: Some do, but in the quality we buy they do not vary very much; but we prefer some engine oils for some operations and some gasolines for some operations.

Mr. MUTCH: Have you a research department?

Mr. SYMINGTON: Yes.

Mr. HAZEN: I understood you to say that you pay 28 cents a gallon for gasoline?

Mr. SYMINGTON: That is right.

Mr. HAZEN: What do you pay for engine oil?

Mr. HARKNESS: I take it that is the average price?

Mr. SYMINGTON: Yes, western gas is much more expensive than eastern gas.

Mr. REID: Have you your own station for gas, and do you buy wholesale?

Mr. SYMINGTON: They have large tanks on the airfields where the gas is held. The average cost of lubricating oil per gallon is 75·50 cents.

Mr. JACKMAN: Did I understand you to say, Mr. Symington, that you divided up your fuel, gasoline and oil business, among the various companies operating in Canada, pretty well according to their standing?

Mr. SYMINGTON: No, it depends upon their location relative to the airfield largely.

Mr. BEAUDOIN: On page 13, item 608—Servicing, labour and supplies—and on page 14 I see item 681, salaries and wages—traffic.

Mr. ENGLISH: Yes.

Mr. BEAUDOIN: Does that item 608 include salaries?

Mr. ENGLISH: Item 608 is under the heading aircraft operation, maintenance and depreciation; the other is, traffic and general administration. For instance, the head office is under traffic and general administration; superintendance of operations, and all that sort of thing is under aircraft operation.

Mr. BEAUDOIN: Are your employees members of any trade union?

Mr. ENGLISH: Yes, some of them are.

Mr. BEAUDOIN: Which union is it?

Mr. ENGLISH: The A.F. of L., one of the machinists unions.

Mr. BEAUDOIN: And chartered by the Trades and Labour Congress of Canada, or the A.F. of L.?

Mr. ENGLISH: A.F. of L.

Mr. JACKMAN: Your purchasing is done through the C.N.R.?

Mr. SYMINGTON: The purchasing is through the C.N.R.

Mr. JACKMAN: And you do not do any yourselves at all?

Mr. SYMINGTON: It is practically all under the C.N.R.

Mr. JACKMAN: One might assume then that in hauling gasoline up to outlying points such as Kapuskasing and other remote points, the C.N.R. would save money, or would get the benefit of the haul for themselves?

Mr. SYMINGTON: I should not think so. I don't think so. The Imperial Oil Company, the British American Oil Company, Shell, and so on tender. The Imperial Oil Company, a large prominent company, sends in a bid for oil or gas, say to Halifax, where they happen to have a big plant, and they may tender at some other places where they have tanks adjacent to the airfield. The other oil companies do the same thing—there is British American, McColl-Frontenac, Shell—I don't know, I presume these oil companies tender on the T.C.A. business in just exactly the same way as they would tender to any other respectable company, and being respectable people, I do not know of any pressure being put on them.

Mr. JACKMAN: I see. It isn't C.N.R. who does the purchasing. The C.N.R. would also likely do the hauling to these remote points like North Bay and Kapuskasing.

Mr. SYMINGTON: I haven't any idea about that. I have no doubt that Imperial Oil divide their business with the C.P.R.

Hon. Mr. HOWE: I do not know who else would haul gasoline to Kapuskasing other than the C.N.R.

The CHAIRMAN: One at a time, gentlemen, please.

Mr. NICHOLSON: I was just observing, Mr. Chairman, that it would hardly pay the C.P.R. to run a branch line up to Kapuskasing just to haul oil for the T.C.A. airport at that point.

Mr. SYMINGTON: I take it that the C.P.R. would haul to Calgary and Regina; I do not know, but I expect that they would. That would depend on the policy of the oil company with respect to routing its shipments.

Mr. MUTCH: Anyway, you have no control over it.

Mr. SYMINGTON: We have no control.

Mr. JACKMAN: It is decided on the basis of cost, I presume?

Mr. SYMINGTON: Yes.

Mr. REID: I see that item 632, airport and hangar employees, there is a substantial increase?

Mr. SYMINGTON: Well, that is because of the increase in the Atlantic operation, I think. The increase in the airport and hangar operation is made up of payroll operations generally, \$93,000. That is an increase in our pay. It includes staff—management, chauffeurs, janitors, foremen, attendants, commissionaires, switchboard operators and nurses. The reservation department was up \$48,000; passenger services, \$50,000—which, of course, was an increase of 10 per cent; dispatchers, \$24,000—a 10 per cent increase; carter services, \$36,000—14 per cent increase.

Mr. REID: What about the increase in employees under the next item, there seems to be an increase there of \$250,000?

Mr. SYMINGTON: Exactly, yes. Have you the number of increase in employees, Mr. English? I can tell you where most of that is right off the bat. The hangar employees at Montreal grew from 234 to 533 to take care of the increase of Atlantic operations and of course that cost money.

Mr. HAZEN: What are clearance fees; that is item 607. What are they and to whom do you pay them?

Mr. SYMINGTON: Clearance fees, did you say?

Mr. HAZEN: Item 607.

Mr. SYMINGTON: Customs and all those sorts of things.

Mr. HAZEN: That would be chiefly paid in the United States, would it?

Mr. SYMINGTON: Yes, between the United States and Canada and Britain and Canada.

Mr. JACKMAN: Mr. Symington, there is very little increase in the air mail carried last year, in 1944 over 1943.

Mr. SYMINGTON: It is declining.

Mr. JACKMAN: I do not suppose we can look forward to any very great increase.

Mr. SYMINGTON: It is declining, month by month now, some.

Mr. JACKMAN: There were no additions which would have prevented it during 1944 or 1943. You seem to be bumping your maintenance unless you put pressure on to get air mail.

Mr. SYMINGTON: The answer is that we were in the war years when there was a great deal of air mail. That is what the real answer is, I think.

Mr. MUTCH: Do you not think that the cessation of twice as many postal deliveries all over Canada greatly reduced the advantage of air mail?

Mr. SYMINGTON: Of course that is the trouble. You take Winnipeg, for example. If you live outside the business area, there is no mail collection after 4 o'clock in the afternoon. The result is that if somebody posts a letter at 5 o'clock, it lies there until collection next day, and then it travels 24 hours later than it otherwise should have or roughly 24 or 20 hours or something like that. Then it goes east and there is only one delivery in the morning, and none in the afternoon. The result is that people say, "Well, what is the use of sending by air mail under those circumstances?" Business people continue it.

Mr. MUTCH: And with half the walks in Winnipeg, the mail leaves the local post office at 10 o'clock in the morning, and a letter that leaves us tonight will get there to the post office tomorrow morning, 20 minutes or half an hour after the postal walk has gone out, and it lies there 24 hours.

Mr. SYMINGTON: Yes. These things will right themselves. I have been discussing it with our people, having in mind negotiation with the post office. And while there is a slight decline, month by month now, due to the changing conditions of the soldiers, I have not any doubt that air mail will increase. We will go after it. We have not gone after it. I have not any doubt that it will increase; in fact, as somebody else says, I think in a few years that all first-class mail will be carried by air.

Mr. REID: On page 14, Mr. Symington, what is the meaning of items 675 and 676, fuel and oil—sales?

Mr. SYMINGTON: Sales? Those are sales to people who come to the airport. They fill up their tanks and we sell it to them just the same as anybody else.

Hon. Mr. HOWE: Private planes.

Mr. REID: Is that revenue?

Mr. SYMINGTON: That is revenue and the cost is, of course charged up. That is expense you are looking at. In the incidental services that I gave you. The revenues from it are in the incidental services.

Mr. JACKMAN: Mr. Symington, how much was paid to the Department of Transport for landing fields and any other payments to the Department of Transport?

The CHAIRMAN: It would be nice if we could adopt this report today. I do not know whether it is agreeable. We have been through it pretty well.

Mr. SYMINGTON: Approximately \$105,000 or \$106,000. That is some place near it.

Mr. JACKMAN: Are there any other fees paid to the Department of Transport for operation?

Mr. SYMINGTON: Well, we pay certain rentals for buildings and that sort of thing. I do not know what they are.

Mr. JACKMAN: I was wondering if you had a total break-down.

Mr. SYMINGTON: No. That is included on the figure we gave. That is the total we paid the Transport Department, \$105,000.

Mr. JACKMAN: Rental of buildings, rent of fields; are there any other items?

Mr. SYMINGTON: No, I do not think so.

Mr. HAZEN: Having regard to this item 614, do you make your own repairs to engines?

Mr. SYMINGTON: Oh, yes.

Mr. HAZEN: You make your own repairs?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Then with regard to item 617, flying equipment insurance, is that money put aside in a trust fund that you mentioned?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Who are the trustees—the company?

Mr. SYMINGTON: The officers of the company.

Mr. HAZEN: Yes.

Mr. SYMINGTON: Yes. Officers of the company.

Mr. REID: With regard to the item of rent of fields, buildings and offices, what rent do you pay for Sea Island?

Hon. Mr. HOWE: We do not rent Sea Island.

Mr. SYMINGTON: We pay landing fees.

Mr. HAZEN: What is your insurance fund invested in? There is no statement here.

Mr. SYMINGTON: All our insurance funds are in Canadian government securities.

Mr. COOPER: Yes, \$755,000.

Mr. SYMINGTON: \$755,000 in Canadian government bonds.

Mr. JACKMAN: That is company and employees?

Mr. SYMINGTON: That is the insurance fund.

Mr. JACKMAN: Contributory?

Mr. COOPER: Yes.

Mr. SYMINGTON: We pay for Sea Island about \$8,500 a year landing fees.

Mr. JACKMAN: What is the basis of renting fee charged by the Department of Transport?

Mr. SYMINGTON: I think it is \$100 the first schedule, \$50 the additional schedules.

Mr. JACKMAN: Schedule?

Mr. SYMINGTON: Regular fees all over; Canada, the United States, all over.

Mr. JACKMAN: In other words, for the first plane you land it is \$100 and the second plane the same day is \$50?

Mr. SYMINGTON: Yes, \$50.

Mr. ENGLISH: That is a month.

Mr. SYMINGTON: That is per month.

Mr. JACKMAN: That is pretty cheap, is it not?

Mr. SYMINGTON: Well, no.

Mr. HAZEN: To how many persons do you pay pensions?

Mr. SYMINGTON: Well, I do not know that we pay any yet. I hope not. We are too young.

Mr. HAZEN: What is item 695 on page 14, pensions \$133,000?

Mr. SYMINGTON: That is our contribution to the pension fund.

Mr. MAYBANK: That is your 5 per cent, is it not?

Mr. SYMINGTON: That is our 5 per cent contributed to the fund.

Mr. MAYBANK: You do not happen to know how big that fund is now?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: You would know, Mr. Cooper, would you not?

Mr. COOPER: Yes.

Mr. MAYBANK: I was wondering how much is in there outside of the other 5 per cent.

Mr. SYMINGTON: I will give it to you; \$513,163.

Mr. MAYBANK: You mean that is the corresponding contribution to the \$133,000?

Mr. SYMINGTON: No. Our contribution is \$268,898.

Mr. MAYBANK: To date?

Mr. SYMINGTON: To date.

Mr. MAYBANK: Accumulated?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: And the other contribution is a little bit more?

Mr. SYMINGTON: \$284,000.

Mr. MAYBANK: Just a few people put in more than 5 per cent?

Mr. SYMINGTON: Yes.

Mr. REID: If you have to land in any other field outside of the regular field, is that expense to the company? Do you bear the expense of transporting the passengers in?

Mr. SYMINGTON: Yes.

Mr. REID: It is not an expense taking them out to the field. They are taken out by taxi, I presume, and that is their own expense?

Mr. SYMINGTON: That is their own expense.

Mr. REID: But if you land in an emergency field, that is an expense?

Mr. SYMINGTON: Yes. We take care of that.

Mr. BEAUDOIN: If you start operating international lines, will you have Canadian crews stationed at every air port in foreign countries in order to service your planes when they land and when they take off?

Mr. SYMINGTON: Nobody but Canadian crews can fly our planes.

Mr. JACKMAN: Or service them? Mr. Beaudoin was asking about servicing.

Mr. BEAUDOIN: Yes, servicing.

Mr. SYMINGTON: That is a question which depends upon the view the company may have as to whether the organization which would service them is capable or not. In any event, we will have their own superintendents there if somebody else does the servicing. For instance, at the moment Scottish Aviation service our planes at Prestwick, Scotland, but we have men there to superintend it and see that what we want done is done.

Mr. BEAUDOIN: So you will have a crew at every air port.

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

Mr. JACKMAN: Just a minute. I am not through yet. Under aircraft and operation, maintenance and depreciation, passenger meals \$212,000 as against \$161,000. That is entirely an increase in the cost of food.

Mr. SYMINGTON: An increase in the cost of food, increased number of passengers and we hope a little better meal. I do not know whether it is or not.

Mr. JACKMAN: I notice depreciation is down substantially from \$490,000 in 1943 to \$304,000 in 1944.

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Why is that?

Mr. SYMINGTON: That is because we did this big number 7 job on those thirteen planes and rebuilt them, we added one and a half years to the life of the plane, so that we were able to depreciate them that much less by reason of the great expenditures we made in our maintenance and operation.

Mr. JACKMAN: You made those expenditures in 1944 or 1943?

Mr. SYMINGTON: We made those expenditures in 1944.

Mr. JACKMAN: That is item number what?

Mr. SYMINGTON: 611, 612, 613, 614. The big ones are 608, 614 and 611.

Mr. MAYBANK: The expenditures there set down gave you a year and a half additional?

Mr. SYMINGTON: Yes. I may say with respect to our depreciation account that it is, if anything, over depreciated, not under.

Mr. BEAUDOIN: I second the motion, if it is in order.

Mr. MAYBANK: It is 6 o'clock.

The CHAIRMAN: Yes, it is 6 o'clock. I do not want to rush the committee.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: The adoption of the report is moved by Mr. Reid and seconded by Mr. Beaudoin. If that is agreeable, we will call it a day.

Motion agreed to.

The CHAIRMAN: Now, with regard to the next meeting. What about Wednesday afternoon at 4 o'clock? That is tomorrow afternoon at 4 o'clock? Would that be agreeable to the committee, or do the committee wish to sit tonight.

Some Hon. MEMBERS: No.

The CHAIRMAN: Apparently not. Then we will meet to-morrow afternoon at 4 o'clock.

Some Hon. MEMBERS: Agreed.

Mr. BEAUDOIN: What is the next item?

The CHAIRMAN: Bill 21, I believe. Oh, yes, there is the auditors' report. Mr. Matthews did not read that when he read the C.N.R.'s report.

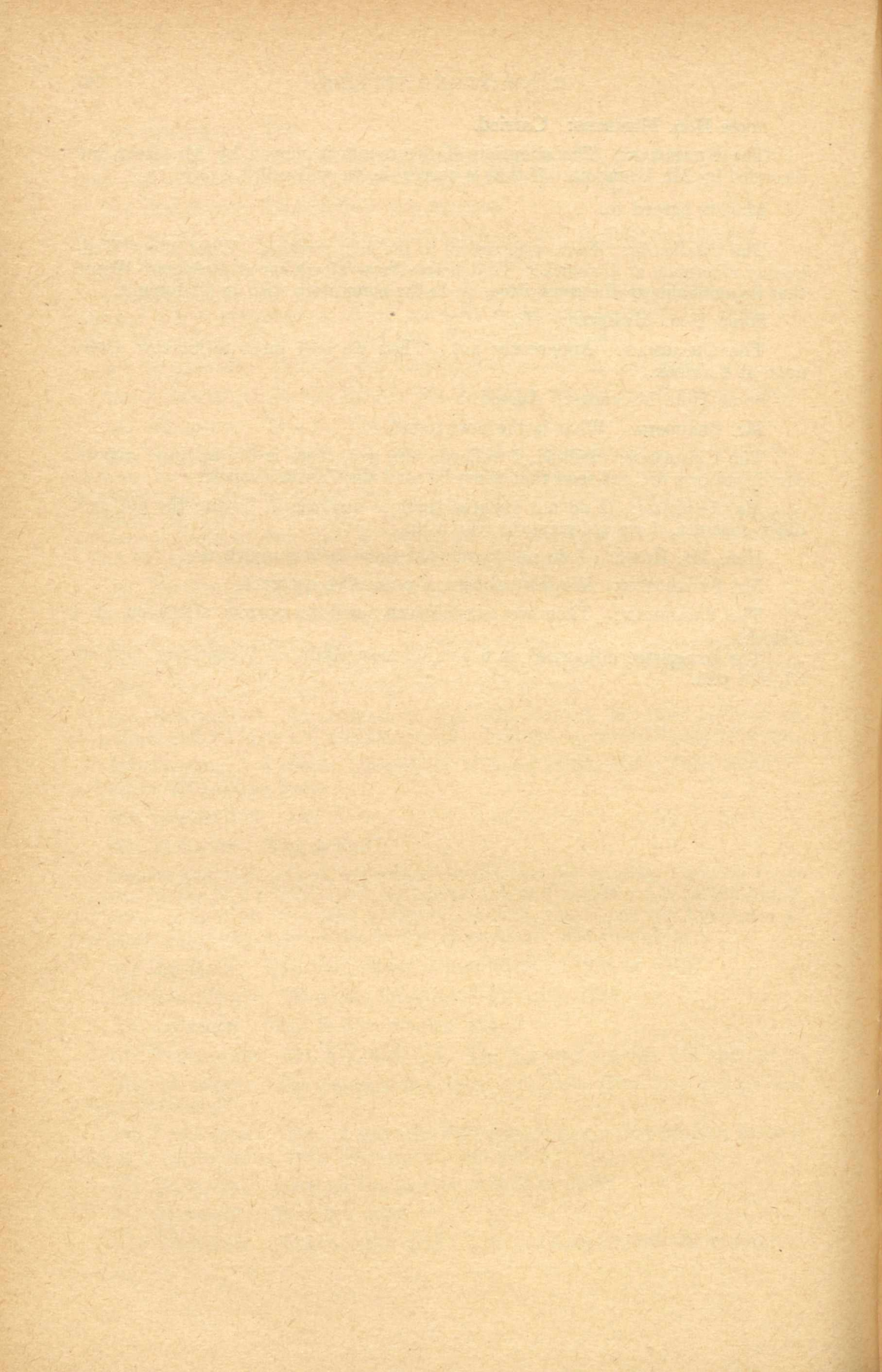
Mr. JACKMAN: I do not suppose there is any use in having the old post office contract, if we are going to tear it up.

Hon. Mr. HOWE: I do not know that there is very much use.

Mr. SYMINGTON: We have not got a post office contract.

The CHAIRMAN: Then we can adjourn until to-morrow afternoon at 4 o'clock.

The committee adjourned at 6 p.m. to meet again on Wednesday, October 31, at 4 p.m.



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SESSION 1945
HOUSE OF COMMONS



STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

WEDNESDAY, OCTOBER 31, 1945

THURSDAY, NOVEMBER 1, 1945

WITNESSES

Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines.
Mr. M. F. English, Vice-President, Trans-Canada Air Lines.
Mr. O. A. Matthews, of the Firm George A. Touche & Co., Auditors.
Mr. G. Herring, Post Office Department.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1945

ORDER OF REFERENCE

WEDNESDAY, 31st October, 1945.

ORDERED:

That the name of Mr. McLure be substituted for that of Mr. Harris (*Danforth*) on the said Committee.

Attest

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, November 1, 1945.

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

THIRD REPORT

Your Committee has considered the following bill which was referred to it on 29th October, 1945 and has agreed to report same without amendment:

BILL No. 21—"AN ACT TO AMEND THE TRANS-CANADA AIR LINES ACT, 1937".

All of which is respectfully submitted.

RALPH MAYBANK,
Vice-Chairman.

MINUTES OF PROCEEDINGS

Room 429,

WEDNESDAY, October 31, 1945.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 4 o'clock p.m. Mr. S. Murray Clark, Chairman, presided.

Members present: Messrs. Clark, Beaudoin, Belzile, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Maybank, McCulloch (*Pictou*), McLure, Mutch, Nicholson, Picard, Reid, Shaw.

Honourable C. D. Howe, Minister of Reconstruction, was also present and took part in the proceedings.

In attendance:

Officers of Trans-Canada Air Lines: Mr. H. J. Symington, C.M.G., K.C., president; Mr. W. F. English, Vice-President; Mr. T. H. Cooper, Comptroller.

Auditors: Mr. O. A. Matthews and Mr. F. M. Stone, of the firm of George A. Touche & Co.

Officials of the Department of Transport: Mr. C. P. Edwards, O.B.E., Deputy Minister; Mr. R. H. Lang and Mr. A. B. Hopper.

Mr. G. Herring of the Post Office Department.

The Committee considered the Report of the Auditors to Parliament as it relates to Trans-Canada Air Lines.

Mr. O. A. Matthews was called. He presented the Auditors' Report and questions thereon were answered by the witness and also by Mr. Symington.

On motion of Mr. McCulloch (*Pictou*), the said Report was adopted unanimously.

The Committee then considered Bill No. 21 intituled, "An Act to amend The Trans-Canada Air Lines Act, 1937".

The said Bill was severally read and examined clause by clause, and Sections 1, 2, 3, 4, 5 and 6 thereof were agreed to.

Mr. Symington and Mr. G. Herring were heard in relation thereto.

At 6.10 o'clock p.m., the Committee adjourned to meet again at 4 o'clock p.m. Thursday, November 1st., 1945.

ROOM 429,
THURSDAY, November 1, 1945.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 4 o'clock p.m. Mr. S. Murray Clark, Chairman, presided.

Members present: Messrs. Clark, Beaudoin, Belzile, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Maybank, McCulloch (*Pictou*), McLure, Moore, Mutch, Nicholson, Reid, Shaw.

Honourable C. D. Howe, Minister of Reconstruction, was also present and took part in the proceedings.

In attendance: Mr. H. J. Symington, C.M.G., President, Mr. W. F. English, Vice-President, of Trans-Canada Air Lines; Mr. C. P. Edwards, Deputy Minister of Transport; Mr. R. H. Lang and Mr. A. B. Hopper of the Department of Transport; Mr. G. Herring, of the Post Office Department.

The Committee resumed from the previous meeting consideration of Bill No. 21, intituled: "An Act to amend The Trans-Canada Air Lines Act, 1937".

Sections 7, 8, 9, 10 and 11 of the said Bill were severally read, examined and agreed to one by one. The title was also agreed to.

Mr. Symington and Mr. Herring were heard in relation thereto.

Mr. McCulloch (*Pictou*) moved that the said Bill be reported to the House without amendment and the question being put the motion was carried by the following division: Yeas 12, Nays 3.

It was agreed that the following members be nominated to act with the Chairman as a sub-committee to draft a Report to the House on matters referred to the Committee other than Bill No. 21: Messrs. Beaudoin, Harris (*Grey-Bruce*), Jackman, Maybank, Nicholson and Shaw. The sub-committee to submit the draft-Report to the Committee for consideration at a later date.

The Chairman, Mr. S. Murray Clark, expressed the thanks of the Committee to the Minister of Reconstruction and the Officers of Trans-Canada Air Lines for their attendance. Also to the members of the Committee for their co-operation.

At 5 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

ANTOINE CHASSÉ,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS, October 31, 1945.

The standing committee on Railways and Shipping met this day at 4 o'clock p.m. The Chairman, Mr. S. M. Clark presided.

The CHAIRMAN: Gentlemen, I think last night at 6 o'clock the next order of business was the report by the auditors on Trans-Canada Air Lines. When we were dealing with the other reports I think we had Mr. Matthews read the report, and then any discussion took place afterwards. Is that procedure agreeable with the committee?

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: All right, Mr. Matthews.

Mr. O. A. MATTHEWS: Mr. Chairman and gentlemen, you will recall that on Thursday we dealt with our report excepting page 6 which deals with the Trans-Canada Air Lines, because at that time the accounts had not been considered by the committee. It reads as follows:

TRANS-CANADA AIR LINES

The Trans-Canada Air Lines has 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.

Supplementing our audit certificate appended to the accounts published by the Air Lines, we make the following comments on the income account and balance sheet:—

Income Account

Mail revenue is based on the rates per plane mile flown in approved mail services in accordance with the trans-Canada mail contract.

The surplus for the year 1944 amounting to some \$7,000 is after making provision for the general expenses of operation and:—

- (a) Interest 5 per cent on the "capital invested." For the purposes of the trans-Canada contract, the paid-up capital stock has been taken as representing the "capital invested";
- (b) Depreciation of ground facilities;
- (c) Depreciation of flying equipment—at reduced rates due to extension of estimated service life;
- (d) General taxes;
- (e) Company's portion of pension accruals under the air lines 1943 plan and
- (f) Company's portion of pension accruals for transferred employees remaining under the C.N.R. 1935 plan.

The total of provisions (a) to (f) approximates \$1,104,000.

The surplus for the year shows a decrease of some \$140,000 in comparison with 1943. Broadly speaking, this decrease in the surplus is accounted for by the much higher ratio of direct operating costs to revenues together with increased charges for pensions—less substantial reductions in the provisions for depreciation, inventory and insurance reserves in 1944. The higher ratio of operating costs is partly attribut-

able to major overhauls, necessitated by war-time conditions and designed to extend the service life of flying equipment beyond the original estimate. Based on the estimated extension of service life, the company reduced the rates of depreciation for flying equipment and made no provision to increase the inventory reserve in 1944.

Balance Sheet

The insurance fund is composed of cash and Dominion of Canada securities. The year-end market value of the securities exceeded the book figure. The fund increased approximately \$234,000 during the year with no major loss claims being reported outstanding at the date of the balance sheet.

Investments in property and equipment are carried on the basis of cost. The net additions and betterments during the year approximated \$829,000, the principal addition being the purchase of 3 Lockheed aircraft including spare engines and radio equipment.

The amount of paid-up capital stock remained unchanged in 1944.

In respect of pension plans, it should be noted that:—

- (a) Under the air lines 1943 plan, which is maintained on an accrual basis, the cash contributions by the company and employees presently in service are invested through the separately administered pension trust fund, the accounts of which are not included with those of the air lines. Apart from the foregoing, the company has made provision in its accounts covering employees' contributory rights not yet exercised.
- (b) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 plan, are invested through the separately administered pension trust fund under that plan, the accruals for which the company is liable in respect of transferred employees being paid to the Canadian National Railways.

The accounts of the Trans-Canada Air Lines are stated in Canadian currency converted mainly at the par of exchange.

We have received the customary certificates from the responsible officers of the air lines relating to current maintenance and physical retirements of capital assets.

In respect of the air lines the test audit for the year 1944 was similar in scope to that of the National System previously outlined in this report.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Are there any questions?

Mr. JACKMAN: Mr. Matthews, we had the item of depreciation up at the last meeting, and it was brought out there that considerable sums were spent on refurbishing the engines and planes which gave them an extra life of a year and a half. I presume this new depreciation rate is amortization on the cost spread over the period, plus a year and a half. Is that it?

Mr. MATTHEWS: Yes. The major overhauls extended the estimated service life of the equipment up to 1946 for the majority of the planes and for some of the Lodestars up to the end of 1947. On that point, the depreciation of aircraft, propellers, engines and so forth decreased during the year by about \$300,000. But if you would turn to the operating expense accounts and refer particularly to the repair accounts—

Mr. JACKMAN: We noticed that yesterday.

Mr. MATTHEWS:—you would find that the increase for 1944 was \$374,000. We have to take into account, of course, the increased plane mileage flown. But taking that into account, the figure would be \$312,000 on the basis of the same plane mileage. That indicates the extent to which major overhauls are charged in the 1944 accounts.

Mr. JACKMAN: You feel perfectly satisfied as auditor that the change, if you like, in the method—of course, for a good reason—truly reflects the accounts of the company and the position of the company?

Mr. MATTHEWS: Yes, Mr. Jackman; because under the conditions existing in the last year having to do with the purchase of new equipment, we all know it just was not practicable; and the original service lives given to the planes had to be extended if they were to continue to operate with safety. So there was no other choice that we could see but to extend the original service life of the planes by these major overhauls. In view of the fact that the decrease in the depreciation on the flying equipment is exceeded by the amount of major repairs, after taking into account the increased plane mileage flown, we think that is a fair indication. I should like to say this too, Mr. Jackman, that the proof of that will be when the end of 1946 and 1947 arrives, because naturally we have to use our best judgment in these matters but we are not prophets. Out of the 26 planes, 17 of them under this revised depreciation rate would run out at the end of 1946 and 9 at the end of 1947. In other words, if the present fleet remained in service until those dates, the depreciation rates as revised will have been substantiated. Then, of course, there is the further possibility of sale value, of which we are not in a position to judge. But all things taken together, we feel that the accounts reflect a fair picture, having regard to the necessary major overhauls.

Mr. JACKMAN: I do not think from looking at the statement that we could possibly do other than compliment the line on their general depreciation policy.

Mr. MATTHEWS: Yes.

Mr. JACKMAN: But with respect to the year 1944, and perhaps in view of the fact that there may have been over depreciation or depreciation that was on a very conservative basis, to say the least, do you think they drew upon their surplus or fat as it were, to reduce the amount that they had to set up for 1944?

Mr. MATTHEWS: For depreciation?

Mr. JACKMAN: Yes, for future years. Mind you, in the end everything will be all right. But I want to know with respect to the year 1944, looking at it on its own feet alone and not at the conservative policy adopted in the foregoing years, was a sufficient amount set up for 1944? I know you will arrive at the right end if you continue until 1946 and 1947.

Mr. MATTHEWS: You must take into account your repair costs.

Mr. JACKMAN: Yes. I grant you that. I am only asking your opinion.

Mr. MATTHEWS: That is what I say. We could only form that opinion if we could see that the repair costs per mile flown for 1944 were sufficiently higher to merit the decrease in the depreciation accrual for 1944. That is the thing that justifies it in our mind. If repair costs in 1944 had remained stationary per plane mile flown, even if these planes did continue in operation until 1946 and 1947, there would be the point that you bring up, that we would have been drawing, as it were, on the conservative policies of the previous years. But in view of the increased plane mile costs for overhaul repairs, we do not think that that is the case.

Mr. JACKMAN: I believe at another sitting in a prior year it was brought out that the president did not receive any remuneration at all directly from the T.C.A. but merely got his remuneration as a director of the C.N.R.

Mr. MATTHEWS: Yes.

Mr. JACKMAN: That is so? That continues so?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: Of course, if the president were paid the amount that I think all of us will say he is worth, it would be a substantial item in the operating expenses. It would, I should think, turn that little surplus of \$7,000 odd into something less than 5 per cent earned on your capital. In your opinion, Mr. Matthews, what should a man who can discharge well the functions of president of an air line as large as T.C.A. receive annually?

Mr. MATTHEWS: Now, Mr. Jackman, you would not expect me to answer that question, would you?

Mr. JACKMAN: I certainly would.

Mr. MATTHEWS: The arrangement is that the Canadian National Railways supply certain services.

Mr. JACKMAN: Do you think that accounts for a lot of this surplus they gave us last year?

Mr. MATTHEWS: But, Mr. Jackman, I think if I remember correctly, Mr. Symington said yesterday that the arrangement between the C.N.R. and the air lines was one of benefit to both. We agree with that statement.

Hon. Mr. HOWE: How much do you think Mr. Symington's services are worth?

Mr. JACKMAN: To T.C.A.?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: You could not begin to bet them on the market for \$25,000, and I do not know how much higher he should be paid. But if he gets \$25,000, as he is getting, I do not know why he does it. I suppose it is love of country, the same as some of the rest of us.

Mr. BEAUDOIN: How does the salary of the actual president of T.C.A. compare with the salaries paid to the president of similar companies in the United States?

Mr. JACKMAN: He does not get anything. He is a public servant.

Mr. MATTHEWS: I do not think you can predicate accounts on the hypotheses as to what they should be "if". The fact of the matter is that at the present time it is not costing T.C.A. any money.

Mr. JACKMAN: Here we have a gentleman of high executive calibre whose services now given to T.C.A. could command a very substantial sum in the market, but who for reasons of his own sees fit to devote his time and energies in part to T.C.A., and there is no charge for that. I am suggesting that if there had been a charge at all commensurate with the quality of his services it would have been an additional item in the operating expenses which would have had a serious effect on the surplus account which now shows a balance of \$7,409 in favour of the company, and that would have been turned into a deficit. You do not disagree with my generalizations?

Mr. MATTHEWS: If there had been a salary of \$25,000 or \$50,000, the results would have been changed by that amount. We could not go beyond the fact that T.C.A. are enjoying the services of Mr. Symington and you gentlemen are in a position to approve their value. But they are not reflected in the costs because T.C.A. does not have to pay.

The CHAIRMAN: Are there any other questions?

Mr. JACKMAN: In the last paragraph—I have only got this French version and I am not getting on very well with it—but at the bottom of page 6 you mentioned that there was a decrease in the appropriation for pensions depreciation inventory. What were the totals for the two years and what is the relation between them.

Mr. MATTHEWS: Depreciation on equipment decreased \$299,600. Depreciation on ground facilities decreased \$40,000, and in that case it was because the depreciation period was over. In other words, the assets were fully depreciated so far as certain ground facilities were concerned.

Mr. JACKMAN: I did not get all those figures.

Mr. MATTHEWS: On aircraft they were \$300,000; on ground facilities, \$41,000; and on insurance \$145,000.

Mr. JACKMAN: These are the decreases?

Mr. MATTHEWS: That is right, of the special items we mentioned, and the inventory adjustment, \$238,000.

Mr. JACKMAN: What do you mean by adjustment, exactly?

Mr. MATTHEWS: That is related to the extension of the service life of the planes. In 1943 the depreciation rate was based on the original level of three and four years. The purchase of parts for the planes had created an inventory that, over the original expectation of life, would not have been used up in service. Therefore, it was deemed advisable to make a reserve against that. The reason why these inventories were piled up was that the company had to purchase the spares when they were available. But with the extension of the life of the planes, the apparent surplus now in the stores has already been provided for in the reserve which was created in 1943. It was the original intention to make a reserve of a similar amount in 1944. But that was before the major overhaul program was decided upon. So, naturally, if an increase in the reserve was not required in 1944, the charges would show a decrease in comparison with 1943. Would you like to identify that item?

Mr. JACKMAN: The \$238,000 is the difference?

Mr. MATTHEWS: The difference is \$238,000.

Mr. JACKMAN: Between the inventory reserves?

Mr. MATTHEWS: Account Six-fifty-two, Mr. Jackman. You see, in 1943 there was an appropriation of \$230,000.

Mr. JACKMAN: In 1943 you set up \$230,000 which you charged to operating expense as a reserve against inventory?

Mr. MATTHEWS: That was regarded as part of surplus stores at that time.

Mr. JACKMAN: And then, in the 1944 accounts you transferred that \$230,000 back?

Mr. MATTHEWS: No. We did not make a similar charge in 1944, Mr. Jackman, on account of the extended service life of the planes. It is now considered that the reserve that has been established will be sufficient to take care of the surplus stores at the end of 1946 and 1947 when the presently estimated service life of the planes is run out.

Mr. JACKMAN: But you get minus \$7,238?

Mr. MATTHEWS: Minus \$7,138, because in 1944 there were some minor adjustments that created a credit. Then, on the other side, pensions increased \$107,000. Those were the special items to which we made reference.

Mr. REID: I have a question to ask Mr. Matthews. I note on page 7 of the annual report, in speaking of airway facilities, it speaks of the Department of Transport's improving runways and field facilities, airport lighting and navigation aids required for the safe and scheduled conduct of air operations. Perhaps it is not within your scope, but I was just wondering what the amount would be if the Transport department did not do that. It would certainly be an added cost to the operations of T.C.A. It would be interesting to know just what services the Department of Transport provide. After all, this committee is entitled to know how much the public is contributing towards that work and

how much the company is getting, apart from its passenger revenue. Here there seems to be an item which, if they had to pay for it themselves, would be fairly costly.

Mr. MATTHEWS: I am afraid the Department of Transport would be the source of that information.

Mr. REID: I shall certainly inquire about it from the Department of Transport because I want to have the complete picture. Sometimes we hear about the postal department doing so well, but on the other hand you may go back and dig into that.

Mr. SHAW: I brought up this same matter the other day and I concur in the view expressed by Mr. Reid. I feel it is very difficult to get a true and correct picture if we do not know the extent to which the Department of Transport has made expenditures on behalf of the operations of T.C.A. And in the same connection, I would second the observations by Mr. Jackman with respect to the salaries which have to be paid in the future, when T.C.A. has its own president. I think those are very important items. I would support Mr. Reid in asking that that information be supplied at the earliest possible moment.

Mr. HAZEN: On page 50 of the estimates for 1946, under airways and airports, construction and improvements, including lighting and radio facilities, \$2,419,250, those facilities may not all have been used by T.C.A.?

The CHAIRMAN: It is too bad that these questions could not have been asked when the Minister of Transport was here because there is no one here now.

Mr. JACKMAN: It is one of the major subjects of this investigation and I would say that it was certainly not due to any oversight when this subject was brought up.

Hon. Mr. HOWE: I can relieve your mind on that. I am the minister who is responsible for airports. It has nothing to do with T.C.A. T.C.A. operates on the theory, just as any other airway does, that the airports are not their responsibility. If the airports are not suitable, then they cannot go to them.

Mr. JACKMAN: The exact difficulty, Mr. Howe, is when you leave the realm of private enterprise, where individual items are on their own footing, you do not know where you are at. Consequently one has to ask questions, in order to get things clarified. Here we have a man like Mr. Symington serving free of charge.

Hon. Mr. HOWE: Do you object to it?

Mr. JACKMAN: No, I do not, but it is unusual.

Hon. Mr. HOWE: It is not unusual. We have had fifty doing the same thing within the last five years. It may be unusual for some men, but usual for others. That is the only difference.

Mr. JACKMAN: That is right, but I do think it is an unusual circumstance, if we look upon T.C.A. as a business concern. That is what is in the minds of some of the members, at least, around this table, because we want to know what the true operating costs are not only as they are reflected in the accounts which are opposite, but with respect to those items which are left out. I do not think you will get a president who will not expect some remuneration for his services.

Hon. Mr. HOWE: That is why a public operation can operate in the black where a private operation operates in the red.

Mr. JACKMAN: I do not understand what you are saying.

Hon. Mr. HOWE: It is one reason why this operation is in the black and why another operation is in the red.

Mr. JACKMAN: That may be one of the reasons but here you have got expenditures which dwarf the total capital invested in the T.C.A. into a mole hill, expenditures on the part of the Department of Transport in the way of

providing facilities. All that this committee wants is an examination of them to make sure that we at least pass our judgment on them in our capacity as representatives of the House of Commons on this committee, and because we have the responsibility of reporting back to the House.

I feel we should know what the tie-in is between the departments, the T.C.A., if you like, and the Department of Transport. There is a feeling which I think is quite well justified that the tie-in is so close that we are never quite sure just how things are. Yesterday, Mr. Symington said that as long as he was there things were going to be run on a strict businesslike basis. I take no exception to that but it is hardly a businesslike basis to have Mr. Symington's services donated to the T.C.A.

Hon. Mr. HOWE: As a matter of fact the airport position is quite clear. It is the same in Canada as it is in the United States, the United Kingdom or any place else. St. John is very anxious to get service from the Trans-Canada Air Lines. Trans-Canada Air Lines like to give service, but they cannot give service because there is no airport. Until somebody builds an airport there they will not be able to give service. The same would apply to the city of Montreal if they had no airport, or to the city of Toronto. The state builds the airports.

Mr. SHAW: There is a difference though between a privately owned airport if there is such a thing and a government owned airport because out of taxation must come the money to maintain the government airport.

Hon. Mr. HOWE: The only difference is whose taxation. With a city airport it comes out of municipal taxation; with a federal airport it comes out of federal taxation.

Mr. SHAW: This is a nationally owned enterprise, not a municipally owned enterprise.

Hon. Mr. HOWE: There are privately owned enterprises that use the same airports.

Mr. SHAW: We are not dealing with those.

Mr. SYMINGTON: May I ask is it not the same thing? Whether it is run by a public or a private corporation neither of them build airports. No private concern ever builds an airport and no public concern builds an airport. Whether the company is publicly owned or privately owned makes no difference as to the subject you are discussing. If this line were run by the Canadian Pacific Air Lines or any other air line they would not build airports. Neither do any of the private companies in the United States or in any other country. Neither do they build docks if they are running ships or anything of that kind. You operate an air line and land at airports which are prepared, and it does not make any difference, as I see it, whether it is publicly owned or privately owned as to this subject you are discussing, namely who builds the airports? The dominion government in any event builds the airports; the United States in any event builds the airports; the British government in any event builds the airports, and the French government builds the airports. All governments build the airports. It does not matter who operates the line as far as airports the line as far as airports are concerned.

Mr. JACKMAN: We can see all that, but we have the government through its chosen instrument desiring to have a monopoly of all important air lines in the country and issuing an order to those Canadian companies which are now operating and which might use these airports to divest themselves of their air services. That applies to the only other main competitor, and the situation is very close. Of course, some of us are of a suspicious nature. That is our business.

Mr. SYMINGTON: I realized that.

Hon. Mr. HOWE: You have noticed that.

Mr. JACKMAN: We are therefore entitled to find out those facts which we consider relevant. If by some ruling of evidence it is shown that we cannot get the facts we can always go downstairs and plead our case there but while we are here we certainly want to know what is the total cost to the people of Canada of providing air transport on the main lines where T.C.A. is the only operator. It is similar to a man having a farm in western Canada which is very poor land and needs irrigation. He pays \$5,000 for his farm. Then the government comes along and spends \$50,000—in fact, the relationship is more nearly \$100,000—on irrigation, and it is said that the man makes a return of 5 per cent on \$5,000. That is not the return at all on the total expenditure.

We have a somewhat similar case in front of us at the present time. In spite of the fact that all countries provide airports we might just as well argue about docks and lighthouse facilities that the government does not provide the right of way. True they are providing landing grounds and railway stations and everything else, but why should we compare it with steamship docks? Why not compare it with land transportation?

That brings me to the matter that the T.C.A. will be competing and is now competing with the railways which have to provide their own rights of way and their own terminal facilities. It also brings to mind the fact that the government owns the T.C.A. and wants to expand it and drive private competition out. Yet you have the two government services competing with each other. It is the same thing with the argument that goes on between truck owners and railway operators. The truck owners do not pay for the roads except in a very moderate way in gasoline taxes, and the railways cannot compete. They have to keep up their roadbeds and all their facilities while the local governments provide roads free of charge to the trucking industry. It is a very vital question.

Mr. NICHOLSON: The C.P.R. has not done too badly during the past at public expense. They had their land grants.

Mr. HAZEN: Steamship companies do not pay for the docks but they pay for the use of the docks?

Mr. SYMINGTON: We pay landing fees at the fields.

Mr. HAZEN: In connection with railway transportation the railways put up their own stations?

Mr. SYMINGTON: That is true. Mind you, the railways got their rights of way through government grants. I am not going into that. All I say is that as the T.C.A. is being examined here we have not the slightest idea of the cost of the airports. I cannot give you that information; that is all. No other air line can give it to you.

Mr. MUTCH: It does not affect your operation at all?

Mr. SYMINGTON: It is not a part of our operation. That is not what we are here to do. I cannot give that to you because I do not know.

Mr. JACKMAN: We are not questioning you particularly. It comes up quite properly under the bill.

Mr. NICHOLSON: The discussion does come up under this auditor's report, does it not?

Mr. MATTHEWS: Mr. Chairman, on that point without having any part in the discussion about the merits or demerits of the supplying of these facilities by the Department of Transport, or whether Mr. Symington should serve with or without salary, I should like to make it clear that as far as these accounts and the information given to this committee are concerned the facts are made abundantly clear. I think that that is something we should bear in mind in

this discussion. We do not want any misunderstanding that the accounts, or the information given in relation to these accounts, fail in any particular to set out important information of that kind. The information is given to this committee and it is set forth in a way that there cannot be any misunderstanding.

Mr. REID: What was the reason for the increase in the amount provided for pensions? In 1943 it was \$42,000.

Mr. MATTHEWS: \$26,000. In 1943 there were just six months. The pension plan became operative the first of July, 1943. That is one of the reasons. That is just half a year. In 1943 there was also an adjustment because of an over-estimate that was made in the previous year when the reserve was set up in anticipation of the pension plan coming into being.

Mr. REID: It seems such an increase.

Mr. MATTHEWS: To begin with the pension plan was only in effect for half a year in 1943.

Mr. REID: The other question I had in mind was speaking about the surplus on page 6.

Mr. MATTHEWS: Which?

Mr. REID: The surplus for the year shows a decrease of some \$140,000 in comparison with 1943. The question there is is the provision for depreciation, inventory and insurance reserve in 1943 greater than 1944?

Mr. MATTHEWS: I have tried to explain that to Mr. Jackman. I will repeat it for you.

Mr. REID: No, I will find it in the record.

Mr. MATTHEWS: I have no objection.

Mr. REID: You gave it in detail?

Mr. MATTHEWS: Yes, but I will be glad to give it to you again.

Mr. REID: That is not necessary.

The CHAIRMAN: Any other questions, gentlemen?

Mr. McCULLOCH: I move that the report be adopted.

Mr. PICARD: I second the motion.

The CHAIRMAN: It has been moved and seconded that the auditor's report be adopted.

(Carried)

The CHAIRMAN: We have left now bill 21.

Mr. REID: When do we discuss the mail contract?

The CHAIRMAN: I believe under the bill. Just before we start I should like to mention that Mr. McLure has taken Mr. Harris' place on the committee.

Mr. HARRIS (*Grey-Bruce*): Mr. Harris of Danforth.

Mr. REID: As long as he does not want another ferry.

Mr. McLURE: I might take this opportunity to say that I have been at other meetings but I was not privileged to have anything to say. I want to ask the chairman now would it be in order at some future meeting for me to refer back to that particular part which I am interested in, the Borden ferries? It is just for the sake of getting some information that I think should have been recorded at that time.

The CHAIRMAN: Mr. McLure, I know that the committee is anxious to give you every consideration. What does the committee think about Mr. McLure's request? When would be an opportune time for him to say a few words about that?

Mr. REID: What about witnesses?

The CHAIRMAN: Perhaps the officials are here to answer that question? I am not sure.

Mr. REID: Unless they are here it is going to be difficult for Mr. McLure to get the information he desires.

Mr. MUTCH: They have all been dismissed.

The CHAIRMAN: How long would it take?

Mr. McLURE: Leave it over to the next meeting.

Mr. HAZEN: When will the next meeting be? We may not have another meeting for some time.

The CHAIRMAN: The Canadian National officials are not here. I do not know which one would answer your question.

Mr. McLURE: There might be one of them here who could answer it at the next meeting.

Mr. HAZEN: If Mr. McLure does not speak now he may have to hold his peace for some time.

Mr. McCULLOCH: I think that has been gone over.

The CHAIRMAN: I know that the committee wants to be courteous to Mr. McLure, and I want to, too. Now, we will take up bill 21. I think it was suggested that the minister say a few words about bill 21 before it was discussed by the committee. Does that meet with the approval of the committee?

(Agreed)

Mr. MAYBANK: Have you got plenty of copies of the bill there?

The CHAIRMAN: Just a minute, and we will get a few more copies.

Hon. Mr. HOWE: The purpose of this bill was discussed fully in the House of Commons on the resolution and again on second reading. The purpose is to put Trans-Canada Air Lines in a position to undertake largely added responsibilities, through the operation of lines outside Canada. The bill increases the capital of the organization and also changes the basis for the mail contract.

The original bill provided that the mail contract would be automatic. It provided that the line would charge for passengers a roughly competitive rate with that of United States lines and that express and other charges would be similar to those of United States lines, but that the mail rate would be reduced, any increase in earnings, that is, that any earnings of the line would be charged 50 per cent to reducing the mail rate and 50 per cent to the credit of the company.

It was an automatic feature. Once a contract was made the mail rate was adjusted automatically at the end of every year. That is found to be somewhat unworkable. The time has come when the demands of the passenger service exceed those of the mail service so far as the number of planes is concerned, and the result is that we are putting on three and four services, and perhaps should have five, six or seven services, whereas the requirements of the mail are satisfied by two or perhaps three services a day. The post office objected to carrying out the terms of the old Act in the matter of additional services. The result is that it seems at this time desirable to work out a different form of contract as far as the carriage of mail is concerned. This Act eliminates the automatic feature of fixing mail rates and leaves these negotiations between the air line and the post office department. It also leaves the governor in council free to add additional services on the recommendation of the minister responsible for the Trans-Canada Air Lines operations.

Mr. JACKMAN: What basis is that on? Is that on so much per pound of mail, per ton mile; what is the basis of that?

Hon. Mr. HOWE: We started with a rate of 60c per mile flown.

Mr. JACKMAN: Is that per ton mile?

Hon. Mr. HOWE: It is not ton mile, no; it is a mile flown. The post office had the right to put in as much mail as they wished to on any single flight up to 1,200 pounds, that 1,200 pounds would take priority over any other load.

Mr. REID: Would it take priority over passengers?

Hon. Mr. HOWE: Yes, it took priority over passengers. For that they paid the air lines 60c per flight mile flown.

Mr. JACKMAN: That would be over established routes?

Hon. Mr. HOWE: Over established routes, yes.

Mr. NICHOLSON: And every flight would be charged?

Hon. Mr. HOWE: Every flight would be charged, yes.

Mr. MAYBANK: That dropped down to?

Hon. Mr. HOWE: 42c. It was adjusted at the end of each year.

Mr. MAYBANK: That priority always remained in force?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: This terminology is confusing at times. When you say, "per flight operated", does that mean that if there are two flights a day, the post office department would have to pay twice as much as they would for one flight? Is that the way it works out?

Hon. Mr. HOWE: That is perfectly correct.

Mr. JACKMAN: And at the end of the year if there was a profit the contract rate would be reduced by 50 per cent?

Hon. Mr. HOWE: By 50 per cent of the profits.

Mr. JACKMAN: And if there is a loss?

Hon. Mr. HOWE: If there were a loss the contract flights would be increased.

Mr. REID: That is for the whole operation?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: Was the price increased by the full extent of the loss, or by 50 per cent of the loss?

Mr. SYMINGTON: By the full extent of the loss.

Hon. Mr. HOWE: By the full extent, was it?

Mr. SYMINGTON: Yes.

Hon. Mr. HOWE: There never has been any loss so it has not been applied.

Mr. NICHOLSON: Under the present contract have you information as to the cost per ton mile?

Hon. Mr. HOWE: It could be worked out. Have you got that there?

Mr. SYMINGTON: We have it.

Mr. NICHOLSON: Did you say you have that available?

Mr. SYMINGTON: Yes.

Mr. NICHOLSON: Mr. Herring, of the department, might have that.

Mr. SYMINGTON: We can get that.

Mr. JACKMAN: Was the rate originally in force reduced once, or twice?

Mr. SYMINGTON: There has been a drop every year, actually.

Mr. JACKMAN: But there has been no change in principle?

Mr. SYMINGTON: No, just simply applied to the contracts reducing it as we got more passenger earnings. The mail rate was reduced from 60c to 54c, to 50c and down now to 42c.

Mr. HARRIS: Should we not let the minister finish his statement? I think he was just in the middle of the mail contracts.

Mr. JACKMAN: He was going to give us the basis of the main contracts.

The CHAIRMAN: He is just busy for a moment.

Mr. NICHOLSON: While the minister is working out what he has there before him, I wonder if someone could tell us the rate paid to the Canadian Pacific Air Lines per ton mile?

The CHAIRMAN: That is not a matter which belongs to this committee. While Mr. Herring is here, I do not suppose he would have any right to give evidence unless he is called by the committee. Perhaps the T.C.A. could give any information which they might have.

Hon. Mr. HOWE: The mail rates for the Canadian Pacific are on a different basis; they are based on the pound of mail, or the ton of mail.

Mr. NICHOLSON: I thought we might have some basis of comparing what we have been paying to the C.N.R., and if we have the information we might be able to compare it with the C.P.R.

Hon. Mr. HOWE: I have no information on rates to the Canadian Pacific. I dare say Mr. Herring could be called later and give you that information.

Mr. MUTCH: Let us have the statement.

Mr. HERRING: There is really no comparison between the T.C.A. and C.P.A. because the situation with respect to each is decidedly different. The C.P.A. handles a diversified traffic, it carries everything; and it is not even air mail, particularly; it carries parcel post as well. I think the rate is 50c per mile.

Mr. MAYBANK: There are a number of different contracts, according to the route served.

Mr. REID: I think we better wait and go into that more fully at a later stage.

Mr. HAZEN: Let's have the minister's statement.

The CHAIRMAN: I think the minister should finish his statement. If the committee would agree to do that we could go on.

Hon. Mr. HOWE: I think my statement could better be made as we examine the bill clause by clause. Each clause brings up a new subject. I shall be glad to make a statement on each clause as I go along, if that will be satisfactory to the committee.

Mr. JACKMAN: I was thinking about what you said about the contract with the post office department; they are working for a revision of the principle?

Hon. Mr. HOWE: I do not know that they are asking for a revision, but there have been some differences of opinion which indicate to us that a revision is desirable. For instance, I have never had a letter from the post office asking for anything in that respect but the post office department have agreed to the terms of this bill. I presume that as they agreed to it they feel the time has come to revise the contract.

Mr. JACKMAN: The passenger end of the T.C.A. operation is increasing much more rapidly than the other, is it not?

Hon. Mr. HOWE: Yes, very much more rapidly, and will increase more rapidly. The mail proposition is one that is more or less stabilized at the moment; it may go back a bit and then increase again; but the passenger business is vastly greater than we have been able to service.

Mr. JACKMAN: If you were to have three or four times as many flights as you have now with the post office's business remaining more or less static, it would become almost intolerable to the post office, would it not?

Hon. Mr. HOWE: No, because the thing would adjust itself over a period. It might cost them a good deal more this year, but the adjustment in the mail rate would offset that next year. They might temporarily face a loss.

Mr. JACKMAN: But you say that they have not asked for a revision of the contract?

Hon. Mr. HOWE: No, not to me; no.

Mr. JACKMAN: It would appear that the contract would be working in the future against the post office department if carried on under the present arrangement.

Hon. Mr. HOWE: The difficulty is that it calls for joint action. It is very difficult for the post office. If we want to run in the middle of the day to serve passengers, they naturally say that it does not interest them, it does not serve mail and they are not inclined to agree. That puts them in a position of agreeing with something that means nothing to them even if other interests require service.

The CHAIRMAN: Would you like to take the bill up clause by clause and then have your general discussion afterwards? Would you like to do that, Mr. Howe?

Mr. MUTCH: Yes, that is a good start.

Hon. Mr. HOWE: That would be best.

The CHAIRMAN: If that is the best way to handle it.

Hon. Mr. HOWE: Shall I read the bill?

An Act to amend the Trans-Canada Air Lines Act, 1937.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Subsection one of section seven of The Trans-Canada Air Lines Act, 1937, chapter forty-three of the statutes of 1937, is repealed and the following substituted therefor:—

7. (1) The authorized capital of the Corporation shall be twenty-five million dollars divided into shares of one hundred dollars each, represented by share certificates.

The CHAIRMAN: Are there any questions about that?

Mr. REID: Could we have an explanation for the increase from \$5,000,000 to \$25,000,000?

Hon. Mr. HOWE: The services to the United Kingdom, to South America and across the Pacific will require larger investment in planes; and also because of the likelihood of an increase in our domestic service it will be required to buy larger planes and to have more planes, and this provides the additional capital needed to carry on that expansion program.

Mr. GIBSON: Do you expect that this will be enough to provide sufficient capital for all the planes you require? They cost around a million dollars a piece.

Hon. Mr. HOWE: No, it will not, but we feel it will prove to be enough, so you see our capital is replenished quite rapidly by the depreciation account.

Mr. GIBSON: Oh yes, and I see from the report that that is on the basis of 25 per cent per year.

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: How many shares of this new capital do you expect will be issued this year?

Hon. Mr. HOWE: Probably Mr. Symington could tell you that.

Mr. SYMINGTON: I would not expect any in 1945. May I point out to the committee, as the legal gentlemen here will know, this is a matter of capacity in a company. It is there. If the government, or anybody else, wants to invest in these shares, we have the capacity to issue them. Because we are capitalized

at \$25,000,000 does not mean they are going to be issued immediately. In our domestic air lines you gentlemen know we were authorized back in 1937 with a capital of \$5,000,000, but it was only last year, or the year before, that we got up to \$4,600,000.

Mr. REID: Who issues the shares?

Mr. SYMINGTON: The C.N.R.

Mr. REID: They own the \$25,000,000?

Mr. SYMINGTON: They only own \$4,600,000.

Mr. REID: Will they have the issue of these shares?

Mr. SYMINGTON: The provision here is that they will, unless they are taken over, unless a separation takes place and the government takes it over. While it is provided and the \$25,000,000 is there, we will only issue the amount that we think will be needed. If we do not need \$25,000,000 but only \$20,000,000, then only \$20,000,000 will be issued; if we do not need \$20,000,000 but only \$15,000,000, only \$15,000,000 will be issued. As I say, it is only a matter of capacity; the government will not put up any money before this stock is issued, and then they will put only what is required.

Mr. HAZEN: You do not expect any money to be put up this year?

Mr. SYMINGTON: None at all.

Mr. HAZEN: No issue this year?

Mr. SYMINGTON: I would not expect so, no.

Mr. HAZEN: How many do you expect to issue next year?

Mr. SYMINGTON: That depends on the results we get in the time of construction on the new planes. If they are completed next year we will need quite a lot, if they are not completed until January of 1947 we will not need so much. These planes come off the line one every month, two months or three months. In the expansion program on the domestic, as I told you the other day we contemplate 21 conversion planes. As near as we can figure out, these planes may cost us, let us say \$100,000, that is \$2,000,000. All our domestic planes I think undoubtedly will be ready next year. I was looking at our statement and our depreciation fund, and so on, pretty near takes care of that. We may need a little bit, but not so very much, because our reserves from depreciation are for the purpose of purchasing new equipment. When you embark upon four-engine equipment to run 10 planes to the old country, 10 planes to South America and 10 planes to the Orient—Australia; there are 30 planes which may cost us, let us say \$500,000 a piece. That is a lot of money. It would come up month by month as these planes are produced and put into operation. Naturally we order them and we have to pay for them. We do and come to the government and say, "Here, buy a million dollars' worth of stock to provide us with money to pay for these planes." That is the way the thing works out.

Mr. JACKMAN: May I ask what the mechanics are of actually getting cash for the T.C.A.?

Mr. SYMINGTON: The actual mechanics up to date have been these: the Trans-Canada Air Lines pass a resolution notifying the Canadian National Railway that they need more capital. The Canadian National directors then meet and pass a resolution subscribing for more shares in Trans-Canada and send them a cheque, and Trans-Canada sends the Canadian National the stock certificate. If it remains in the Canadian National, that will be the procedure. If separation takes place, the same procedure will be followed with the government.

Mr. REID: I am one of the new members of the committee, and I should like to ask if there is any interest paid on this stock?

Mr. SYMINGTON: 5 per cent.

Mr. REID: To the railway?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: A dividend.

Mr. SYMINGTON: It is virtually a dividend. It is charged in as an operating expense so as to insure it as a first charge; but it is virtually a dividend, yes. That is all the shareholder can get under any consideration.

Mr. REID: That will help the C.N.R. finances, by holding the stock.

Mr. SYMINGTON: It depends on what the C.N.R. have to pay for their money.

Hon. Mr. HOWE: Maybe the rate is too high.

Mr. JACKMAN: This stock is limited to a 5 per cent dividend?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: What happens to the surplus? You can keep it in T.C.A. no matter how large it is?

Mr. SYMINGTON: The surplus up to date has gone into reducing the mail rate, so that there is no further surplus.

Mr. HAZEN: Is this 5 per cent like a dividend? Does it come out of earnings? If you do not make anything, what happens?

Mr. SYMINGTON: It is a charge. It is put into the original scheme as an operating cost.

Mr. JACKMAN: As I understand this, the surplus of the C.N.R. goes back to the consolidated revenue fund.

Mr. SYMINGTON: That is right.

Mr. JACKMAN: But with the surplus of the T.C.A., you are allowed to keep it up to a certain point. There must be some provision in the Act for that. What is it?

Mr. SYMINGTON: No. There is no provision in the Act. T.C.A. originally needed to get something for a reserve against its growing operations, and half the profit that it made was put into the reserve.

Hon. Mr. HOWE: If T.C.A. does not need its extra money, it can buy back its stock, I suppose.

Mr. JACKMAN: What happens to the other half of the reserve?

Mr. SYMINGTON: It goes to reduce the rates to the post office.

Mr. JACKMAN: The mail contract?

Mr. SYMINGTON: Air mail.

Mr. GIBSON: I would not worry about too much profit.

Mr. JACKMAN: No. There is no use talking about a limit of 5 per cent. It does not mean anything. All these government things are so odd as compared with shall I say, legitimate business.

Mr. MUTCH: They are attempting to make it simple.

Mr. SYMINGTON: All the C.N.R. gets out of it is the 5 per cent on the money they invest.

Mr. JACKMAN: Once authorization is approved by the House. It is a bit different surely from applying for an ordinary charter for a company.

Mr. SYMINGTON: Not a bit, as far as I can see; because the charter is issued under legislation of the House authorizing it.

Mr. JACKMAN: Yes?

Mr. SYMINGTON: In a general way instead of a specific way.

Mr. JACKMAN: It is the people's money, however, and once the authorization is given to the T.C.A. here, the only people who have a check on it is the—

Mr. SYMINGTON: Is the government.

Mr. JACKMAN: Is the C.N.R. at the moment.

Mr. SYMINGTON: No, the government.

Mr. JACKMAN: You just said that in the mechanics—

Mr. SYMINGTON: Before any sum of money can be invested, the government has to approve of it by order in council. It is a question of parliament as opposed to the government. That is what it is. Parliament authorizes us to do it if the government wants to buy it.

Mr. JACKMAN: I asked you about the mechanics of getting the money and you said the T.C.A. passes a resolution showing its need which goes to the C.N.R. and the C.N.R. directors can do it if they wish to.

Mr. SYMINGTON: Oh, yes. But I should have perhaps gone further. The C.N.R. can make no capital investment except they go to parliament and in every estimate or budget that the C.N.R. has put before the Canadian parliament, you will see in the year's budget they bought stock; and in each year you will see \$4,600,000 invested in T.C.A. They can invest no capital moneys of the C.N.R. at all without the approval of parliament.

Mr. MUTCH: Carried.

The CHAIRMAN: Are there any other questions?

Mr. HARRIS: Just a minute. That consent of parliament, though, is fully obtained afterwards by a committee like this.

Mr. SYMINGTON: No. The C.N.R. presents its budget for 1946 now before you; if it is going to subscribe for stock of T.C.A., it is in its capital budget and you pass it in the House.

Hon. Mr. HOWE: Approved by parliament.

The CHAIRMAN: Are there any other questions on that section?

Mr. HAZEN: As I understand it, before you start your service to the United Kingdom, you have to get your planes?

Mr. SYMINGTON: Yes.

Mr. HAZEN: And you do not know when you are going to get them?

Mr. SYMINGTON: That is it.

Mr. HAZEN: In addition to that, you have to come to an agreement with the United Kingdom government, the British government, do you not?

Mr. SYMINGTON: Yes, about landing, commercial rights in their country.

Mr. HAZEN: And you do not know when this agreement is going to be reached?

Mr. SYMINGTON: Well, the minister stated yesterday it was to be made very shortly between the two governments.

The CHAIRMAN: Are you ready for section 2?

Mr. MUTCH: Section 2.

Mr. JACKMAN: I take it, Mr. Symington and Mr. Howe, that while parliament and this committee will have a chance to scrutinize any capital expenditures, any of the \$25,000,000 which may be authorized and desired to be spent at a future time; nevertheless, unless it is to be a pure formality in authorizing the \$25,000,000, I cannot help but feel—unless I am a little premature,—that we should know what the \$25,000,000 is for beyond the fact that "I want to build an air line to Great Britain and perhaps to South America." I think we should have a breakdown. Particularly am I fortified in that opinion, and it encourages my suspicious nature, when you said yourself, Mr. Symington, the other day, "I would not want to invest my own money in them", referring to these external lines.

Hon. Mr. HOWE: I can tell you there are some private corporations that are very anxious to invest their money in them.

Mr. JACKMAN: Yes. But if we had a private corporation asking for this money, we would have a breakdown of the expenditures and what they are to be for.

Hon. Mr. HOWE: If you pass a bill or if you sought the incorporation of a company and if its capitalization was \$25,000,000, you would not give us any breakdown, would you, if you were were asking for a million dollars? You want a breakdown and we could probably give it to you. It is simply a matter of the capitalization of a corporation.

Mr. JACKMAN: I realize the legal distinction. Yet I am not quite satisfied that we, as a committee, have fully discharged our duties when we say, "the T.C.A. asks for \$25,000,000,—it would make no difference whether it was \$25,000,000 or \$500,000,000,—it is merely authorization, merely fictional and it is not our duty to scrutinize what they want the money for." I have a rather different conception of my duty, although I am not too certain that I am right in taking that as acutely as I do.

Mr. MUTCH: At the moment they are not asking for any money at all, as I understand it. Am I right?

Mr. SYMINGTON: That is correct.

Mr. MUTCH: They are asking that they have permission at some future date to ask for money up to \$25,000,000. Is that not right?

Hon. Mr. HOWE: That is what it is.

Mr. MUTCH: Not being a lawyer, perhaps I understand it easily.

Mr. SYMINGTON: It is a peculiar situation. If a private company came up with a private bill, these clauses would never be questioned; but at public company comes and it is questioned. It may be all right. I do not know. It is a pure question of cabinet. What you are doing is saying, "This does not mean anything; but we are afraid the government, who have charge of it, will not in the future properly exercise their rights as to whether they are going to allow this company to spend money freely or not." If you do not give a company authorized capital you might as well say, "Go out of business now." There is nothing in it. Authorized capital means nothing.

Mr. JACKMAN: I may be somewhat cynical. I think perhaps you are right.

Mr. HAZEN: To what extent will the line that is to be set up, especially to the West Indies and South America, affect the earnings of the Canadian National Steamship Companies?

Mr. SYMINGTON: I do not know.

Mr. HAZEN: Has that been considered?

Mr. SYMINGTON: Well, no. That has not been considered.

Hon. Mr. HOWE: Having in mind that Canadian National steamships do not carry passengers, I do not think it will affect that very much. We will not carry freight.

Mr. HAZEN: The boats carried passengers before the war, and mail.

Mr. SYMINGTON: Naturally one important consideration, as I understood it,—certainly as we shall view it—is that as these boats were destroyed, and if new boats were to be built, if there is to be an airline, construction of these boats would naturally be different in the number of passengers they would carry compared to its insulated freight situation. If there are going to be airlines—and there will be; if we do not run them somebody else will—then of course you would have larger passenger accommodation in your West Indies trade agreement if that agreement is renewed. But I think you should view this

thing purely as an airline. An airline may want to run to South America. It may want to run to the West Indies. If it does want to run there and it is decided that it is a good thing to do that, in the judgment of the government, it has the means of getting the capital to do it, if the government is satisfied that it is a good thing to do.

Mr. HAZEN: These are government owned operations. Do we not have to look at it in this light, that we do not want each one cutting the others throat at the cost of the taxpayer?

Mr. SYMINGTON: Yes, probably you do.

Mr. HAZEN: That is something that has to be kept in mind.

Mr. SYMINGTON: That is quite true, but I would suggest to you that somebody is going to run an airline between Canada and the West Indies. If we do not run to the West Indies, the British West Indies Air Lines will run to Canada. They may both run. I do not know. But certainly you cannot throttle modern transportation by air, and you might as well stop trying to do it. You cannot do it. It is just impossible unless you are going to relegate yourself to being a second-class country. Things are progressing too fast, that is all.

Mr. PICARD: Do not the two services simply supplement one another? They are not especially competing. They are a different type of trade. Some people may want to go by air, and may prefer to go by air rather than by ship. I do not think there is so much competition; I think they are just supplementary services. Some fast freight will be shipped by air and slow freight will be shipped by boat.

Mr. SYMINGTON: If that argument is good, we ought not to have any air lines in Canada at all, because there is no use in blinding our eyes to the fact that they are going to interfere with the Canadian National. Isn't that true, Mr. Hazen?

Mr. HAZEN: I did not come in here to argue, but just to ask questions.

Mr. SYMINGTON: Of course; but it seems peculiar, in an authorization capital statute, which is a different thing to authorizing a subscription by the government to that stock.

Mr. GIBSON: If we have an airline we are going to have to give them some money to run it; there is no doubt about it. Maybe we should establish the broad principle of whether or not we do want airlines in Canada.

Mr. JACKMAN: But we have the word of an expert operator that he would not want to invest his own money in it. That should put us on guard as watch dogs of the treasury.

Mr. BEAUDOIN: A lot of people invest money in radio broadcasting, so long as it concerns Canada; but they won't invest their money in shortwave radio companies. In T.C.A., national operations will tend to develop in that way as well.

The CHAIRMAN: Is that enough on section 1? Do you wish to carry that section?

Mr. PICARD: Carried!

The CHAIRMAN: O.K. it is carried. Now, Mr. Howe, section 2.

Hon. Mr. HOWE: Subsection (1) of section 12 of the said act is repealed and the following substituted therefor: "12 (1) Subject to the provisions of this Act, the Canadian National Railway Company may issue notes, obligations, bonds and other securities (hereinafter in this section called "securities") not exceeding the sum of twenty-five million dollars for the purpose of acquiring the capital stock of the corporation, and the Governor in Council may authorize the guarantee of the principal and interest of such securities on behalf of His Majesty."

The only change in subsection (1) of section 12 is the power to issue securities to the amount of \$25,000,000 instead of to \$5,000,000.

Mr. MUTCH: Five per cent remains as it is?

Mr. HAZEN: Is it the intention to have the shares of Trans-Canada, or at least those that are going to be issued under this clause to the Canadian National Railways, transferred to the minister?

Hon. Mr. HOWE: That may happen later. They are not transferred under this Act.

Mr. HAZEN: But in view of the fact that in the very near future the railways have to be dis severed from the airways what is going to become of these shares held by the Canadian National Railways when that happens?

Hon. Mr. HOWE: I presume that the government will acquire them from the Canadian National Railways.

Mr. JACKMAN: Why do you not put a clause in this section 12 covering not only the Canadian National Railways but the agency which may operate the air lines, because the Canadian National Railways is to divest itself very shortly, I understand.

Hon. Mr. HOWE: That is so.

Mr. HAZEN: But there is a section in the Act?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: But why must the clause read that only the Canadian National Railways may issue notes, obligations, bonds and other securities?

Hon. Mr. HOWE: The Canadian National Railways, as you know, is financed by government guaranteed securities. If the ceiling drops out of the picture, there will be no government guaranteed securities. That is all.

Mr. REID: Since the people of Canada put up the money, I have often wondered why—when the right was taken by the minister in section 11—it says that the book value of shares, when there is any disagreement, must be determined by a reference to the Exchequer Court of Canada? I always wondered why, when the government was doing all the business and putting up the money, there should be a reference to the Exchequer Court when there should be a disagreement?

Hon. Mr. HOWE: Just in order to have an umpire. That is all.

The CHAIRMAN: Could we stick to "2" for a moment to see if that is all clear? Are there any other questions on "2"? Very well then "2" is carried.

Mr. HAZEN: About "2", have you any idea when this transfer of those shares will take place from the Canadian National Railways to the minister?

Mr. SYMINGTON: It may or it may not take place. It is a matter of government policy.

Mr. HAZEN: But the Canadian National Railways is to be disconnected?

Hon. Mr. HOWE: The Aeronautics Act says that on and after a certain date surface transportation shall not be permitted to own an interest in airlines except with permission of the government. It is no more definite than that.

Mr. MUTCH: But the government could still use Canadian National Railways as their agents?

Hon. Mr. HOWE: No decision has been made.

The CHAIRMAN: Is that O.K., Mr. Hazen?

Mr. HAZEN: It is all that I can find out.

The CHAIRMAN: Well, what about section 3?

Hon. Mr. HOWE: Section 14 of the said Act is amended by adding thereto the following paragraph: "(e) to purchase, hold and, subject to the provisions of this Act, sell and dispose of shares in any company incorporated under section

twenty of this Act or in any company or corporation incorporated for the operation and maintenance of airlines or services of aircraft of any kind." (f) "to lend money to any corporation incorporated under section twenty of this Act on such security as the minister may determine."

Now, that is a new paragraph intended to fit conditions that we meet in operating abroad. As I said in the House, in Brazil there is a government provision which requires that forty per cent of the airlines operating in Brazil must be owned by Brazilian citizens. In that case it might be necessary to carry our operations in Brazil by forming a subsidiary corporation, half of which could be owned either by the Brazilian government or by Brazilian citizens. Then, of course, it is necessary in operating—at least it is desirable in operating outside of Canada—to operate by means of a separate corporation for the reason that accounts for international operations must be kept separately and filed with the international authorities and any subsidy paid must be indicated clearly. In other words, it is not contemplated that domestic airlines will be able to use their surplus in carrying out international operations. In other words, if we operate from Montreal to Prestwick in Scotland, that operation will be carried out under a subsidiary corporation and the accounts will be kept separate from the domestic organization.

Mr. JACKMAN: What other countries are there that you might likely land in, or where you might use facilities, where they have these peculiar laws? Mexico, for instance?

Hon. Mr. HOWE: No, Mexico has not, I believe. I do not know of any others, but I know of that situation.

Mr. SYMINGTON: Most of the South American countries have it.

It seemed to me in considering this bill that it was most important for two reasons, first that the results of the domestic operations should not be confused with the results of any international operation, and furthermore that the international operation should be separate in order to analyse the returns of the international organization and to see what subsidies are paid. American Air Lines, for instance, cannot make a big profit in the domestic airline and hide it in their international airline. The international airline accounts must be kept separate. We form a separate company for international airlines. Let us say it is Trans-Canada Atlantic Overseas or British Overseas, or anything you like. This clause gives Trans-Canada Air Lines the right to hold 100 per cent of the stock in that company. Let us assume that there is a route such as Vancouver to Australia which in all likelihood will be a progressive venture losing considerably at first, at least. It seemed in the commonwealth conference a silly thing for the commonwealth to run parallel competitive routes on what was plainly likely to be a losing venture. Therefore the suggestion was made that that route should be run by the three governments, T.C.A. and the Australian air lines, and so on, and we can hold stock in that company thus minimizing the loss, if it is considered a wise thing to do. The Act is perfectly flexible so that whatever company we have to enter into the stock is to be held in T.C.A. That is the principal thing. We can hold stock in companies of that kind if the government subsequently approves.

Mr. REID: In that event it would show whether the line to Australia was paying and apart from the Trans-Canada in Canada?

Mr. SYMINGTON: Exactly.

Mr. JACKMAN: We have to retain 51 per cent.

Mr. SYMINGTON: Yes.

Mr. JACKMAN: That does not leave very much for the commonwealth share.

Mr. SYMINGTON: Of course, in that case it probably would not be run by a company that was a joint holding company. What we would do, we would own all our own company and Australia would own all their own company and instead

of us operating four trips a week we would operate two and they would operate two right through and the receipts would be pooled. Whether the disbursements would be pooled is a matter still subject to some consideration. We think that perhaps we can operate a little better and we would sooner take care of our own expenses and let them take care of theirs, but in that case to avoid a parallel competitive operation between the commonwealth countries the receipts would be shared. All these things are under discussion. None of them have been settled, but a very wide range of conditions may arise depending upon where you are going to operate.

Mr. REID: If that arose would it be the intention to charge up repairs, planes, and the complete running operation?

Mr. SYMINGTON: There would be standard accounting for each of these companies.

Mr. REID: I think it would be splendid because it would show the picture and we would be able to see whether or not it would be worth while to continue the loss outside Canada at public expense.

Mr. JACKMAN: The minister set forth the difficulties in the Brazilian set-up where you have to have at least 40 per cent of the shares held by nationals.

Mr. SYMINGTON: Let me explain that because the minister did not explain it completely. We can run our international airline down there and own it all. There is no question about that. Every international line there has a local feeder line to furnish traffic to its international line. Pan-American Grace, the German company which has now become Pan-Air de Brazil, and so on, all have companies leading from the large places in Brazil to feed passengers to their international line. If you have such a line that line must be held at least 40 per cent by Brazilian money and you must use a certain number of Brazilian people on it. Whether or not we will ever go into it I do not know. We have had Brazilian people up here, including the government, talking this thing over. They recommend very strongly that these feeder lines are necessary to provide a paying international line. We said we were not particularly anxious to go into that business but we would look into it and study it, which we are doing. Every other international line does it, and if we are going to compete with them and have no feeders we may be out of luck. We may have to go into the feeder business. Whether or not we will is a matter of judgment when the time comes but this Act allows us to do it if it is considered the right thing to do.

Mr. REID: Suppose that 49 per cent of the stock is held by people in Mexico. Would that be guaranteed by the dominion government?

Mr. SYMINGTON: There is no guarantee in that company at all.

Hon. Mr. HOWE: Securities of T.C.A. are not guaranteed by the dominion government.

Mr. JACKMAN: You have power under this Act—I do not know whether it is this section or not—to meet deficits, have you not?

Mr. SYMINGTON: Under Mr. Reid's question, no. All this does is authorize T.C.A. to do certain things.

Mr. JACKMAN: Can T.C.A. not guarantee these securities?

Mr. SYMINGTON: No.

Mr. JACKMAN: There is no clause saying they cannot but there is no power to guarantee?

Mr. SYMINGTON: There is no power, no. This is really borrowing on securities, that is all, or purchasing shares in a company. There is nothing else there.

Mr. JACKMAN: The only danger I see in this foreign complication is if there should be any trouble arising over some small commercial line. After all some of these people in these countries are a bit temperamental. Suppose the

president was flying on our line, or suppose the man we thought was president was flying on our line, and fleeing this country. We might be considered to be one of the committers of the crime. A great many things might happen. If we had a private company operating down there it would simply be a commercial company but once you get the state of Canada having ownership of this line, and perhaps having some direction of it, you lay yourselves open to considerable difficulty.

Mr. SYMINGTON: You know, Mr. Jackman, that legal entity of the company is legal entity. As far as anybody is concerned T.C.A. is a legal entity. The government is not responsible for anything in T.C.A. T.C.A. as a company is responsible. There is no shareholder responsibility. Their share are paid for. You are picturing a case that cannot possibly happen, just simply cannot possibly happen. There are certain legal rules and laws which exist.

Mr. JACKMAN: If I may say so to the average man it is a fiction that T.C.A. owns the line and not the people of Canada.

Mr. SYMINGTON: It may be a fiction but it is a legal fiction which rules. When you say that a Brazilian man could say something to the Canadian government that because T.C.A. is a separate legal entity it is something in your country you are just stating what cannot possibly exist. It just cannot be. That is the reason we have companies.

Mr. JACKMAN: You remind me of the man in jail who telephoned his lawyer and the lawyer said, "You cannot be put in jail", and the man said, "I am in jail."

Mr. SYMINGTON: You cannot put a company in jail.

Mr. JACKMAN: I know, but you can cause international difficulties to arise.

Mr. SYMINGTON: I cannot see it.

Mr. JACKMAN: Well, you may see it.

Mr. REID: May I ask Mr. Symington this question? In view of his last statement would it be correct to assume that T.C.A., apart from the fact it is guaranteed by the dominion government, is in all respects a private company?

Mr. SYMINGTON: Quite so, except its profits go to the government.

Mr. REID: Because in the minds of many people they think it is owned and maintained by the state and it is not; it is a private entity.

Mr. SYMINGTON: The government does not run the company. It is just the same as though it were a private company, but it is financed by the dominion government and the dominion government gets the benefits or otherwise according to its success, but so far as running this company is concerned the company runs it, and nobody else.

Mr. HAZEN: Is it intended to acquire shares in companies solely operated within Canada under this section?

Mr. SYMINGTON: Oh, no.

Mr. HAZEN: It would not be the intention to acquire shares in the C.P.R. lines under this section?

Mr. SYMINGTON: Turn to section 20. It refers to companies formed under section 20. That is page 3.

20. The Governor in Council may, on the petition of the Corporation, declare that any number of persons named in the petition, not exceeding seven in number, shall be a body corporate, and upon such declaration being made the said persons shall be a body corporate and politic.

When they create that company which I instanced, Trans-Canada Overseas Limited, they form that company and then this section gives Trans-Canada Air lines the right to buy the shares in Trans-Canada Overseas Limited. That is a simple instance of what it is.

Mr. REID: In other words, you are making an investment in another company?

Mr. SYMINGTON: In a wholly owned other company.

Hon. Mr. HOWE: Let me tell you dogmatically this Act will not be used to acquire Canadian Pacific Air Lines. I am telling you that dogmatically.

Mr. HAZEN: Very well; now then, going back to section 14 (e), it says,

(e) To purchase, hold and, subject to the provisions of this Act, sell and dispose of shares in any company incorporated under section twenty of this Act or in any company or corporation incorporated for the operation and maintenance of airlines or services of aircraft of any kind.

To what class of company does that refer?

Mr. SYMINGTON: To those incorporated under section 20 of this Act.

Mr. HAZEN: Those are the investments contemplated?

Mr. SYMINGTON: Yes.

The CHAIRMAN: Any more questions on section 3?

Mr. JACKMAN: The minister has just raised a point. Supposing the post office give authority in future, declare certain lines to be mail routes and therefore subject to operation by the T.C.A., you would use this vehicle to provide funds for the purpose of taking over such companies?

Hon. Mr. HOWE: We will not acquire any domestic company in Canada under this Act. That is what I say.

Mr. JACKMAN: Are you stating that as a matter of T.C.A. policy, or as a matter of government policy?

Hon. Mr. HOWE: I state it as both. I am stating it to be government policy.

Mr. JACKMAN: I am asking you here as a matter of policy—

Mr. SYMINGTON: I think I can answer that. If we apply for a charter—to answer your question directly—to take over a company in Canada, and the government gives up that power under the new Act—

Mr. JACKMAN: Under the new Act?

Mr. SYMINGTON: Under the new Act, under 20; yes. We haven't got that company, and we say to them: now we want so much money to buy the shares of this particular company and we have the power to do that under 14 (e), give us the money—that is the way we would set up these companies.

Mr. MUTCH: Yes, you just purchase them and they are held subject to the provisions of the Act.

Mr. HARRIS: Where under this you are restricted in the incorporation of your companies to those incorporated under section 20? How would you, for example, be able to purchase other lines of which you have spoken?

Mr. SYMINGTON: The government would authorize us to incorporate a company for a purpose, and then we can buy the shares in it.

Mr. HARRIS: Then you will have a company incorporated under section 20 for the purpose of acquiring the shares in another operating company?

Mr. SYMINGTON: That is the way we would have to do it.

Mr. HAZEN: I am still a bit puzzled about this section 20 of the bill.

Mr. SYMINGTON: Yes?

Mr. HAZEN: "20. The Governor in Council may on the petition of the corporation declare that any number of persons named in the petition, not exceeding seven in number, shall be a body corporate and upon such declaration being made the said persons shall be a body corporate and politic."

Mr. SYMINGTON: The corporation referred to there is Trans-Canada.

Mr. HAZEN: There is nothing to prevent Trans-Canada under that section from incorporating any company to operate in Canada?

Mr. SYMINGTON: No.

Mr. HAZEN: It is not restricted or limited.

Mr. SYMINGTON: No, other than the present Trans-Canada Act, which of course provides how the Trans-Canada can operate in Canada. We have all operating rights in Canada we could possibly want under the present Act. We can go any place we like if the Governor in Council passes an order in council on the recommendation of two of the ministers and says you are to operate here. Why a new company? We certainly would not want a new company when we have all the powers under the present Act.

Hon. Mr. HOWE: I have said over and over again that the government does not intend to buy Canadian Pacific Air Lines. Why not accept that and go on to something else?

Mr. HAZEN: I am not questioning that. What I am trying to get at is the exact wording of the Act. It is the wording of the Act which signifies its intention, and that is what I had in mind. And now, about this section 20: you say that you do not have to have a new Act because you have the Trans-Canada Air Lines Act; but you could, under section 20, run a line from Winnipeg up to the north pole.

Mr. SYMINGTON: Of course, that is an external line; but if the government wanted, through the governor in council, to permit us to incorporate a company for some purpose they could do it under this Act. Of course, they could do it. Why should they not? They are the government of the country.

Mr. MUTCH: But you can fly anywhere in Canada under this present Act.

The CHAIRMAN: Is that clear, Mr. Hazen? If it is, shall section 3 carry, gentlemen?

Section 3 agreed to.

The CHAIRMAN: Now we come to section 4.

Hon. Mr. HOWE: "4. Section fourteen of the said Act is further amended by adding thereto the following subsection:—

'(2) The Corporation shall not sell or dispose of more than forty-nine per centum of the outstanding shares of any company incorporated under section twenty of this Act except with the approval of Parliament.'

That is in line with Trans-Canada Air Lines Act itself which provides that the company cannot sell more than 49 per cent of its shares; that is, the Canadian National Railways cannot sell more than 49 per cent of Trans-Canada shares.

Mr. JACKMAN: Well, of course, it adds greatly to the power of the T.C.A. I do not know whether it has too much power or not. You might have a company which you might own 100 per cent which does not seem sufficient for your operation, and you have the right here to dispose of up to 49 per cent or whatever figure meets your judgment. In view of the care which parliament has taken in regard to authorizing every cent of capital expenditure for years and years on the Canadian National Railways, and the T.C.A. too, under this Act it gives the T.C.A. very great power. It may be too much. I only want to bring it before the other members of the committee and see how it strikes them.

Mr. SYMINGTON: The amendment is merely carrying further the principles of the Act. There is no change in the principle of this Act as compared to the other one.

Hon. Mr. HOWE: It is the same principle.

Mr. SYMINGTON: It applies to these other companies as much as it applies to T.C.A.

Mr. REID: That would take care of all companies.

Mr. SYMINGTON: It puts them in the same position as the T.C.A. itself.

The CHAIRMAN: Any more questions of section 4?

Section 4 agreed to.

The CHAIRMAN: Section 6:

Hon. Mr. HOWE:

5. Section fourteen A of the said Act, as enacted by section one of chapter fifteen of the statutes of 1938, is repealed.

That referred to an agreement made in 1935 which provided that Canada would be a shareholder in a company which was to be jointly owned by Imperial Airways, Ireland and Canada. The company never was operative and by agreement and by consent that agreement has been renounced so it is no longer in existence. It is simply to remove an obsolete chapter from the Act.

Section 5 agreed to.

The CHAIRMAN: Section 6:

6. The first line of subsection two of section fifteen of the said Act is repealed and the following substituted therefor:—

(2) The Trans-Canada contract shall contain such terms as the governor in Council may order, and in the absence of such order shall provide,—

That is put there in place of, "The Trans-Canada contract shall provide". The Trans-Canada contract is a contract between the government of Canada and the Trans-Canada Air Lines Company.

Mr. JACKMAN: Do you have an existing contract now?

Hon. Mr. HOWE: There is a contract, yes.

Mr. JACKMAN: What is the object of that contract? What are the terms of it?

Hon. Mr. HOWE: It provides for carrying the mail.

Mr. JACKMAN: Is this the post office contract?

Mr. SYMINGTON: No. This does provide for the post office contract but it is not the post office contract.

Hon. Mr. HOWE: It provides they shall operate certain lines.

Mr. JACKMAN: What does it provide?

Hon. Mr. HOWE: It provides as follows:—

15. (2) The Trans-Canada contract shall provide,—

- (a) for the operation of the aforesaid lines of aircraft between points and over routes to be designated from time to time while the contract is in force by the Governor in Council;
- (b) for a schedule of services to be maintained by the Corporation, and that such schedule may from time to time while the contract is in force be amended by the Governor in Council on the joint recommendation of the Minister and the Postmaster General;
- (c) for the payment to the Corporation, at the end of each calendar year of the initial period, of a subsidy equal to the deficit, if any, resulting from operations during such calendar year, which subsidy shall be payable out of moneys to be appropriated by Parliament for that purpose;
- (d) for the transport of passengers and goods by the Corporation at tariff charges on a competitive basis with other similar transportation services in North America;

- (e) for the furnishing by the Corporation of all adequate, modern aviation equipment, two-way telephone service, hangars and other buildings and, except as hereinafter otherwise provided, all other equipment, services and materials necessary for the operation of an efficient service by means of the aforesaid Trans-Canada Lines sufficient to take care of all mail, passengers, express and other traffic offered to the Corporation for transport;
- (f) for the operation and maintenance by the Government of Canada, without charge to the Corporation, of emergency landing fields, lights and radio beams, necessary for the operation of the said Trans-Canada Lines and for the supply to the Corporation free of charge of weather reports: Provided, however, that when the revenues of the Corporation, in the opinion of the Minister, will permit, charges may be imposed for landing, lighting and weather reports such as are charged for other similar competing coast to coast services in North America;
- (g) for the term of the contract; Provided, however, that the same shall not be less than ten years.

(3) The Trans-Canada contract shall not be assignable except with the approval of the Governor in Council.

Mr. JACKMAN: Why was this necessary?

Mr. SYMINGTON: May I explain that? Would you look at it closely. Here you have a statutory contract for 10 years—"the Trans-Canada contract shall provide." This is simply an amendment that the Trans-Canada contract shall contain such terms as the Governor in Council shall order and in the absence of such order it shall be exactly as it is now. For instance, under this proposal, we do not feel that the postmaster general under (b) for instance, should have to consent to our services and times. It is a statutory contract for 10 years, and it runs out at the beginning of 1947 anyway. This simply gives the Governor in Council the right to vary this. If they do not vary it, it still exists, that is all. But it makes it elastic. That statutory contract is inelastic for as rapidly changing a thing as the air service; and it has become inelastic in our case because, as in one instance I gave you, we cannot put on more frequencies unless the postmaster general says so, even though the whole government wanted it. We cannot change our times of frequency or anything else. We say that the time is past for that sort of restriction on an airline where you had to serve, as this was originally and properly serving, essentially as a mail line first and foremost. It has now become a public service in which the public are demanding service for passengers and it should not be any longer primarily a purely mail service. Therefore you have to have the right of the Governor in Council to amend that statutory contract.

Mr. REID: May I ask, Mr. Symington, if the present contract is one drawn up between your company and the Governor in Council or between your company and parliament?

Mr. SYMINGTON: Yes.

Mr. REID: Which is it?

Mr. SYMINGTON: It is a contract drawn up between—

Hon. Mr. HOWE: Between the company and His Majesty the King.

Mr. SYMINGTON: —the company and His Majesty the King, acting through the Governor in Council.

Mr. REID: On the authority of parliament?

Mr. SYMINGTON: On the authority of parliament. In other words there was a straight statutory contract, which is inelastic—it still exists—in which the Governor in Council is given the right to vary it in whatever way seems desirable to the Governor in Council.

Mr. REID: If they enter into a contract, who gives the Governor in Council the terms of the contract? Is it parliament? Do they deliberate on the terms of the contract?

Mr. SYMINGTON: These are the terms here in the statutes. The contract could not be varied. The Governor in Council cannot vary a statutory contract.

Mr. HAZEN: Is it intended that this contract be applied only to transportation across Canada?

Mr. SYMINGTON: Yes.

Mr. HAZEN: It is confined to Canada?

Mr. SYMINGTON: Yes, quite so.

Mr. JACKMAN: Would ordinary airlines need to have an agreement?

Mr. SYMINGTON: The reason is that it is a control exercised by the government who owns the line.

The CHAIRMAN: Carried. Now, it is 6 o'clock. Would it be agreeable to meet tomorrow morning at 11 o'clock?

Mr. MUTCH: Well, there are three committees meeting tomorrow that some of us are on. Shouldn't we try to get through tonight?

Hon. Mr. HOWE: We could finish this tomorrow, couldn't we??

The CHAIRMAN: Will it be 4 o'clock or 11 o'clock tomorrow—11 o'clock, gentlemen, I guess. That is the majority.

Mr. MUTCH: If you meet at 11 o'clock there are some who cannot be here. You cannot be in three committees at once.

Mr. HAZEN: Veterans Affairs are on in the morning and there are other committees.

Mr. NICHOLSON: We have held Mr. Symington here for a long time and I think we should finish up.

The CHAIRMAN: What about tonight?

Mr. SYMINGTON: There is only one page to it.

Mr. HAZEN: Why not do it now?

The CHAIRMAN: Carry on then. Let us go. It won't be long, so let us speed it up. The mail contract will take some discussion.

Hon. Mr. HOWE: Let us adjourn then until 4 o'clock tomorrow.

The CHAIRMAN: All right then, 4 o'clock it is.

The committee adjourned at 6.10 p.m. to meet again tomorrow, November 1, at 4 p.m.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

November 1, 1945.

The Standing Committee on Railways and Shipping met this day at 4 o'clock p.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Well, gentlemen, when we left off last night we had carried section 6, I believe. Mr. Howe, would you start with section 7?

Hon. Mr. HOWE: Section 7 reads:

7. Section fifteen of the said Act, as amended by section two of chapter fifteen of the statutes of 1938, and by the last preceding section of this Act, is further amended by adding thereto the following sub-section:—

- (4) The governor in council may from time to time authorize the minister to enter into a contract amending the Trans-Canada contract and containing such terms as the governor in council may order.

Mr. JACKMAN: That differs from the present Act, does it, in the sense that under the present setup the contract is statutory and this is a request to make the contract simply one between the T.C.A. and the governor in council, through the minister? It makes it more flexible?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: It also removes from the jurisdiction of parliament any consideration of the terms of the Act and transfers it to the governor in council under order in council; is that the effect?

Hon. Mr. HOWE: The chief effect is in connection with the mail rates. Under the present contract the mail rate is inflexible. It is settled automatically, not by any judgment. This gives the governor in council the right to bargain with the post office on mail, different rates for different services.

Mr. JACKMAN: Section 7 and 9 explicitly mention the mail contract. This section 7 has a relation I think to that general Trans-Canada contract which the minister read yesterday.

Hon. Mr. HOWE: Yes. That is the contract which fixes the mail rate.

Mr. JACKMAN: It establishes rates?

Mr. SYMINGTON: I think I could answer that, Mr. Howe. You have already by section 6 provided that they have the right to amend, but if they do not this applies. Now, the next clause gives them the right to amend; that is, until a new agreement is made it specifically provides that this one goes. If changes are made, in this contract as amended, a new one will not be needed at all. They already have the right to provide a new one. And now, it may be considered desirable to adjust the present contract; therefore, this clause says apart from providing a new contract they have the right to amend. That is what it is there for.

Mr. HARRIS (*Grey-Bruce*): We are referring to mail contracts?

Mr. SYMINGTON: No, the contract between the government and Trans-Canada.

Mr. JACKMAN: As I understand it, Mr. Symington, that contract seems rather unusual to me; I suppose it is customary in these government matters. Section

15 of the 1937 Act has to do with the terms of operating, routes, schedules, services, subsidies, tariffs, equipment, landing fields and the departmental contract which was for not less than 10 years. These are all matters really apart from the post office contract.

Mr. SYMINGTON: It is not the post office. That is the reason why I explained to the minister, we are not dealing specifically with the post office contract at all. May I repeat—

Mr. JACKMAN: You and I are in agreement on it then.

Mr. SYMINGTON: I do not know whether we are or not. I do not know whether you understand me or whether I understand you. You have already approved an amendment to the previous section which says that the governor in council may order, etc.; in other words, may enter into a contract containing such terms as they desire. If they do not, these terms apply. All right, they can change this contract or replace it by a new contract. And now, this clause simply says it may be wise not to adopt an entirely new contract but amend this present statutory contract, and so it says the government "may from time to time authorize the minister to enter into a contract amending the Trans-Canada contract and containing such terms as the governor in council may order".

Mr. JACKMAN: The effect of this section and the previous section, which you say was passed yesterday, is to transfer the jurisdiction in regard to the contract between the T.C.A. and the government from the hands of parliament to order-in-council.

Mr. SYMINGTON: Yes, that was decided and discussed yesterday, as you know.

Mr. REID: Why does it state, "the governor in council may order"—this one says, "order-in-council"—"may from time to time authorize the minister to enter into a contract." What is the distinction there? One is simply an order-in-council and this one says, may authorize the minister?

Mr. SYMINGTON: I imagine it is justice department drafting.

Hon. Mr. HOWE: The governor in council does not sign contracts; the minister signs contracts as the representative of the crown. The minister must get the authority of the governor in council, you see. There is no contract prepared with the governor in council as one party and somebody else as another party, you see.

Mr. MAYBANK: It is the minister himself.

Hon. Mr. HOWE: The minister does that.

Mr. MAYBANK: And there is no other contract than the one which has been mentioned, to which the minister has just referred?

Mr. SYMINGTON: That is correct.

Hon. Mr. HOWE: The Trans-Canada contract.

Mr. MAYBANK: There is only one contract which can be altered?

Hon. Mr. HOWE: That is right.

The CHAIRMAN: Is that O.K. then, gentlemen?

Section 7 agreed to.

The CHAIRMAN: Now, section 8:

Hon. Mr. HOWE: Section 8 reads:—

"8. Subsection two of section sixteen of the said Act is repealed and the following substituted therefor:—

(2) A contract made under subsection one of this section shall contain such terms as the governor in council may order.

And the departmental explanation is as follows:

8. The repealed subsection reads:—

12. "(2) Such contract shall provide for the transport of mails at a rate or rates to be fixed, in respect of the initial period of operation, by the terms of the contract, and thereafter, as hereinafter provided by this Act."

As I say, that is the explanation I gave before, and would apply to that paragraph. It gives the right to council to amend the mail contract.

Mr. RED: Would this change mean—I am just stating a hypothetical case now—that some time in the future it may be found that more revenue would be required from mail on the T.C.A. operation because of losses that might occur on passenger traffic; would that mean that a direct order might be given? I have not it in mind that such an order would be given; I am just looking ahead to the future and the possibility that the time might come when the operation with respect to passengers might be at a loss. I am just asking now, could it mean that the government could come along and say, you better charge more for the carrying of air mail because we cannot operate unless we have more revenue; we cannot get it from passengers; if we increase our passenger tariff we lose business, but we can get more revenue by increasing the rate for carrying mail. Is there any possibility of such a thing as that happening? You know, when you raise the rate on passengers, unless they are very wealthy people, they can find other ways of travelling; but when it comes to air mail, air mail has become established. As a matter of fact, I am looking to a time when most of our ordinary mail will travel by plane and will not be called air mail at all; it will be just a part of the ordinary routine of the post office. I am just wondering if by this clause something of that kind might happen; and if it could, I think it is up to this committee to do something about it.

Mr. SYMINGTON: I can tell you what that change means. If you will read this, "the governor in council may authorize the postmaster general to enter into a contract with the corporation for the transport of mails"—that means Trans-Canada Air Lines—then, you have the one being dealt with which says, such contract shall provide for the transport of mail at a rate or rates to be fixed in respect of the initial period of operation—and that rate was fixed originally at 60c.—by the terms of the contract, and thereafter as hereinafter provided by this Act. That is, it goes up or down, depending whether there is a deficit or a surplus. This says that the governor in council will authorize the postmaster general to enter into a contract with us; but instead of it being limited; as it is now, it shall be in such general terms as the governor in council may direct. That is the difference. In other words, I would expect that we would get rid of the present system of counterbalancing the mail rate by profits or losses. The procedure is that Trans-Canada Air Lines negotiates with the postmaster general in the making of a contract, if we can agree. If we do not agree the governor in council sets it. That is the situation.

Mr. MAYBANK: You negotiated the contract to start with on the basis of 60c. and it has been changed from year to year until you have the present result.

Mr. SYMINGTON: That has the effect of reducing it.

Mr. MAYBANK: And it changes the best procedure which fixes the limits for the contract, to continue over a number of years; and that has been found unsatisfactory.

Mr. SYMINGTON: Correct.

Mr. MAYBANK: It has been found unsatisfactory to have ourselves tied to that kind of a contract. The same people are involved as we were dealing with

then; two departments of the government, and if we left it to run the way it is various changes would be nullified because we would be tied up to a system which we have decided was antiquated; and so it leaves the contracting parties, both departments of government, more freedom in setting down their agreed upon ideas.

Mr. REID: Where is the alternative?

Mr. SYMINGTON: That is correct.

Hon. Mr. HOWE: I can give you a case in point, if you like. We have great pressure from the Maritime provinces for their service. The Trans-Canada Air Line people worked their equipment so that they could give a fourth service between Halifax and Montreal. The post office said, we do not need four services, three are ample. Trans-Canada were quite willing to run the fourth service without carrying mail.

Mr. SYMINGTON: Anxious.

Hon. Mr. HOWE: Yes, anxious, to run the fourth service without carrying mail; but under the present Act they cannot do it because of the agreement now existing between the Department of Transport and the Postmaster-General which means that they would have the approval of the Post Office Department before they could run that fourth service. There is no reason why the travelling public should be deprived of that service particularly when Trans-Canada are able to give it; it also meets with the approval of the department. Nevertheless, the Act as it stands made it impossible for us to do that.

Mr. MAYBANK: The post office had to pay on the air miles flown, do they not?

Mr. SYMINGTON: Quite so.

Hon. Mr. HOWE: They had to agree to the service going on.

Mr. MAYBANK: But if your contract with the post office is fixed so that each time you run the mail they have to pay you, they naturally are going to determine whether the community gets the air service or whether it does not.

Hon. Mr. HOWE: They look at it entirely from the mail point of view. They are interested in the carrying of mail, and not so much in the convenience to the travelling public; in respect to that they say, that is not our business while mail is.

Mr. McCLURE: What would be the effect of this on Maritime Central Airways' air mail contract with the postmaster general at the present time for carrying mail from Moncton to Charlottetown, Summerside and Magdalen Islands?

Hon. Mr. HOWE: It does not affect them at all, because this applies to Trans-Canada Air Lines only. The effect of this would be to put the Trans-Canada Air Lines in the same position to the post office as the Maritime Central stands. The Maritime Central can deal directly with the post office on the mail rate, and determine conditions, whereas we were bound by statute to a certain procedure. This bill does not affect the Maritime Central Airways, or any other airway, in any way; it deals only with the Trans-Canada Air Line.

Mr. McCLURE: It would not affect the Maritime Central Airways in a proposed route which they have under consideration at the present time?

Hon. Mr. HOWE: Not at all.

Mr. REID: That contract, Mr. Symington, has not been considered a loss as far as carrying mail is concerned?

Mr. SYMINGTON: I think I told you in our perusal of the report that I thought it was an admirable contract for both sides so long as we were in the young, growing stage, but when the passenger interest increased and the public demanded a larger service, the situation changes and the original protection we

required decreased. It is rapidly approaching an impossible situation; one which the post office does not want, and one which we do not want; because we cannot operate a line when the post office says, no, you cannot run it. As I say, it was an excellent contract originally, I think, for both sides, but the time has come to make a change. You see, to-day we have 6 transcontinental frequencies required to meet the needs of the travelling public. The post office says that two is all we need; you will ruin us under this contract if you run them. The net result of it is that to-day we find ourselves stymied, you see; it is not working out successfully.

Hon. Mr. HOWE: You see, the air mail letter carries a 7c stamp. Out of that 1c is tax, 3c is the ordinary first class rail rate for which the post office would be glad to pick up the letter and move it by rail and deliver it; then another 3c is for the transportation by air. And now, we are working on that last 3c. I think the post office will be quite willing to see us get 3c. As a matter of fact, we get less than 3c to-day. We do not want more than that. We are quite satisfied with the 3 cents as a maximum that we require to operate this line. But under this contract it becomes complicated because so many lines become passenger lines in which the post office has no interest. In other words, with freedom to act, it will not cost the post office any more than it does now and it gives us a chance to serve the public and look after the affairs of the line.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Is that clear?

Mr. JACKMAN: Are we going into the post office contract afterwards or are we dealing with all the matters relevant to the post office contract now?

Hon. Mr. HOWE: We might as well discuss that afterwards if you care to. Perhaps we might discuss the contract.

Mr. JACKMAN: Probably there is not very much to discuss. Are we going to have some one from the post office come here? Is Mr. Herring here?

Hon. Mr. HOWE: Mr. Herring is not here presently.

Mr. JACKMAN: Perhaps I could put this question. I want to be clear in my own mind. There is no doubt that no air service could have been started on a commercial basis if there had not been a mail contract, whether with T.C.A. or elsewhere. I think we will concede that point. In the early days the post office did more or less mother the T.C.A., with a contract which gave T.C.A. a pretty fair rate. Not only did it have that sliding scale up and down depending on the profits, but the T.C.A. Act, clause 3, section 17, said the rate paid by the post office to T.C.A. shall not be lower than rates payable for other similar coast-to-coast transport of mails in North America. I deduce from that—

Hon. Mr. HOWE: I do not think that clause was ever in. It referred to passengers and express. Did it also refer to mail?

Mr. JACKMAN: Yes, I think so.

Hon. Mr. HOWE: Are you sure?

Mr. JACKMAN: I will check that.

Some Hon. MEMBERS: No.

Mr. JACKMAN: No. It does not refer to mail.

Hon. Mr. HOWE: No; just passengers and express, I think.

Mr. MUTCH: Carried.

Mr. JACKMAN: In any case, the mail contract was very necessary and rather paternal towards the T.C.A. in the early days. All I want to do is to be assured by the post office officials that they are quite willing that this contract, which undoubtedly has very unusual terms, should be abrogated at the present time

and a new contract made, probably at arms length; or on the other hand to be told whether or not the post office feels, because of what it has done for the T.C.A., that it should have a continuance of the present terms,—perhaps not all the terms, but that they should now get some of the gravy, as it were, of the good rate in order to bolster up their revenue.

Mr. SYMINGTON: They have had all the gravy. We have had none. That is the trouble.

Hon. Mr. HOWE: They are getting the gravy. I may say that the Postmaster General joined with me in recommending this bill to the Governor General in Council.

Mr. MAYBANK: Does not that suggestion come to this; we would like to have the post office here to find out whether or not there is any disagreement between the departments and fish around.

Mr. SYMINGTON: All I can say is this. Mr. Herring is not here. I have had several discussions,—in fact, many discussions,—because of the difficulties we were in, and the suggestion to me by the post office was, "Get rid of this contract. We do not want it. We do not want to run your frequencies. Neither do we want to pay on a plane-mile basis."

Mr. JACKMAN: They wanted to pay on what basis?

Mr. SYMINGTON: They wanted to pay on a ton-mile basis.

Mr. MAYBANK: That would have put you in the same position as they are in with the C.P.R.?

Mr. SYMINGTON: No. The others are all on a plane mile basis.

Mr. MAYBANK: Are they all on that?

Mr. SYMINGTON: Yes. They are on a plane-mile basis. I think I am correct.

Mr. MAYBANK: I thought they had some poundage rates with the private companies.

Mr. SYMINGTON: They give them the rate in the territories where there is no other access such as railways, whether it is air mail or not. They carry everything at the same rate.

Mr. MAYBANK: Oh, yes.

Mr. REID: If there is any contract entered into the future between the post-office department and the T.C.A. I suppose there will have to be an agreement entered into between the feeder companies also. Would that operation mean that the feeder companies would be in agreement with you in the carrying of the mail? I visualize your carrying mail to Vancouver and the mail coming to some interior point by means of some feeder planes or feeder lines. I suppose the agreement with the feeder lines for carrying the mail would be between the feeder companies and the T.C.A.?

Mr. SYMINGTON: No. Between the feeder lines and the post-office.

Mr. REID: It would?

Mr. SYMINGTON: Yes. This has nothing to do with that. But that is the way that is handled.

Mr. REID: I am just asking for information.

Mr. SYMINGTON: If anybody wants any assurance about the attitude of the post office on this, they have advocated it much more than I have.

Mr. JACKMAN: I can see many of the terms are not suitable to either party.

Mr. SYMINGTON: I can further say that I found them very tough bargainers, very tough. The only thing is we cannot agree, which I think we will when council settles the difference between the two departments of government.

Mr. JACKMAN: I have great confidence in Mr. Howe's bargaining power.

Hon. Mr. HOWE: I can tell you this about his bargaining power. The post office are making more money out of Trans-Canada than Trans-Canada is, as far as carrying the mail is concerned.

Mr. SYMINGTON: I rather want to question your use of the word "paternal," Mr. Jackman. May I say to you that I have taken the time to study the beginning of the air lines in the United States compared to Canada; and if you think that our contract was paternal, you just ought to look at theirs. We never got one-tenth of what they started off with in mail rates. So ours was never paternal. Do not make any mistake about that. It was a tough contract. The only advantage to us was that we could not lose. We could not win but we could not lose. It happens that if it had not been entered into, we would have won more. But it was not paternal. Do not make any mistake about that.

Mr. HARRIS: I was just going to say that I would expect you to do better than the United States. I would disagree with that. We can do a better job under the circumstances than they can.

The CHAIRMAN: Are there any other questions about that before we go on? Is that O.K.?

Some Hon. MEMBERS: Yes.

(Section agreed to.)

The CHAIRMAN: Let us go on to section 9, then.

Hon. Mr. HOWE: It reads as follows:—

Section 16 of the said Act is further amended by adding thereto the following subsection:

- (4) The Governor in Council may from time to time authorize the Postmaster General to enter into a contract made under subsection one of this section and containing such terms as the Governor in Council may order.

This simply authorizes the Postmaster General to make a contract.

Mr. JACKMAN: Why can you not make a contract having in it principles which will be of suitable application for five or ten years ahead and have parliament authorize it?

Mr. SYMINGTON: We have that principle right as it is in the contract. I know that principle is one we had. The only possible principle can be: are you going to take facts and effects or are you going to bargain at arm's length? They now decide they want to bargain at arm's length. That is the only principle I can see.

Hon. Mr. HOWE: There is only one other country that has a principle and it was not a bad principle either. In Australia they have a similar 3 cents surtax for air mail, and that 3 cents is paid to the government for supporting air mail operations. If we could have that here, we should be quite happy.

Mr. JACKMAN: There is 3 cents surtax paid in Australia, and that goes to the government?

Mr. SYMINGTON: It goes to the air department.

Hon. Mr. HOWE: For the development of air mail.

Mr. JACKMAN: And the rest of the money goes where?

Mr. SYMINGTON: To the post office.

Hon. Mr. HOWE: Yes; to the post office.

Some Hon. MEMBERS: Carried.

Mr. REID: I may not have the amendments of the Act. Is subsection one still left in the Act?

Mr. SYMINGTON: Yes. It reads:—

The Governor in Council may authorize the postmaster general to enter into a contract with the corporation for the transport of mails by means of the Trans-Canada Lines.

This amendment says:—

The Governor in Council may from time to time authorize the Postmaster General to enter into a contract amending a contract made under subsection one of this section and containing such terms as the Governor in Council may order.

Mr. JACKMAN: But once you arrive at an agreement as to the per ton mile rate for mail, why cannot you just set the contract and have parliament validate it in the statute and just let it lie there? Surely that would be fair, for the next five or ten years?

Hon. Mr. HOWE: I think it might be unfair to the post office and might be unfair to Trans-Canada Air Lines. If we had made a contract four years ago with the post office, Trans-Canada would have been rolling in money today.

Mr. JACKMAN: Is that not what you are seeking?

Hon. Mr. HOWE: No.

Mr. SYMINGTON: I would suggest that we have now grown up, that the post office department are quite capable of bargaining and I hope we are, and if we are too tough with each other the Governor in Council or the government can settle it as between two government departments. Whatever money this line makes goes to the government, whether it be post office or whether it be consolidated revenue. Surely we should not be hampered in our running this line as a proper operating line by disputes between departments of government. The government themselves should settle it. There is no necessity for paternalism here. Surely we have the right, just the same as any private company has the right, to go and bargain with the post office. If we cannot make a deal, the Governor in Council settles it. The results go to the government in any event. What is wrong about that?

Mr. JACKMAN: This one difficulty arises, Mr. Symington. In a sense it all goes into the same pot; and yet the people of Canada are very interested to know whether or not the post office operates by paying all its costs and also the T.C.A. We have difficulty with the post office now because they carry all the mail from here free of charge and do other services for which they get no payment. It is very difficult to know just what is the real financial situation of the post office on operating account at the end of the year, and it is for that reason that we should like to keep these matters in a water-tight compartment if we can. You say it all boils down to the same thing in a sense because it comes down to the taxpayer, is taken out of the taxpayer; but it does not allow us to appraise the operating efficiency or "worth-whileness" of either department if you mix up the accounts.

Mr. SYMINGTON: I just suggest to you that is none of T.C.A.'s business. What I am saying is that, if you expect the operation of a line on business methods, we ought to be able to operate it on business methods, and we ought not to be held up by disputes between two government departments. If there is a dispute between two government departments it should be settled by the government that rules those departments. Mr. Herring has arrived here. Ask him if he is prepared to have the post office to bargain with me, and if we cannot agree it goes to the government, or whether he wants the present contract to stick. He has just come in. Just ask him. Certainly they have told me they want this, and there it is. I do not see why, because we happen to be operating an air line, we should be held up by disputes between two government departments.

Mr. JACKMAN: It was in the old Act and now you are asking for a change.

Mr. SYMINGTON: It was in the Act before because we were starting a new service and it was felt wise by the government to provide for this new service so that whatever happened it would not go bust. It did not go bust. Now we have grown. The post office department say, "You now have a service for the public, earning money for your company. You want to put in a lot of frequencies that are not any good to us as the post office. Therefore the present contract is no good to us." And I agree with them. That is the situation.

Some Hon. MEMBERS: Carried.

Mr. JACKMAN: Mr. Symington has just suggested, Mr. Herring, that we ask you in regard to the attitude of the post office department in connection with the old contract and its revocation and the substitution of a new contract. I understand there are certain terms in the old contract as to frequency of flight which are no longer suitable for the post office and which would perhaps involve you in additional expense despite the fact that you have a revision at the end of the year or for the next year. What is the attitude of the post office in regard to the proposed change? I suggested a little while earlier that it was felt by some that the post office had taken a very fatherly attitude towards T.C.A., guaranteeing them against loss. According to Mr. Symington, "paternal" is the wrong word and it should be "a very harsh partner."

Mr. SYMINGTON: I did not say that at all. I said I objected to your use of the word "paternal." I did not say anything about the post office at all.

Hon. Mr. HOWE: Why not ask your question without putting ideas into the gentleman's head? You have asked your question. What about the answer?

Mr. JACKMAN: Unfortunately the man was not here in order to get the prelude to it.

Mr. HERRING: As far as mail carrying is concerned, there is a saturation point. I can best illustrate that by transcontinental movements. Let us say that there are two, or three or four trips a day. Those trips a day can be so divided as to give to us every possible benefit that there is. A fifth trip would be like the fifth wheel to a coach. When you insist on linking up passenger service with mail service, there may be all the justification in the world from a passenger standpoint to put on an extra trip, but we would get nothing out of it; and under the terms of the present contract we would have to pay on a mileage basis. That is the point.

Mr. HAZEN: You would what?

Mr. HERRING: We would have to pay on a mileage basis under the present contract.

Mr. SYMINGTON: The question is, do you want the contract changed?

Mr. HERRING: Very much so.

Mr. REID: There is just one more question. Does section 17, subsection 2, still remain where it says, "If in the preceding year the corporation"—

Mr. SYMINGTON: That goes out.

Hon. Mr. HOWE: That goes out. Then, section 10:

"The said Act is further amended by adding thereto the following sections:—

20. The Governor in Council may on the petition of the Corporation declare that any number of persons named in the petition, not exceeding seven in number, shall be a body corporate and upon such declaration being made the said persons shall be a body corporate and politic."

Mr. REID: These are all new?

Hon. Mr. HOWE: Yes. That is to provide for the formation of subsidiary companies to operate certain ocean routes.

Mr. HAZEN: Ocean and international? That includes the United States?

Hon. Mr. HOWE: No. We regard the routes into the United States as domestic routes.

Mr. HAZEN: They all come under Trans-Canada?

Hon. Mr. HOWE: Yes.

Mr. REID: Why do you limit it to seven in number?

Hon. Mr. HOWE: We have seven in number on the Trans-Canada board. I suppose we did not want a superior board with more members.

Mr. HAZEN: Why does it not say in that section, "for the purpose of establishing international routes?" Why do you make it so broad?

Hon. Mr. HOWE: We make it narrow? You might as well have it broad. If you are writing an Act you might as well have an Act that answers all purposes.

Mr. JACKMAN: Will it definitely limit it to external companies?

Hon. Mr. HOWE: Yes.

Mr. HAZEN: It will not be limited to external companies under the wording of that section. If it is your policy to limit it to external companies then I think the words should be put in that section.

Mr. SYMINGTON: I think we discussed that the other day. May I remind you that if we did form one for a domestic company it could not do anything because only Trans-Canada—not Trans-Canada Overseas or a subsidiary or anything else—only Trans-Canada can operate domestically. So if we did form a corporation you could not do anything with it. Under this Act only Trans-Canada can do it.

Mr. JACKMAN: On the main lines.

Hon. Mr. HOWE: Or anywhere else.

Mr. SYMINGTON: Anything that the Governor in Council says we are to do.

Mr. BEAUDOIN: Where these explanations not given yesterday when we analyzed paragraph (f) of article 3?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Mr. Symington, I do not want to repeat things but other lines can still operate in Canada?

Mr. SYMINGTON: Other lines can still operate, but not companies incorporated by Trans-Canada. They could take the capacity to do it but they could not do it because Trans-Canada is under the direction of the Trans-Canada Act to operate the routes that the Governor General in Council says shall be operated by that company.

Mr. JACKMAN: But there may be still other routes as there are at the present time.

Mr. SYMINGTON: But Trans-Canada could not operate them unless the Governor in Council under the Trans-Canada Act ordered them to operate. Even if it were so it gives no greater power to Trans-Canada whether it does it by the original company or by a subsidiary.

The CHAIRMAN: Shall the section carry?

Carried.

Now, section 21.

Hon. Mr. HOWE:—

Whenever the Governor in Council declares any persons to be a body corporate under section 20 of this Act he shall at the same time name the corporation and fix its authorized capital and the par value of the shares.

Mr. REID: That relates to other corporations. Is this something new or is it the same in other cases that the Governor in Council can fix the par value of shares? Is this something new?

Mr. SYMINGTON: No, it is the same thing.

Hon. Mr. HOWE: The only money these subsidiary companies can get is money advanced to them by Trans-Canada Air Lines.

Mr. JACKMAN: And fix the various capital powers; it has no relation to the \$25,000,000?

Mr. SYMINGTON: None at all. That is the Trans-Canada capitalization. We apply for a charter just as in any private company, and they say that the stock of this company shall be divided into so many shares of such and such a value. The Governor in Council says what it shall be.

Mr. JACKMAN: Here you can make it \$100,000,000 if you want to?

Mr. SYMINGTON: We would not have \$100,000,000 to invest because we can only invest from our own capital which is limited—to \$25,000,000.

Mr. JACKMAN: Following that up may I reiterate again what I think I covered yesterday, that none of that \$25,000,000 can be spent on capital account or operating account without coming before this committee, as the procedure is now, and having it authorized by parliament?

Mr. SYMINGTON: I do not know that. I say that the government cannot give the money to Trans-Canada without it being authorized by parliament so to do. That is all. That is done at the present time with the railway. The railway puts in a budget of the money which it requires and that is passed by parliament.

Mr. JACKMAN: Parliament has a look at it anyway.

Mr. SYMINGTON: It does to-day, certainly.

The CHAIRMAN: Shall the section carry?

Carried.

Section 22.

Hon. Mr. HOWE:

22. The persons named in any declaration under section twenty of this Act shall be provisional directors of the corporation.

The CHAIRMAN: Is that all right?

Carried.

Section 23.

Hon. Mr. HOWE:

23. The head office of the corporation shall be such city as the directors may select.

The CHAIRMAN: Is that all right?

Carried.

Section 24.

Hon. Mr. HOWE:

24. The shares of any company incorporated under section twenty of this Act shall be offered for subscription to Trans-Canada Air Lines at par.

Mr. JACKMAN: Does that mean exclusively? It is not likely to be offered to anybody else.

Hon. Mr. HOWE: We have authority to offer 49 per cent to outside people if we want to.

Mr. SYMINGTON: I think not. Trans-Canada took the authority to sell, with the Governor's approval, up to 49 per cent. The only person who can subscribe is Trans-Canada.

The CHAIRMAN: Shall the section carry?

Carried.

Section 25.

Hon. Mr. HOWE:

25. (1) The Governor in Council may authorize the minister to enter into a contract with any corporation incorporated under section twenty of this Act, for the organization, operation and maintenance of air services designated from time to time by the Governor in Council.

Mr. HAZEN: Was any consideration given to having these contracts entered into between T.C.A. and the companies which are to be incorporated under section 20 instead of between the minister and the new company?

Mr. SYMINGTON: Again the answer was, of course, that we wanted to keep the operations of the domestic system completely separate, financially speaking, from the operations of the international company as recommended by the international association. You have to make your returns to the international association on that basis. From an operating standpoint as the head of Trans-Canada I would strongly recommend against any mingling of the accounts whatsoever. Each operation should stand on its own feet so it can be seen what each operation is doing. It may be considered wise, for instance, that there should be only one international company. That would not be my view at present. There will probably be a separate company for each of these long operations, one for the North Atlantic, one for the South Atlantic and one for the Pacific, wherever we go. Personally I think they should be kept separate.

Mr. SHAW: Did you not say yesterday, Mr. Symington, that the international authority insisted upon that being the case?

Mr. SYMINGTON: They did not go so far as to insist upon it being the case but they did insist that the accounts shall be kept separate and returns made to the international body of the complete operations of the international section as opposed to the domestic section. It is much easier to do it if you have a separate company.

Mr. JACKMAN: Mr. Symington, you said your view at the present time would not be to have just one international company if you operate several international routes. May I ask what was in the mind of the framers of the bill when they put in seven companies?

Mr. SYMINGTON: That is seven directors.

The CHAIRMAN: Shall the subsection carry?

Carried.

Subsection (2) of section 25.

Hon. Mr. HOWE:

25 (2) A contract entered into under subsection one of this section shall contain such terms as the Governor in Council may order, including terms for payment of a subsidy to the corporation, which subsidy shall be payable out of moneys to be appropriated by parliament for that purpose.

In the initial stages it may be necessary to subsidize the international operation.

Mr. JACKMAN: Even though 49 per cent is owned by some person other than the Dominion of Canada?

Hon. Mr. HOWE: It may still be necessary to subsidize it. Mr. Symington suggested the trans-Pacific operation. That will require to be subsidized in the early stages. However, that simply gives permission to subsidize. The subsidy cannot be granted unless parliament appropriates the money.

Mr. JACKMAN: The Governor in Council could?

Hon. Mr. HOWE: No, parliament.

The CHAIRMAN: It is in the last line.

Mr. JACKMAN: I think the Governor in Council could do it.

Mr. SYMINGTON: No, "which subsidy shall be payable out of moneys to be appropriated by parliament for that purpose."

The CHAIRMAN: Shall the section carry?

Carried.

Subsection (3) of section 25.

Hon. Mr. HOWE:

25 (3) The Governor in Council may from time to time authorize the minister to enter into a contract amending a contract made under subsection one of this section and containing such terms as the Governor in Council may order.

The CHAIRMAN: Is that all right?

Carried.

Section 26.

Hon. Mr. HOWE:

26. (1) The Governor in Council may authorize the Postmaster General to enter into a contract with any corporation incorporated under section twenty of this Act for the transport of mails.

The CHAIRMAN: Is that all right?

Carried.

Section 26, subsection (2).

Hon. Mr. HOWE:

26. (2) The Governor in Council may from time to time authorize the Postmaster General to enter into a contract amending a contract made under subsection one of this section and containing such terms as the Governor in Council may order.

The CHAIRMAN: Is that all right?

Carried.

Section 27.

Hon. Mr. HOWE:

27. All the provisions of this Act relating to Trans-Canada Air Lines, except sections three, four, five, seven, twelve, fifteen and sixteen shall mutatis mutandis apply to every corporation incorporated under section twenty of this Act.

Mr. HARKNESS: What are those sections?

Mr. SYMINGTON: I will read those to you. They are the things that do not apply. No. 3 is under the constitution of the corporation. That is the original Trans-Canada.

3. The following persons, namely, Valentine Irving Smart, Robert Knowlton Smith, Charles Peter Edwards, Edward Burton Jost and Findlay Malcolm Maclellan all of the city of Ottawa together with such persons as become shareholders of the Corporation are hereby incorporated under the name of "Trans-Canada Air Lines."

Plainly that is not applicable to these new companies.

4. The persons named in the next preceding section shall be the provisional directors of the Corporation.

5. The head office of the Corporation shall be at the City of Ottawa or such other city as the directors may select.

We have already said where the head office is to be. What are the other ones?

The CHAIRMAN: Seven.

Mr. SYMINGTON:

7. (1) The authorized capital of the Corporation shall be five million dollars divided into shares of one hundred dollars each, represented by share certificates.

That plainly does not apply to these corporations. That only applies to T.C.A.

The CHAIRMAN: Twelve.

12. (1) Subject to the provisions of this Act, the Canadian National Railway Company may issue notes, obligations, bonds and other securities (hereinafter in this section called "securities") not exceeding the sum of five million dollars for the purpose of acquiring the capital stock of the Corporation, and the Governor in Council may authorize the guarantee of the principal and interest of such securities on behalf of His Majesty.

That does not apply because the only way that the government can put up money, or the Canadian National if the connection continues, is in the parent company, not in the subsidiary company, so that does not apply.

The CHAIRMAN: Fifteen is the next one.

Mr. SYMINGTON: Fifteen is the contract between the Governor in Council and Trans-Canada Air Lines. That does not apply, of course, because you have provided in the ones you have approved just now for entering into direct contracts with these particular companies.

The CHAIRMAN: Sixteen.

Mr. SYMINGTON: That is the post office mail contract with Trans-Canada. You have just authorized the Post Office to enter into contracts with these other companies.

The CHAIRMAN: Shall section 27 carry?

Carried.

The CHAIRMAN: And now section 11?

Hon. Mr. HOWE:

Section 11. The Governor in Council may by proclamation repeal section seventeen of the said Act.

Section 17 (1) In the month of January in the year nineteen hundred and forty and in every year thereafter while the Trans-Canada contract is in force, the Governor in Council on the joint recommendation of the Minister and the Postmaster General, shall, as hereinafter provided, fix the rate or rates for the current year.

(2) If in the preceding year the corporation incurred a deficit, the rate or rates for the current year shall be fixed so as to produce an increase in the sum total to be paid on account of the said rates equal to the deficit in the preceding year.

(3) If in the preceding year the corporation earned a surplus, the rate or rates for the current year shall be fixed so as to produce a decrease in the sum total to be paid on account of the same rates equal to one-half the amount of the surplus earned in the preceding year: Provided, however, that the rates so fixed shall not be lower than rates payable for other similar coast to coast transport of mails in North America.

(4) The rate or rates so fixed shall apply as from the first day of the current year.

(5) In fixing the rates as hereinbefore provided, it shall be assumed that the corporation's gross revenue and operating expenses for the current year will be the same as in the preceding year, except in so far as the gross revenue will be increased or decreased by any changes in rates.

Mr. JACKMAN: That is the one which should not be lowered?

Hon. Mr. HOWE: That is the mail contract. We can repeal the present mail contract.

Mr. JACKMAN: I suggested earlier that, under the original mail contract, while you had the sliding scale, it did apply to the mail contract. Apparently it does not apply to the mail contract here. Clause 3 says that it must not be lower than rates payable for other similar coast to coast transport of mail in North America.

Hon. Mr. HOWE: That is a lower limit. We anticipated that the efficiency of the line might be such that the automatic working would cut right down below the lowest rate paid in the United States. If so, there was a floor under the thing, below which we would not cut it.

Mr. SYMINGTON: At the time that contract was entered into, the American rates were pretty high. That was before President Roosevelt took the contract away from a few companies and turned it over to the military, and they killed a number of people.

Mr. JACKMAN: But the contract specifies that the mail rate should not be lowered?

Mr. SYMINGTON: That occurred just before the contract, when the rates were very low. Now they have come up again.

Mr. HOWE: I think that finishes that.

The CHAIRMAN: Is that agreeable to the committee?

Mr. JACKMAN: May I ask a question with respect to that: the doing away with clause 16 under No. 27 of the present bill gives us the right now to fix the rate of the other terms set out in that old clause 15, in regard to these new companies that are envisioned?

Mr. SYMINGTON: The Governor in Council may do so, except if there be any subsidy whereupon it must be provided by parliament. The moneys must be provided by parliament.

Mr. JACKMAN: But the fixing of rates is left entirely to the Governor in Council?

The CHAIRMAN: Is that agreeable to you, gentlemen? I suppose the title will carry: "An Act to amend the Trans-Canada Air Lines Act, 1937"?

Mr. JACKMAN: But some of us do not subscribe to the principle of the bill at all.

Hon. Mr. HOWE: Then we can simply report it back without amendment.

Mr. JACKMAN: On division, Mr. Chairman, we have the right. But in committees we do not put in separate reports.

The CHAIRMAN: We have to make a report on this. But whether we can do it separately, and keep the Canadian National Railways separate and so forth, I am not sure how it should be done.

Mr. REID: I think it carries or does not carry by vote of the committee. I have never heard the question raised upon division. The question is put to the committee and the committee votes one way or the other.

The CHAIRMAN: Is that the way? The question then. Well, those for it? Twelve. Against? Three. Twelve and three, is that right?

The CLERK of the COMMITTEE: Yes.

The CHAIRMAN: Well, in order to make a report to the House, there should be a committee set up to do that. Do you wish me to suggest a committee? Suppose we say: Mr. Shaw, Mr. Jackman, Mr. Nicholson, Mr. Maybank, Mr. Harris and, perhaps, Mr. Beaudoin. That is, six members and the Chairman. Is that O.K.?

Mr. MUTCH: Quite so.

The CHAIRMAN: There is one thing. I do not know whether it was done at the last meeting when the Canadian National Railway officials were here.

Mr. HAZEN: This committee will have to report on this bill. That is one thing. And then we will have to report on the accounts as submitted.

The CHAIRMAN: Yes. Do you want a report on the Canadian National Railways separately from the T.C.A. bill, or do you want the Canadian National Railways plus the T.C.A., and the bill separately? Separately!

Mr. MUTCH: The report will come back to the committee.

Mr. HARRIS (*Grey-Bruce*): I think there should be one report with subsections to take care of it all.

The CHAIRMAN: Yes, there should be one report containing subsections to take care of it all.

Mr. HAZEN: There must be some procedure on this.

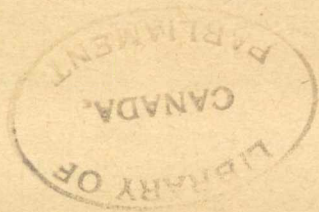
Hon. Mr. HOWE: I think there should be separate reports, because the report on the bill is treated in one way, and the report on the committee on railways is treated in another way.

Mr. HARRIS (*Grey-Bruce*): The bill being referred to first, there is a separate motion of the House, and we should deal with it separately. But the other items, that is, the T.C.A. and the Canadian National Railways, they should be confined to one.

Hon. Mr. HOWE: That is right. They refer to the Canadian National Railways.

The CHAIRMAN: Whatever the precedent has been in previous years, the committee will make their report accordingly. There is one other thing I would like to bring up. I was not at the final meeting when the Canadian National Railway officials were present. But I am sure that I express the views of the committee, that they wish to express their appreciation to the T.C.A. officials and to all the witnesses that have been called in connection with this. I also want to thank the committee for the co-operation that they have given me. I am a new member of the committee and I appreciate the co-operation they have given me. Is there anything else, or is that all? The committee is adjourned to meet again at the call of the Chair.

The committee adjourned at 5 p.m. to meet again at the call of the Chair.



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SESSION 1945
HOUSE OF COMMONS

STANDING COMMITTEE
ON
RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS
INCLUDING FOURTH REPORT TO THE HOUSE
No. 6

TUESDAY, NOVEMBER 13, 1945

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1945

MINUTES OF PROCEEDINGS

Room 268,

TUESDAY, November 13, 1945.

The Standing Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 10.30 o'clock a.m. Mr. S. Murray Clark, Chairman, presided.

Members present: Messrs. Clark, Coyle, Beaudoin, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Jackman, LaCroix, Maybank, McCulloch (*Pictou*), Moore, Mutch.

The Chairman presented a draft of a proposed Report to the House, prepared by the sub-committee appointed for that purpose at the last meeting held on November 1st, 1945, which was considered by the Committee.

Mr. Maybank moved that the draft-report submitted by the sub-Committee be adopted.

Mr. Jackman moved in amendment thereto that the following paragraph be added to the Report as submitted by the sub-Committee, viz:—

In subsequent years the financial results, in the opinion of the President of the Canadian National Railways System, would depend on the volume of freight and passenger traffic offered. The system's properties are in good operating condition.

The question being put thereon, the amendment of Mr. Jackman was negatived on the following division: Yeas, 4, Nays, 5.

The main motion was carried on division.

The Committee agreed that the Chairman present the Report to the House. (*See Fourth Report*)

At 11.15 o'clock a.m. the Committee adjourned *sine die*.

ANTOINE CHASSÉ,
Clerk of the Committee.

REPORT TO THE HOUSE

HOUSE OF COMMONS,

TUESDAY, November 13, 1945.

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

FOURTH REPORT

Your Committee had, on 17th October 1945, referred to it the following matters, namely:—

- (a) Annual Report of the Canadian National Railways system for the year ended December 31, 1944;
- (b) Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1944;
- (c) Annual Report of the Canadian National Securities Trust for the year ended December 31, 1944;
- (d) Annual Report of the Directors of the Trans-Canada Air Lines for the year ended December 31, 1944;
- (e) Report to Parliament of the firm of George A. Touche and Company, auditors of the Accounts of the Canadian National Railways System, Canadian National Railways Securities Trust, Trans-Canada Air Lines, Canadian National (West Indies) Steamships, Limited for the year ended December 31, 1944;
- (f) Financial Budget of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited, for the year 1945.

Your Committee held nine meetings in the course of which the said annual Reports of Canadian National Railways System, The Canadian National (West Indies) Steamships, Limited, The Canadian National Railways Securities Trust, The Trans-Canada Air Lines and The Auditors' Report to Parliament respecting the accounts of these companies, for the year ended December 31, 1944 were severally examined and unanimously adopted.

The Financial Budget of the Canadian National Railways System for the calendar year 1945 after careful examination was unanimously approved. Your Committee notes with satisfaction that the said budget for 1945 forecasts an income surplus of \$25,000,000. The requirements under the general capital budget, it will also be noted, are estimated to be \$8,800,000, and for the purchase of new equipment, under a hire-purchase agreement between the government and the railways, the requirements are estimated to be \$24,606,000.

The Financial Budget of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1945 was also examined and approved unanimously. The estimated income surplus in the case is fixed at \$985,000. No capital expenditures are contemplated during that year.

Your Committee has also examined the balance sheets relating to the operations of the Hudson Bay Railway and the financial results.

The task of your Committee was facilitated by the valuable assistance of Mr. R. C. Vaughan, Chairman of the Board of Directors and President of The Canadian National Railways System, Mr. H. J. Symington, C. M. G., K.C., President of Trans-Canada Air Lines and their respective Officers who willingly supplied all information requested of them and your Committee desires to place itself on record in appreciation of this fact.

A copy of the printed evidence taken is tabled herewith.

All of which is respectfully submitted.

S. MURRAY CLARK,
Chairman.

