

Canada. Parl. H. of C. Sessional
Comm. on Railways & Shipping... 1952/53.
Minutes of proceedings and
evidence.

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Canada. Parl. H. of C. Sessional
Comm. on Railways and Shipping
Owned, Operated and Controlled by
the Govt., 1952/53.

HOUSE OF COMMONS

Seventh Session—Twenty-first Parliament, 1952-3

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MARCH 23, 1953
TUESDAY, MARCH 24, 1953
WEDNESDAY, MARCH 25, 1953
FRIDAY, MARCH 27, 1953

C.N.R. Annual Report (1952) and Budget (1953).
C.N. Steamships Limited (1952) and Budget (1953).
C.N.R. Securities Trust (1952).
Auditors' Report to Parliament.
Estimates—Items 467, 471 and 476.

WITNESSES

Mr. Donald Gordon, Chairman and President;
Mr. S. F. Dingle, Vice-President;
Mr. T. J. Gracey, Comptroller;
Mr. F. P. Turville (G. A. Touche & Company).

SPECIAL COMMITTEE ON RAILWAYS AND SHIPPING

OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: HUGHES CLEAVER, ESQ.

Vice-Chairman: H. B. McCULLOCH, ESQ.

Messrs.

Benidickson	Fraser	Macdonnell
Browne (<i>St. John's</i> <i>West</i>)	Fulton	(<i>Greenwood</i>)
Carter	George	McCulloch
Cavers	Gillis	McLure
Chevrier	Healy	Mott
Churchill	Helme	Mutch
Cleaver	James	Picard
Dumas	Knight	Pouliot
Follwell	Macdonald	Thomas
	(<i>Edmonton East</i>)	

R. J. GRATRIX,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, March 12, 1953.

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 to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs. Benidickson, Bourget, Browne (*St. John's West*), Carter, Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

MONDAY, March 16, 1953.

Ordered,—That the Annual Reports for 1952 of the Canadian National Railways, the Canadian National (West Indies) Steamships, the Canadian National Railways Securities Trust, and the Auditor's Report to Parliament in respect to the Canadian National Railways and Canadian National (West Indies) Steamships, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1953-54:

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basque Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

And that the resolution passed by the House on January 28, 1953, referring certain estimates to the Committee of Supply, be rescinded in so far as the said resolution relates to Votes 467, 471 and 476.

TUESDAY, March 17, 1953.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1952, the Auditor's Report to Parliament for the year ended December 31, 1952, in respect of Trans-Canada Air Lines, and also the Operating Budget and Capital Budget for the calendar year 1953 in respect of Trans-Canada Air Lines, all tabled earlier this day, be referred to the said Committee.

WEDNESDAY, March 18, 1953.

Ordered,—That the quorum of the said Committee be reduced from fourteen to eight Members.

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

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 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.

MONDAY, March 19, 1953.

Ordered,—That the Capital Budget of the Canadian National Railways for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

Ordered,—That the Capital Budget of the Canadian National (West Indies) Steamships, Limited, for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

FRIDAY, March 20, 1953.

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

Attest.

LÉON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, March 18, 1953.

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

FIRST REPORT

Your Committee recommends:

1. That its quorum be reduced from fourteen to eight members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 1,000 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.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

FRIDAY, March 27, 1953.

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

SECOND REPORT

Pursuant to the Orders of Reference of the House of March 12, 16, 17 and 19, 1953, this Committee had before it for consideration the following:

1. The Annual Report for 1952 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' report to Parliament in respect of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited.

2. The Annual Report of the Trans-Canada Airlines for the calendar year 1952, and the Auditors' report to Parliament for the calendar year 1952, in respect of Trans-Canada Airlines.

3. The Annual Report of the Canadian National Railways Securities Trust for 1952.

4. The capital budget of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for the year ending 1953 and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1953.

5. Vote 467—Prince Edward Island Car Ferry and Terminals—deficit.

6. Vote 471—North Sydney, N.S., Port au Basque Ferry and Terminals—deficit.

7. Vote 476—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the Act.

Your Committee held ten meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Reports of the Canadian National Railways for 1952 disclose a net income of \$24,305,448.00, as compared with \$31,783,119.00 in 1951. However, interest charges amounted to \$24,163,121.00 in 1952, as compared with \$46,815,115.00 in 1951 bringing about a surplus of \$142,327.00 as compared with a deficit of \$15,031,996.00 in 1951. The said Annual Report was adopted.

The Annual Reports of the Canadian National (West Indies) Steamships, Limited for 1952 disclose a net operating profit of \$326,276.00 as compared with a net operating deficit of \$31,576.00 for 1951. After inclusion of Vessel Replacement Fund earnings of \$145,065.00 and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909.00 compared with an income deficit of \$468,992.00 in 1951. The balance in the Vessel Replacement Fund at the end of the 1952 was \$5,018,229.00 as compared with \$4,685,357.00 at the year end in 1951. The Insurance Fund balance was \$2,354,572.00 against a balance of \$2,046,654.00 at the end of 1951. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1952 discloses a net operating revenue of \$2,757,879.00, and that after payment of interest amounting to \$750,000.00 on capital invested and making provision for income tax of \$1,200,000.00, there is a resulting surplus of \$807,879.00 as compared with a surplus of \$3,890,957.00 in the year 1951, during which year no income tax with respect to this company was payable. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1952, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, for the calendar year 1953 were examined and adopted.

The items of the Estimates for the year ending March 31, 1954, being votes 467, 471 and 476, were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., L.L.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. J. Gracey, Comptroller, both of the Canadian National Railways; and Mr. G. R. McGregor, President of the Trans-Canada Airlines, and Mr. W. S. Harvey, Comptroller.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, March 18, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 10:30 o'clock a.m. this day.

Members present: Messrs. Benidickson, Bourget, Browne (*St. John's West*), Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Thomas.

A quorum having assembled, Mr. Macdonnell (*Greenwood*) addressing himself to the Clerk, moved that Mr. Cleaver, be Chairman of the Committee.

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

Mr. Cleaver presiding:

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

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

On motion of Mr. McCulloch:

Resolved,—That the Committee recommend to the House that it be granted permission to sit while the House is sitting.

On motion of Mr. Benidickson:

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

On motion of Mr. Macdonnell (*Greenwood*):

Resolved,—That the Committee recommend to the House that it be empowered to print, from day to day, 1000 copies in English and 200 copies in French of its minutes of proceedings and evidence.

At 1.45 o'clock p.m., on motion of Mr. Fulton, the Committee adjourned to meet again at 11:00 o'clock a.m., Monday, March 23rd, 1953.

MONDAY, March 23, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11:00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations); and Messrs. F. P. Turville, J. D. Morison, and D. T. G. Padley, Chartered Accountants, of George A. Touche & Company, Accountants.

The Committee commenced consideration of the Annual Report of the Canadian National Railway (1952).

Mr. Gordon was called, read the letter of transmittal and the Annual Report.

The Committee then commenced a detailed examination of the Report, during which Mr. Gordon, assisted by Messrs. Gracey and Dingle, answered questions directed to him.

At 12:50 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 3:30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 3:30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Messrs. Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at morning session.

The Committee resumed the examination of Mr. Gordon.

At 5:35 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 8:30 o'clock p.m. this day.

EVENING SESSION

The Committee resumed at 8:30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Messrs. Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Follwell, Fulton, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at morning session.

The Committee resumed the examination of Mr. Gordon.

On Section 34 of the Annual Report, *Hotel Operations*, Mr. Macdonnell (*Greenwood*), moved "for a copy of all letters, telegrams, and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then Manager of the Fort Garry Hotel in Winnipeg concerning complaints as to allotment of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in his discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints since the first day of September, 1952, and to date".

At the same time, and with the consent of the Committee, Mr. Macdonnell (*Greenwood*) also moved: "That Mr. Pitt and Mr. R. Sommerville, General Manager of Hotels, be called before the Committee".

After some discussion and the question being raised as to whether the documents requested could be produced, the Chairman ruled that further discussion should be directed to the point of order.

Thereupon, Mr. Gillis moved that, before proceeding further with the motion for production of papers, Mr. Gordon be heard on the motion.

After further discussion, and with the unanimous consent of the Committee, the Chairman called Mr. Gordon to make a statement on the production of the documents and papers requested in the motion.

Thereupon the Chairman ruled that the production of the documents and papers requested was contrary to well established principles and could not be allowed.

And an appeal from the Chairman's ruling being taken by Mr. Macdonnell. Mr. Mutch moved that the Committee adjourn until 11:00 o'clock a.m. Tuesday, March 24, 1953.

The debate still continuing the Chairman ruled that the motion to adjourn was not debatable and the said motion having been put, was agreed to.

At 10:00 o'clock p.m. the Committee adjourned to meet again at 11:00 o'clock a.m., Tuesday, March 24, 1953.

TUESDAY, March 24, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 11.00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mutch, Pouliot.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations): and Messrs. F. P. Turville, J. D. Morison, and T. D. G. Padley, chartered accountants, of George A. Touche & Company, accountants.

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

The Chairman informed the Committee that the ruling he had made at the previous meeting as to the production of certain documents was not debatable.

Thereupon, a recorded vote being requested, the Chairman's ruling was sustained on the following division:

Yeas: Messrs. Benidickson, Carter, Cavers, Chevrier, Dumas, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, Mott, Mutch, Pouliot. (15).

Nays: Messrs. Browne (*St. John's West*), Churchill, Fulton, Knight, Macdonnell (*Greenwood*), McLure. (6).

Debate then took place on the motion of Mr. Macdonnell (*Greenwood*) that "Mr. Pitt and Mr. R. Sommerville, General Manager of Hotels, be called before the Committee".

On speaking to the motion Mr. Macdonnell (*Greenwood*), informed the Committee that he had certain letters in his possession and it was his intention to read them into the record;

And a point of order being raised as to whether or not the said letters were interdepartmental documents and, if so, having regard to the decision of the Committee on the matter of producing interdepartmental correspondence,

whether or not they could be placed on the record; the Chairman advised the Committee that he would take the matter into consideration and give a decision at the afternoon session.

At 12.55 o'clock p.m. the Committee adjourned to meet again at 3.30 o'clock p.m. this day.

AFTERNOON SESSION

The Committee resumed at 3.30 o'clock a.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot, Thomas.

In attendance: Same as at the morning session.

Debate was resumed on the point of order raised at the morning sitting as to whether or not it was permissible for Mr. Macdonnell (*Greenwood*), to place on the record certain letters in his possession.

After some discussion the Chairman ruled that the said letters were inter-departmental documents and that, having regard to the previous decision of the committee as to the production of such documents, they could not be incorporated into the record.

The Committee then resumed consideration of Mr. Macdonnell's motion that Mr. Pitt and Mr. Sommerville be called before the Committee.

After further discussion; the question having been put and a recorded vote being requested the motion was negatived on the following division:

Nays: Messrs. Benidickson, Carter, Chevrier, Dumas, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, Mott, Mutch, Pouliot, Thomas. (15).

Yeas: Messrs. Browne (*St. John's West*), Churchill, Fraser, Fulton, Macdonnell (*Greenwood*), McLure. (6).

The Committee resumed the detailed study of the Annual Report of the Canadian National Railway and the examination of Mr. Gordon thereon.

At 6.05 o'clock p.m. the consideration of the Annual Report and the examination of Mr. Gordon thereon having been completed, the Committee adjourned to meet again at 8.30 o'clock p.m. this day.

EVENING SESSION

The Committee resumed at 8.30 o'clock p.m. Mr. Cleaver, Chairman, presiding.

Members present: Benidickson, Browne (*St. John's West*), Carter, Chevrier, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Mutch, Pouliot.

In attendance: Same as at the morning session.

The Committee having been advised of the passing of Her Majesty Queen Mary observed a minute's silence to mark its sorrow and regret at her passing.

The Committee commenced consideration of the Income Account and Capital Budget—1953, of the Canadian National Railways; Mr. Gordon being questioned thereon.

At 10.00 o'clock p.m. the examination of Mr. Gordon continuing, the Committee adjourned to meet again at 3.30 o'clock p.m., Wednesday, March 25, 1953.

R. J. GRATRIX,
Clerk of the Committee.

WEDNESDAY, March 25, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 3.30 o'clock p.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Cavers, Chevrier, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

In attendance: Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railway, assisted by Mr. T. J. Gracey, Comptroller, and Mr. S. F. Dingle, Vice-President (Operations); and Messrs. F. P. Turville, J. D. Morison, and T. D. G. Padley, chartered accountants, J. George A. Touche & Company, accountants.

The Committee completed consideration of and adopted the Income Account and Capital Budget, 1953, of the Canadian National Railways, Mr. Gordon being further examined thereon.

The Committee then considered and approved the Annual Report and the Income Account and Capital Budget, 1953 of the Canadian National (West Indies) Steamships, Limited, Mr. Gordon being examined thereon.

The Annual Report of the Canadian National Railways Securities Trust, 1952, was considered and adopted.

On motion of Mr. Gillis:

Resolved,—That in the future the Annual Reports of The Canadian National Railways Securities Trust be mimeographed rather than printed.

The Chairman placed before the Committee for consideration the Auditors' Report to Parliament, 1952, on the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited.

On motion of Mr. Fraser:

Resolved,—That the reading of the said reports be dispensed with.

The Auditors' Report to Parliament, 1952, in respect of the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, was approved.

The Committee then considered and approved the following items of the estimates referred to the Committee.

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basque Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

Answers to questions asked by various members of the Committee during the proceedings and deferred for additional information, were given by Mr. Gordon.

The Committee having completed its inquiry into matters referred in respect of the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, the Chairman expressed the appreciation of the Committee to Mr. Gordon and his officials.

At 5.25 o'clock p.m. the Committee adjourned to meet again at 11 o'clock a.m., Thursday, March 26th, 1953.

R. J. GRATRIX,
Clerk of the Committee.

MARCH 27, 1953.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government met, in camera, at 10.30 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Churchill, Dumas, Follwell, Fraser, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, Mott, Mutch.

The Chairman submitted a draft report on all matters referred to the Committee.

After some discussion and several amendments being proposed the said report was adopted without amendment, *on division*.

At 11.05 o'clock a.m. the Committee adjourned sine die.

R. J. GRATRIX,
Clerk of the Committee.

NOTE: In answer to a question asked by Mr. Browne (*St. John's West*), the following statement entitled: "Average revenues per ton mile of Railways in Various Countries", was filed with the Clerk of the Committee and is appended hereto as Appendix "A".

EVIDENCE

MARCH 23, 1953.

11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. The committee is pleased to have Mr. Donald Gordon with us again. Mr. Gordon?

Mr. GORDON: Mr. Chairman and members of the committee, may I first state for the record that accompanying me today are Mr. S. F. Dingle, vice-president in charge of operations, and Mr. T. J. Gracey, comptroller and others of my staff, who are here with supporting data on matters of detail to ensure that as far as possible in my appearance before you I may be able to deal with all questions which may appropriately arise or be of interest to you.

Mr. Chairman, may I also ask your permission and the indulgence of the committee to suggest that I may be permitted to read the report in its entirety because it is intended to make a full disclosure of all pertinent information so that members may obtain a grasp of the over-all operation of an organization which if I may say so is of extraordinary complexity. Following the presentation of the annual report questions may be dealt with and I suggest members might make notes as we go through the report.

Mr. MACDONNELL: I notice that a year ago we read the report section by section. Now, if Mr. Gordon feels the other way is desirable I do not wish to raise an objection.

Mr. GORDON: The reason for my suggestion is I thought last year there arose as we went through the report quite a number of questions that were answered in later parts, and I thought it would be better if you had the whole report before you. I am in your hands. Where any member of the committee feels there is any special point he would like to stop at, I am in your hands.

The CHAIRMAN: Gentlemen, do you agree with Mr. Gordon's suggestion that he should read the entire report, and I will after that call a section at a time for questioning.

Agreed.

Mr. McLURE: I wish to say that I have always admired the design and the way in which the Canadian National Railways report is put out and this year I notice in the press several articles against the very expensive report. I do not agree. I would like to congratulate the designer of the set-up of it. I think his name is Mr. Lash.

Mr. GORDON: He is our director of public relations.

May I proceed first with the letter of transmittal on page 5 addressed to the minister?

CANADIAN NATIONAL RAILWAYS

MONTREAL, February 25, 1953.

DONALD GORDON,
Chairman and President.

The Honourable LIONEL CHEVRIER, Q.C., M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1952.

For reasons which appear in the text, the nominal surplus resulting from the year's operations cannot be regarded as adequate, or satisfactory. Nevertheless, the passage of the Canadian National Railways Capital Revision Act has dealt with the problem of excessive fixed interest charges which have hitherto obscured the real contribution made by Canadian National to the economic life of the country, and in consequence the more fundamental issues are thrown into sharper relief.

The Management is pleased to record its appreciation of the loyal and effective services rendered by officers and employees throughout the organization.

Yours truly,

D. Gordon.

REVIEW OF FINANCIAL RESULTS

1. The following statement is a summary of the Consolidated Income Account which appears on page 24:

	1952	1951	Per cent Change
Operating Revenues	\$675,219,415	\$624,834,120	8·1
Operating Expenses	634,852,915	580,150,221	9·4
Net Operating Revenue	\$ 40,366,500	\$ 44,683,899	9·7
Taxes, equipment rents and other income accounts .	16,061,052	12,900,780	
Available for interest and dividends	\$ 24,305,448	\$ 31,783,119	
Interest charges	24,163,121	46,815,115	
Income deficit		\$ 15,031,996	
Surplus	\$ 142,327		

If I may be permitted, I suggest the review of financial results shown in the figures be accepted as read?

Agreed.

2. Increased operating expenses due principally to high wage rates more than offset a gain of 8.1 per cent in operating revenues during 1952, and despite the attainment of a new record in the volume of freight traffic, net operating revenues declined by \$4.3 million compared with 1951. After taking account of the changes made by The Canadian National Railways Capital Revision Act, 1952 (described on page 13), which had the effect of bringing the ratio between fixed interest-bearing debt and equity capital to a basis more nearly comparable with that of other large railways, there emerged in the final outcome a very modest surplus to be paid as a dividend on Preferred Stock.

3. Even this small surplus was only made possible because of a non-recurring credit to operating expenses of \$3.1 million, and because of the fact that 1952 accounts were not charged with a retroactive wage settlement of \$4.5 million, granted to trainmen and firemen as from April 1, 1952, on which agreement was not reached until February, 1953, after the closing of 1952 accounts.

4. Allowing for these two factors, there would have been an income deficit of nearly \$7,500,000. Nevertheless, this deficit could also have been met had it been possible to obtain, within the year 1952, consequential increases in freight rates and other charges following a major wage settlement with non-operating employees signed in December and retroactive to September, 1952. Despite an emergency hearing and action by the Board of Transport Commissioners the Railway was faced once again with the impossibility of recovering its revenues on a retroactive basis to meet wage adjustments which reach back into the past.

5. In order to obtain a perspective of the 1952 results it is useful to make a comparison with 1928, the last year (apart from the war years 1941-45 inclusive) in which Canadian National reported an income surplus. Broadly speaking, the cost of railway materials and labour has moved forward in step with the general level of prices and wages during the intervening period, but railway freight rates have not. Over the past twenty-five years the average hourly earnings of Canadian railway employees have more than doubled, while the general price level as represented by the index of wholesale prices has shown an increase of over 80 per cent. In strong contrast to this pattern, the price of Canadian National freight services, as measured by the average revenue per ton mile, has risen by only 38 per cent. Freight revenues, it may be observed, generally account for at least three-quarters of gross System revenues.

6. In the face of this divergent trend of cost and rate levels, it is not surprising to find that the System ratio of operating expenses to operating revenue has worsened from 81.99 per cent in 1928 to 94.02 per cent in 1952. Indeed, were it not for a remarkable increase in efficiency of the Railway machine, having regard to the higher traffic levels, the financial results for 1952 would have been vastly different. The benefit of this over-all improvement in productivity amounts to many millions of dollars; all of this and more has been passed on to employees and the users of Railway services. It is represented on the one hand by increased compensation, and on the other by the lowest average level of freight rates to be found in any country in the Western world.

* Mr. MACDONNELL: Does that include all countries?

Mr. GORDON: It includes all the countries with our standard of living and general outlook towards life.

7. The spread between the prices of Railway freight and passenger services, and the average prices of all other goods and services (which have a direct impact on rail expenses) has been particularly marked in the years following 1939, and for this reason the comparative price movements have been set out in chart form on page 10.

I think it might be useful if the committee took a glance at page ten when you will see on the lefthand side a chart showing how the gap between wholesale prices and the average price of freight service, the black line underneath, has widened steadily. The white line is the curve or chart of the wholesale prices and the black line shows the extent to which the revenue per ton mile has risen since 1939.

You will notice it starts at 1939 and it shows a 43 per cent increase.

Volume of Freight Traffic

8. The volume of freight traffic handled in 1952, as indicated by revenue net ton miles, exceeded by 5.5 per cent the record established in 1951. This measure of outputs is the product of the tonnage carried multiplied by the average distance over which the traffic moved. Revenue tonnage amounted to 90.1 million tons, an increase of negligible proportions, but with an increase in average haul from 407 to 427 miles the total output of ton miles rose to 38.4 billions.

9. Changes in the character of tonnage handled during 1952 had an adverse effect on the revenue yield of the record volume of traffic. Practically all of the commodities showing major increases were in the low-rated category, the heavy export grain movement being subject to the statutory Crowsnest Pass rates. Conversely, the majority of commodities moving in decreased volume, with the exception of pulpwood and bituminous coal, were in the higher-rated category.

10. Specifically, the increase in grain traffic amounted to nearly three million tons, or 25 per cent, this being due to the record harvest as well as unusually heavy movements throughout the year resulting from the large carry-over of stocks from the 1951 crop. Substantial increases were also recorded in gravel, sand, stone, and cement, reflecting a high level of activity in the construction industry. Heavier movements of crude and fuel oil, gasoline, machinery, and ores and concentrates, resulted from the steady rise in activity in the petroleum and mining industries.

11. The greatest decrease in tonnage occurred in pulpwood shipments, which declined by more than one million tons, or 15.2 per cent, as paper mills drew on stock piles accumulated throughout 1951 and early 1952. Other important decreases were shown in bituminous coal, lumber, wood pulp and paper products other than newsprint, as a consequence of market conditions. Restrictions imposed by the United States Government following the outbreak of foot and mouth disease in Saskatchewan were the major influence in a decline of 9.8 per cent in animal products. Steel shortages, leading to curtailed production, resulted in lower traffic in automobiles and parts on the subsidiary Grand Trunk Western lines. Other miscellaneous and manufactured commodities, together with less-carload tonnage, also showed decreases compared with 1951.

Freight Rates

12. The following are the more important freight rate changes authorized by the Board of Transport Commissioners during 1952:

1. Effective February 11, 1952, a 4.46 per cent increase brought about by substituting 17 per cent in place of the 12 per cent increase granted on July 4, 1951.

2. Effective May 1, 1952, the railways were required to apply, on traffic moving over the so-called "bridge" territory between Eastern and Western Canada, general reductions of 2.53 per cent on the basic rate and 5.8¢ per hundred pounds with certain exceptions. This Order was issued pursuant to legislation arising from recommendations of the Royal Commission on Transportation, as referred to in the last Annual Report. The railways are permitted to seek a compensatory subsidy from Government up to an aggregate amount of \$7 million per year for both major railways.

3. Effective May 2, 1952, an increase of 15 per cent on international and related traffic in lieu of an earlier increase ranging from 6 to 9 per cent which had been made effective on August 28, 1951. These Orders followed parallel action by the Interstate Commerce Commission in the United States.

4. Adjustments were authorized in Schedule "A" class rates in Eastern Canada, in export and import class rates between Eastern Canada and Atlantic seaboard ports, and in domestic grain rates applying within Western Canada.

5. Effective January 1, 1953, a general increase of 9 per cent with graduated increases of from 10 to 20¢ per ton on coal and coke. This award followed an application by the Railway Association of Canada for a 9 per cent increase calculated to recoup, in respect of employees engaged in freight and passenger services only, the additional cost arising from the wage settlement with the non-operating group effective September 1st. It was stated that the applicants would give further consideration to such increases in rates and tolls for other services as might be practicable with a view to recovering the balance of the additional wage expense.

13. In all of the foregoing awards no charge was made in the statutory Crowsnest Pass rates on grain and grain products.

14. The net result of the foregoing changes in rates effected in 1952, and changes in the composition of freight traffic as described in the preceding section, was a modest increase in the average revenue per ton mile for the System. In 1952 the unit revenue amounted to 1.397¢ compared with 1.369¢ in 1951.

15. At the time of writing this Report there was pending a decision by the Board on an application by the Railway Association of Canada for a general increase of 7% with graduated increases of 10 to 20¢ per ton on coal and coke.

16. Studies under the General Freight Rates Investigation, directed by Order-in-Council P.C. 1487 of April 7, 1948, were continued during the year with a particular emphasis on rate equalization. On December 12th the Board issued a Judgment specifying a uniform scale of mileage class rates for application between points west of Levis, Diamond and Boundary, Que., and tentatively set January 1, 1954, as the effective date. The Board's stated purpose in specifying this scale was to provide something concrete to be examined during public hearings which will be held in various parts of Canada during 1953 on the general subject of equalization, which involves, among other things, consideration of the revisions to be made in the Canadian Freight Classification.

Passenger Traffic

17. Various fare adjustments and increased patronage combined to raise passenger revenues by 2.1% to \$48,466,128. Heavier military travel more than offset the decline in immigrant traffic which occurred in the latter half of the year. The total number of passengers increased by 8.7% to 18,832,815, but since the average journey declined markedly, the total passenger miles rose by less than 2%.

18. Moderate increases in certain minimum and competitive fares, together with higher minimum charges for sleeping and parlor car accommodation, were put into effect during the year.

Express Traffic

19. Increased rates accompanied by a record-breaking number of express shipments accounted for an increase of nearly 17% in express revenues compared with 1951.

20. The increased charges were applied principally to special commodity tariffs and to the standard rates on small shipments of less than one hundred pounds. The number of express shipments handled during the year amounted to 24,548,248, showing an increase of nearly 6% above the previous record established in 1951.

Communications Traffic

21. Communications revenues rose by 15.3% to a new peak during 1952, as the result of higher message rates and a substantial increase in the volume of private leased wire business. Increased rentals for teletypes and associated equipment contributed in lesser degree to the higher level of earnings.

22. Following the wage settlement with the non-operating group, in which Communications Department employees were included, tariffs were filed with the Board of Transport Commissioners increasing message rates by an average of 10.9%. These tariffs were approved to take effect on February 1, 1953.

Operating Expenses

23. Increased wage rates constituted the major factor in raising the 1952 level of operating expenses to an all-time high. Higher prices for materials, increased pension cost, and other expenses related to the additional traffic volume also contributed to a total increase in expenses of 9.4% over the previous year.

24. A non-recurring credit to maintenance expenses of \$3.1 million resulted from the closing out of a reserve for amortization of defence projects which had been accrued during the war years in the expectation that certain capital projects initiated to meet defence requirements would be a burden on the System during normal peacetime conditions. Post-war events have so altered the circumstances that the reserve is no longer necessary.

Employee Compensation

25. Compared to 1951 the additional pay roll costs arising from higher wage rates amounted to \$22.3 million. Of this amount \$8.4 million was attributable to the impact throughout a full year of the forty-hour week, with maintenance of take-home pay, introduced on June 1, 1951, as part of an earlier settlement with non-operating employees.

26. The major wage settlement made during 1952 emerged from negotiations conducted with a committee appointed by seventeen railway unions representative of the non-operating employees, whose two-year contracts expired on September 1st. Based on the award of a Conciliation Board under the chairmanship of Mr. Justice R. L. Kellock, the final agreement, dated Decem-

ber 19th, provided for an increase of 7% and 7¢ per hour (averaging 12.4% overall) retroactive to September 1st, and an arrangement for the check-off of union dues. The cost of this settlement for 1952 amounted to \$9,657,000. On an annual basis the estimated cost will be \$29 million.

27. New agreements were signed with locomotive engineers and conductors, awarding wage increases ranging from 11% to 11½%. Other settlements made during 1952 affected smaller groups of employees covered by eight agreements.

28. As the year ended, two disputes, arising out of negotiations begun in February, 1952, with representatives of the trainmen and firemen, were under consideration by two separate Boards of Conciliation and Investigation.

29. On January 5, 1953, the Board dealing with the trainmen's case issued a majority report, which was accepted by the railways, recommending a 12% wage increase with certain changes in working rules. The rejection by the trainmen's organization of this report was coupled with a notice to the railways of intention to strike on February 2nd failing a settlement of the dispute. Negotiations were conducted in Montreal between January 19th and January 28th, and resumed in Ottawa at the direct request of the Prime Minister. On January 29th agreement in principle was reached, to be followed by further negotiations, on the basis of a 12% increase (later made retroactive to April 1, 1952) and a forty-hour week for yard service employees effective October 1, 1953.

30. A settlement with the firemen's organization was reached on February 10, 1953, providing for a 12% increase retroactive to April 1, 1952 and a further increase of 1% for yard service employees effective February 16, 1953.

31. On May 23rd the United States Government returned to ownership control all railways in the United States, including subsidiary lines of the Canadian National, which had been taken over under an Executive Order dated August 25, 1950, because of a threatened strike at that time by operating trades employees. Agreements subsequently made between the Carriers' Conference Committees and employee representatives brought the dispute to a final conclusion in May, 1952.

Prices

32. It is estimated that increased prices for railway materials added \$11.9 million to operating expenses in 1952. During the year the prices of a wide range of miscellaneous items declined, but the prices of such major items as ties and steel products continued to rise.

Taxes, Rents and other Income Accounts

33. The net debit arising from this group of accounts, as set forth on page 24, showed an increase of \$3.2 million compared to the previous year. This change is largely explained by the inclusion of \$4.5 million of non-recurring credits in the 1951 accounts; by a gain of \$1.8 million in United States and Sterling currency transactions due to a further appreciation of the Canadian dollar; and by an increase of nearly \$800,000 in municipal and other taxes.

Hotel Operations

34. Both gross revenues and expenses from the operation of nine Canadian National hotels and three summer resort lodges increased to record heights in 1952, producing a net result slightly less than in the preceding year.

35. Gross revenues amounted to \$9,291,444, reflecting an improvement in revenues at year-round hotels due to increased room and meal prices. Revenues from Jasper Park Lodge decreased by \$178,000 as a consequence of the destruction of the main building by a fire of undetermined origin on July 15th. Despite this disaster the Lodge was kept in operation by various expedients for the balance of the season, and with such success that total patronage for the year showed a decrease of only 25% compared with 1951. The number of guests accommodated at the year-round hotels declined slightly to 607,436.

36. Total operating expenses increased by 1.1% to \$8,755,935, due principally to selective wage increases effected locally at each hotel and summer resort.

37. Retirement accounting, in which the book values of assets are charged out to operating expense at the time the assets are taken out of service, is the procedure followed in respect of the Canadian National Hotel Department.

38. The net operating income from Hotel Department operations for the year amounted to \$535,509, compared to \$588,485 in the preceding year. The former amount would be reduced by \$279,270 if, in lieu of retirement accounting, straight line depreciation were applied on a current basis using a rate of 2%. Whether or not depreciation accounting should be introduced will be determined as part of a policy review of those accounting procedures which are most likely to give a realistic picture of operating results.

39. The net operating income cited above makes no allowance for the capital invested in hotel properties, which at January 1, 1952, stood at \$31.3 million. To recover 3.61% on this investment, as a minimum rate of return representing the average interest cost to the System during 1952 of borrowed capital, would require a net operating income of \$1,130,000.

Property Investment Account

40. As shown on page 30, expenditures during the year on additions and betterments, less the book value of property retired or transferred, amounted to \$124,956,219, of which \$81,428,578 represented net expenditures on equipment.

41. Major improvements to road property are dealt with under appropriate headings in the next section of this Report.

42. New construction and improvements in System hotels made good progress during 1952. At the year-end approximately 90% of the work was completed on the new wing of the Macdonald Hotel, Edmonton. At the Newfoundland Hotel, in St. John's, the ballroom, the main dining room, the new laundry wing, and two of the three bedroom sections were completed and in operation. Work was well in hand on a new fireproof central building for Jasper Park Lodge, planning having started immediately after the old building was destroyed, with the objective of having the Lodge in full operation for the start of the 1953 season.

46. As a consequence of these adjustments the proportion of total capitalization represented by equity capital in Shareholder's Account was raised from 34.5% to 67.2% at the beginning of 1952, and the proportion of borrowed capital was correspondingly reduced.

47. The provisions made for annual purchase of Preferred Stock by Government for a period of nine years up to and including 1960, and for the waiver during the ten-year period of interest on \$100 million of debt, contemplate that a review will be made at the appropriate time of the practical effects of the capital revision plan embodied in this Act.

Corporate Reorganization

48. During the year a plan was devised for the rationalization of the Canadian National corporate structure, which presently consists of 79 individual companies. The ultimate objective is the consolidation of as many as possible of these companies into perhaps ten major corporate entities.
Financing in 1952

49. Proceeds from the sale of preferred stock to Government in 1952 amounted to \$18,486,540. As shown on page 34, the net increase in borrowed capital, after debt retirements of \$9,702,206, amounted to \$97,164,590.

REVIEW OF OPERATIONS

Operating Performance

1. The most notable feature of the 1952 operations was the continued improvement in freight train performance resulting from the increased use of diesel locomotives, which accounted for nearly 23% of the gross ton miles produced during the year. Freight trains handled more tonnage per train than in any previous year at an average speed equal to the previously recorded peak, establishing a new high of 30,002 gross ton miles per freight train hour.

2. Other aspects of the year's performance are worthy of mention. The average on-time record of principal passenger trains was better than in any year since 1941. Utilization of diesel power was maintained at a high level. Utilization of steam power showed some decline, but no more than was anticipated because of its gradual displacement by diesel power and the relegation of steam engines to lighter traffic runs. Freight and passenger car utilization was maintained at a higher level than in 1951, despite the additional equipment acquired and the greater number of cars on line. In fact freight car utilization was better than in any year since 1945 when wartime carloading regulations were in effect and the longer average haul permitted better mileage per car to be obtained.

3. In order to present a consistent basis for comparison the foregoing figures exclude the Newfoundland District.

Equipment and Research

Motive Power

4. Plans for the selective introduction of diesel power were progressed during 1952 by placing in service 115 diesel locomotive units. As shown on page 38, this brought to 395 the total number of units on hand at the year end.

5. Regarded from the standpoint of service assignment, the five-year dieselization programme as projected through 1956 is made up of four component parts, covering the use of diesels in through freight, switching, way freight, and passenger operations. By the end of 1952 the programme for switchers was 20% complete, and the programme for road diesels (used in through freight service) was 34% complete. This pattern was based on the underlying principle that the type of diesel power acquired and its assignment in service, should be scheduled so as to yield the optimum return on investment. Studies have shown that, generally speaking, the greatest economies are derived from the initial stages of dieselizing through freight and switching operations, and for this reason the programme in respect of way freight and passenger service was not started in 1952.

6. Other technological developments in the motive power field continued to be watched during the year. Visits were made in the United States and Europe by technical officers of the Company to the scene of operations and research concerned with the gas turbine and the use of locomotives employing mechanical drive. While the results observed to date do not call for modification of present plans, the Management's long range policies do allow for the factor of obsolescence and leave scope for promising new developments in the field.

7. The conversion of 35 steam locomotives from coal to oil-burning was completed in 1952, thereby advancing a programme aimed at achieving the economies obtainable from using crude oil close to sources of supply in Western Canada.

Freight Equipment

8. The use of roller bearings on freight car equipment was introduced for the first time late in 1952 with the appearance in service of six 50-ton flat cars adapted for the rail movement of highway semi-trailers between Montreal and Toronto. This type of operation involves high speed movement under competitive conditions which place particular emphasis on regularity of service, and the schedules are such that it is possible to obtain a high degree of utilization of equipment. These are among the factors which combined to make a special case for the experimental use of roller bearings, despite the higher initial cost compared with standard journal bearings. Policy in respect of a wider application to freight equipment will depend on the results of analytical studies currently in hand.

Passenger Equipment

9. Both higher speeds and riding comfort are involved in considering the use of roller bearings on passenger-carrying cars. The decision has been taken to so equip all new passenger cars and all air-conditioned dining cars. The same policy applies to cars selected for modernization in Canadian National shops, thirty-six of which were completed in 1952.

10. A number of economy features were introduced into the specifications for new passenger equipment ordered in 1952. Four instead of six-wheel trucks have been adopted as standard for all new passenger-carrying cars; excellent riding qualities and the safety factor will be assured by the use of truck assemblies of a new design embodying the latest type of shock-absorbing gear. In addition, wherever practicable, specifications call for single instead of double vestibule cars, thereby making more passenger accommodation available in each car. Generally, in respect of layout and materials used, the new cars have been designed to provide for the most efficient use of space consistent with modern standards of comfort and convenience for the passenger.

11. Encouraging results have been obtained from the use in branch line service of a reconditioned and modernized diesel railcar and two matching trailers, and immediate plans are being made to rehabilitate five power units for use singly or in combination with one or two trailers.

12. Six new light-weight electric cars and twelve matching trailers for suburban operations through the Mount Royal Tunnel were delivered and placed in service during 1952.

Signalling and Track Equipment

13. The installation of Centralized Traffic Control was completed on the Holly Subdivision, a 35-mile single track line between double track main lines at Pontiac and Durand, Michigan.

14. On the Kashobowie Subdivision, which handles heavy traffic including iron ore, two signalling projects were begun during the year. Centralized Traffic Control is being installed on the 106-mile single track section between Atikokan and Conmee, Ont., and automatic block signals are being placed on the double track between Conmee and Port Arthur, a distance of 36 miles.

15. Work was continued during 1952 on a ten-year programme (1948-1957 inclusive) for providing automatic block signals on the 512 miles of main line from Jasper to Port Mann, the operating terminal for Vancouver. Installation was well advanced on the 26 miles between Ashcroft and Spence's Bridge, B.C., and brought to completion in February, 1953, at which time there was a total of 185 miles of automatic signals in service in this mountain territory.

16. Reflecting the accelerated trend towards mechanization of track maintenance following the introduction in June, 1951, of a forty-hour week, 303 power tools and machines were acquired during 1952. These units included 8 mobile multiple unit tie tampers, of which there are now 19 in service.

Communications

17. Despite continuing delays in the delivery of new equipment an increase of nearly 42% in carrier channel mileage was achieved during the year. Further progress was made in mechanizing the handling of commercial message traffic, and the modernization of equipment used in broadcasting service was practically completed at the year-end.

Other Research

Research activities were expanded during the year in connection with process and quality control of materials, and the development of Railway equipment.

A rust inhibitor to control brine corrosion was successfully developed and has been put into use in standard refrigerator cars.

Advances were made in the scientific control of laundering processes, the use of textiles, and both ferrous and non-ferrous metals. Research has also entered into the field of reclaiming materials, and substantial progress has been made in the reconditioning of lubricants and the salvage and reconditioning of car springs.

Experiments have been continued in the field of mechanical refrigeration in refrigerator car service, but as yet without conclusive results. The special type of self-contained air-conditioning, lighting and heating unit for passenger equipment developed in co-operation with an English engineering firm has advanced to the point where the equipment is now ready for installation in a passenger car. Tests will be conducted during 1953.

An experimental lightweight refrigerator car, using aluminum and plywood for weight reduction and monel metal for resistance to corrosion from brine, is under construction. This car will use a novel type of lightweight aluminum foil insulation and will be equipped with a circulating brine system designed to give uniform, controlled temperature throughout the car.

Another interesting research project has been the development of a specialized type of less-carload container for the transportation of fresh chilled fish and other similar products. This container operates on a novel principle, for which patents are being sought.

The serviceability of passenger and freight car equipment was well maintained during 1952.

The basic inventory position in respect of freight car equipment was improved by the net addition of 4,785 units, as detailed on page 38. Shortages continue to be experienced, however, in certain types of equipment, such as refrigerators, which are used intensively in seasonal traffic movements.

As explained in the previous Annual Report, steel shortages and defence priorities have stood in the way of substantial additions to passenger car inventory during recent years. In 1952 the total number of cars on hand actually declined because of the retirement of old equipment, including 39 wooden coaches, of which there are still 481 in service. However, large orders for new equipment were successfully placed during the year, and engineering details are well in hand so that production can be undertaken in 1953.

The condition of the roadbed, track and structure was improved as the result of work accomplished under the 1952 maintenance programme. In certain instances, however, the designed programme was not fulfilled because of supply conditions. This was particularly true of the rail-laying programme which contemplated the installation of 805 track miles of new rail; due to a persistent steel shortage and late deliveries, actual installation amounted to only 574 track miles. This is regarded as serious, and every effort will be made to remedy the situation as new rail becomes available in 1953.

Terminal Facilities

Further steps were taken during 1952 to alleviate the problem of congestion in yard and terminal facilities.

Studies of the traffic flow through strategic terminals were followed by revisions in the procedure of marshalling trains which have proved effective in expediting car movements.

At Mimico Yards in Toronto Terminals all major track extensions were completed, and work was begun on a yard inter-communication system.

Planning for the new hump yard to be constructed in the Cote de Liesse area in Montreal was advanced during the year, and a start was made on the acquisition of the necessary land. Concurrently, work proceeded in Turcot Yards on the rearrangement and extension of trackage required to handle the current volume of traffic.

At Bonaventure Freight Terminals the four-storey office building, an extension to the inbound shed, and the shed office building were completed, and a contract was awarded late in the year for the foundations of a new bonded shed. Work was progressed on a programme of extension and rearrangement of the tracks serving Bonaventure freight sheds.

The through extension of four stub tracks in Central Station, Montreal, was completed, and work on the extension of the sub-track area for express operations was continued.

The adjustment of locomotive repair shop facilities was proceeded with during the year in order to meet changing requirements which stem from the dieselization programme. At Moncton and Point St. Charles (Montreal) portions of the shop space formerly devoted to steam locomotive repairs were converted to provide for heavy maintenance work on diesel units. For lighter diesel maintenance an extension to the electric locomotive shop in Point St. Charles and a new diesel shop building at Fort Erie were started during the

year. Modifications were also begun to roundhouses at Transcona (Winnipeg), Neebing (Fort William) and Campbellton for the accommodation of diesel locomotives.

Important additions to the facilities for maintenance of rolling stock were made with the completion in 1952 of a new paint shop at Point St. Charles, and a new wheel shop at Edmonton which will supply Western Region requirements.

In order to provide for a planned increase in iron ore shipments from the Steep Rock area, work was begun late in 1952 on the construction of a 600-foot extension to the iron ore dock at Port Arthur. The new structure, estimated to cost \$3.2 million, will double the handling capacity of the present facilities, and is expected to be completed in 1954.

Coastal Steamship Services

Two new vessels of the "Bar Haven" type, each of 1,138 gross tons, were ordered during the year for the Newfoundland coastal services. One vessel will replace the S.S. *Glencoe*, now fifty-two years old, and the other will be assigned to the east coast run to improve the service currently being provided by two small motor ships. Delivery of the new vessels is scheduled for the summer and autumn of 1955.

Preparatory studies were undertaken during the year with a view to determining the most suitable type of vessel to replace the forty-two year-old S.S. *Prince Rupert* now operating in the Pacific coastal service between Vancouver, Prince Rupert and Alaskan ports.

GENERAL

Participation in Economic Development

The continuing expansion of the Canadian economy in 1952 provided further opportunities for demonstrating the vital role played by Canadian National in the industrial life of the nation.

At various centres across Canada 282 industrial spur tracks, totalling 68.1 miles in length, were constructed by the Railway during the year.

The technical advice of the Company's industrial development officers was sought during the year by a number of firms planning expansion of their operations. Inquiries were received from American British and European interests as well as from Canadian firms.

At Prince Rupert, work was commenced late in 1952 on the construction of a marine slip for handling rail carloads to and from barges being operated by the Alaska-British Columbia Transportation Company between Prince Rupert and Ketchikan, Alaska. As a preliminary phase of this project a temporary slip was completed in February, 1953, to permit the handling of through traffic required for the construction of a wood pulp plant being built at Wards Cove, near Ketchikan.

The conclusion of an agreement late in 1952 with the Burrard Inlet Tunnel and Bridge Company, providing for operations over the Second Narrows Bridge, and the completion of an arrangement for the taking over by Canadian National of National Harbours Board trackage on both sides of Burrard Inlet, has opened the way for the development of a new and large industrial area in North Vancouver.

New Branch Lines

By the end of the year 98 per cent of the right-of-way had been cleared for the 150-mile branch line which is being built from Sherridon to Lynn Lake, Man. Rail was laid to Mile 54.2, just north of the Churchill River where the three channels have been spanned by steel bridges. It is expected that the line will be ready for operation by the end of 1953.

Surveys were completed in 1952 for a new branch line of approximately 46 miles from Terrace to Kitimat, B.C., where a large scale aluminum reduction plant is being built. Contracts were awarded for clearing and grading operations and for the sub-structure of a bridge required to carry the line over the Skeena River. By the end of the year a start had been made on clearing the right-of-way. Present schedules anticipate completion of the line in 1954.

Economic developments in the Chibougamau area of Northern Quebec, in the Gaspé Peninsula, and in New Brunswick have been under observation with an eye to the possibility that further growth may warrant the provision of rail service.

St. Lawrence Seaway Project

Preparatory studies were continued during the year for the co-ordination of Canadian National facilities with the planned power development and navigation works of the St. Lawrence Seaway project.

Highway Competition

Two innovations in freight handling methods were made in 1952 with a view to providing better service on merchandise traffic, which is highly competitive as between road and rail carriers.

The "Highball Merchandise Service", inaugurated on Canadian lines in November, 1952, provides for the placarding of all less-carload merchandise cars with a distinctively coloured label which readily identifies this traffic for special attention. This method has resulted in a marked improvement in service and will continue to be used.

An experimental service using railway-owned truck trailers loaded on specially equipped flat cars was introduced on December 1st in merchandise freight service between Montreal and Toronto. In this operation the trailers can be loaded at the shipper's door, hauled by truck-tractors to special ramps for loading on rail flat cars, and on arrival at destination be delivered directly to the consignee. Improved service and reduced handling costs are the advantages offered by this technique, although its use will be limited to situations where the traffic movement in each direction is reasonably balanced. The results obtained during the trial period have been encouraging and further expansion is contemplated.

Co-operation Under the Canadian National-Canadian Pacific Act, 1933

Joint studies aimed at the achievement of co-operative economies, and concerned with subjects mentioned in the preceding Annual Report were continued during 1952.

Studies aimed at effecting a greater degree of standardization between Canadian National and Canadian Pacific in respect of rolling stock were advanced during the year, and a joint committee was formed to deal specifically with this matter which, although it does not come within the scope of the above mentioned Act, is concerned with co-operative economies.

Employee Relations

During the past few years it has become increasingly clear that, despite a generally harmonious background and tradition of good-will, the wage bargaining aspect of relations between the railways and representatives of the organized employees leaves something to be desired.

The Management believes that a condition of recurring crises is detrimental to the best interests of employer and employee alike, and highly undesirable from the standpoint of the general public. Accordingly we have commenced a broad survey and review of the attitudes, practices and procedures which have grown up on either side over the years. Our aim is to examine objectively and in the light of modern conditions the whole context of labour management relations, having particular regard to the mutual responsibilities which devolve upon officers of the Railway and of the unions.

During 1952 further attention was given to the development of systematic procedures for the selection, training and promotion of employees.

A more extensive programme of on-the-job training for employees in all departments is under preparation. Steady progress has been made during the year in training employees in the operation and maintenance of diesel locomotives, personnel displaced by the diminishing requirements of steam locomotive maintenance being given every reasonable opportunity to adapt themselves to the new skills required.

As in most other firms, the effect of depressed conditions in the 1930's, when promotional opportunities were rare, has become evident in the lack of a broad background and experience among those who would normally be considered eligible for promotion to senior positions. The problem is acute because of the vacancies created by the unusually large number of retirements that have occurred in the recent past and are anticipated in the next few years. To provide a means for the development of administrative and executive capacity, a six-week Staff Training Course has been planned for the summer of 1953. This initial undertaking will break new ground, and the results will be carefully watched with a view to determining future policy.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1952

ASSETS		LIABILITIES	
Investments—		Stocks—	
Road and equipment property..	\$2,367,435,701	Capital stocks of subsidiary companies owned by public.....	\$ 4,516,490
Improvements on leased property	1,170,841		
Miscellaneous physical property	68,231,230		
	<u>\$2,436,837,772</u>	Funded Debt—	
Capital and other reserve funds:		Owned by public.....	\$ 589,738,535
System securities at par.....	\$ 748,500	Held in special funds.....	15,756,294
Other assets at cost.....	3,834,160		
	<u>4,582,660</u>		
Investments in affiliated companies.....	51,256,597	Government of Canada Loans and Debentures..	605,494,829
Other investments:			238,055,165
System securities at par.....	\$ 205,000	Current Liabilities—	
Other assets at cost.....	591,428	Traffic and car-service balances.....	\$ 8,325,518
	<u>796,428</u>	Audited accounts and wages payable.....	34,229,213
Current Assets—		Miscellaneous accounts payable.....	6,828,764
Cash.....	\$ 15,361,916	Government of Canada.....	13,956,542
Special deposits.....	4,627,313	Interest matured unpaid—Public.....	4,273,390
Net balance receivable from agents and conductors.....	27,324,194	Unmatured interest accrued.....	4,784,010
Miscellaneous accounts receivable.....	20,854,458	Accrued accounts payable.....	18,342,167
Material and supplies.....	102,509,769	Taxes accrued.....	2,388,041
Interest and dividends receivable.....	54,562	Other current liabilities.....	2,019,428
Accrued accounts receivable.....	5,810,854		<u>95,147,073</u>
Other current assets.....	781,688	Deferred Liabilities—	
	<u>177,324,754</u>	Pension Liability.....	\$ 72,950,000
Deferred Assets—		Other deferred liabilities.....	6,890,349
Working fund advances.....	\$ 509,855		<u>79,840,349</u>
Insurance fund:		Reserves and Unadjusted Credits—	
System securities at par.....	\$ 5,792,294	Insurance reserve.....	\$ 12,843,050
Other assets at cost.....	7,050,756	Accrued depreciation—Canadian Lines—	
	<u>12,843,050</u>	Equipment only.....	171,768,146
Pension fund:		Accrued depreciation—U.S. Lines—Road and equipment.....	29,474,861
System securities at par.....	\$ 9,010,500	Unadjusted credits.....	9,802,273
Other assets at cost.....	63,939,500		<u>223,888,330</u>
	<u>72,950,000</u>	Government of Canada—Shareholder's Account	
Other deferred assets.....	2,216,508	—(See note)—	
	<u>88,519,413</u>	6,000,000 shares of no par value capital stock of Canadian National Railway Company.....	\$ 396,518,135
		754,871,945 shares of 4% preferred stock of Canadian National Railway Company.....	754,871,945
		Capital investment of Government of Canada in the Canadian Government Railways.....	\$ 379,682,244
			<u>1,531,072,324</u>

Unadjusted Debits—		
Prepayments.....	\$	928,168
Discount on funded debt.....		3,045,818
Other unadjusted debts.....		4,722,950
		8,696,936
		\$2,768,014,560

Contingent Liabilities—		
Major contingent liabilities, as shown on page 32.		
		\$2,768,014,560

Sterling and United States currencies converted at par of exchange.

NOTE:—The capital stock of the Canadian National Railway Company (other than the four percent preferred stock) and the capital investment of Her Majesty in the Canadian Government Railways are included in the net debt of Canada and are disclosed in the historical record of government assistance to railways as shown in the Public Accounts of Canada.

T. J. GRACEY,
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, 1952.

In our opinion, proper books of account have been kept by the System, and the consolidated balance sheet at the 31st December, 1952, and the relative consolidated income account for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the System. The capital structure of the Canadian National Railways has been revised in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

The total amount of the investments in fixed properties and equipment as brought into the System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us.

On the Canadian Lines, depreciation accounting for equipment has been applied from the 1st January, 1940, retirement accounting continuing in effect for fixed properties.

Subsequent to the year end, settlement has been reached with the Brotherhood of Railroad Firemen and agreement in principle has been reached with the Brotherhood of Railroad Trainmen, resulting in wage increases retroactive to the 1st April, 1952, which have not been given effect to in the accounts under review.

In our opinion, subject to the foregoing, the above considered balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at the 31st December, 1952, and of the consolidated income and expense for the year.

The transactions of the System that have come under our notice have, in our opinion, been within the powers of the System. We are reporting to Parliament in respect of our annual audit.

2nd March, 1953.

GEORGE A. TOUCHE & CO.
Chartered Accountants.

SESSIONAL COMMITTEE

CONSOLIDATED INCOME ACCOUNT

	1952	1951
Railway Operating Revenues—		
Freight.....	\$536,723,241	\$498,800,344
Passenger.....	48,466,128	47,475,661
Mail.....	7,907,232	7,311,445
Express department.....	35,820,500	30,670,031
Communications department.....	13,870,000	12,032,631
All other.....	32,432,314	28,544,008
Total operating revenues.....	<u>\$675,219,415</u>	<u>\$624,834,120</u>
Railway Operating Expenses—		
Maintenance of way and structures.....	\$121,363,896	\$111,560,852
Maintenance of equipment.....	145,533,632	135,319,782
Traffic.....	11,192,183	10,429,825
Transportation.....	316,482,722	291,366,944
Miscellaneous operations.....	6,422,539	6,262,293
General.....	33,857,943	25,210,525
Total operating expenses.....	<u>\$634,852,915</u>	<u>\$580,150,221</u>
Net Operating Revenue.....	<u>\$ 40,366,500</u>	<u>\$ 44,683,899</u>
Taxes and Rents—		
Railway tax accruals.....	\$ 13,921,243	\$ 11,573,914
Equipment rents—Net debit.....	6,529,937	7,172,396
Joint facility rents—Net debit.....	420,996	340,140
Total taxes and rents.....	<u>\$ 20,872,176</u>	<u>\$ 19,086,450</u>
Net Railway Operating Income.....	<u>\$ 19,494,324</u>	<u>\$ 25,597,449</u>
Other Income—		
Income from lease of road.....	\$ 46,808	\$ 51,499
Miscellaneous rent income.....	1,220,473	1,109,768
Income from non-transportation property.....	727,591	476,693
Results of separately operated properties.....	721,748	1,079,385
Hotel operating income.....	535,509	588,485
Dividend income.....	401,611	414,411
Interest income.....	1,785,817	2,242,019
Miscellaneous income.....	1,829,618	1,324,414
Total other income.....	<u>\$ 7,269,175</u>	<u>\$ 7,286,674</u>
Deductions from Income—		
Rent for leased roads.....	\$ 478,483	\$ 551,554
Miscellaneous rents.....	676,200	672,809
Interest on unfunded debt.....	269,805	236,287
Amortization of discount on funded debt.....	503,780	573,602
Miscellaneous income charges.....	384,639	488,825
Profit and loss—Net debit or credit.....	145,144	1,422,073
Total deductions from income.....	<u>\$ 2,458,051</u>	<u>\$ 1,101,004</u>
Net Income Available for Interest.....	<u>\$ 24,305,448</u>	<u>\$ 31,783,119</u>
Interest Charges—		
Interest on funded debt—Public.....	21,848,906	23,467,703
Interest on Government loans.....	2,314,215	23,347,412
Surplus—Payable as a Dividend on 4 per cent preferred stock.....	<u>\$ 142,327</u>	<u>\$ 15,031,996</u>
	<i>Income deficit</i>	<i>—</i>

NOTE:—No income tax payable on 1952 surplus.

OPERATING REVENUES

	1952	1951
Operating Revenues—		
Freight.....	\$528,128,689	\$490,290,463
Payments under Maritime Freight Rates Act.....	8,594,552	8,509,881
Passenger.....	48,466,128	47,475,661
Baggage.....	157,198	156,839
Sleeping Car.....	4,597,819	3,928,087
Parlor and chair car.....	403,390	367,699
Mail.....	7,907,232	7,311,445
Express department.....	35,820,500	30,670,031
Railway Express Agency.....	758,739	501,836
Other passenger-train.....	15,214	14,616
Milk.....	492,096	500,883
Switching.....	6,184,985	5,564,378
Water transfers.....	1,967,514	1,789,914
Dining and buffet.....	3,666,873	3,350,653
Restaurants.....	357,888	327,897
Station, train and boat privileges.....	454,682	425,966
Parcel room.....	75,194	71,299
Storage—Freight.....	395,825	414,115
Storage—Baggage.....	61,750	57,293
Demurrage.....	2,486,457	2,895,635
Communications department.....	13,870,000	12,032,631
Telegraph commissions (U.S.).....	11,348	9,800
Grain elevator.....	848,230	743,901
Rents of buildings and other property.....	1,075,822	949,665
Miscellaneous.....	7,612,099	5,664,923
Joint facility—Cr.....	938,115	934,178
Joint facility—Dr.....	128,924	125,569
	<u>\$675,219,415</u>	<u>\$624,834,120</u>

OPERATING EXPENSES

	1952	1951
Maintenance of Way and Structures—		
Superintendence.....	\$ 8,717,622	\$ 7,338,085
Roadway maintenance.....	12,787,967	12,634,015
Tunnels and subways.....	216,100	168,119
Bridges, trestles and culverts.....	5,149,770	4,468,840
Ties.....	11,592,753	9,850,138
Rails.....	5,858,134	6,834,178
Other track material.....	7,345,313	5,717,921
Ballast.....	2,303,047	2,092,985
Track laying and surfacing.....	31,874,310	27,983,529
Fences, snowsheds and signs.....	1,491,007	1,189,421
Station and office buildings.....	5,584,485	5,079,732
Roadway buildings.....	769,475	689,424
Water stations.....	957,370	977,005
Fuel stations.....	501,188	462,412
Shops and enginehouses.....	4,086,943	3,409,385
Grain elevators.....	84,543	80,008
Storage warehouses.....	1,734	3,508
Wharves and docks.....	297,636	274,819
Communications systems.....	6,886,864	6,074,769
Signals and interlockers.....	1,971,025	1,896,862
Power plants.....	25,556	29,125
Power-transmission systems.....	407,851	433,868
Miscellaneous structures.....	27,780	7,568
Road property—Depreciation—U.S. Lines.....	986,791	963,614
Road property—Retirements.....	3,480,979	2,202,655
Roadway machines.....	1,823,227	1,504,292
Dismantling retired road property.....	397,958	317,388
Amortization of defence projects—Cr.....	3,051,276	.....
Small tools and supplies.....	1,999,679	1,948,665
Removing snow, ice and sand.....	5,273,551	5,519,522
Public improvements.....	812,221	778,943
Injuries to persons.....	958,437	889,531
Insurance.....	228,586	268,557
Stationery and printing.....	157,056	139,304
Other expenses.....	61,222	9,509
Right-of-way expenses.....	96,702	84,670
Maintaining joint facilities—Dr.....	1,593,678	1,569,370
Maintaining joint facilities—Cr.....	2,393,388	2,330,884
	<u>\$121,363,896</u>	<u>\$111,560,852</u>

OPERATING EXPENSES—Continued

	1952	1951
Maintenance of Equipment		
Superintendence.....	\$ 3,171,373	\$ 2,913,755
Shop machinery—Repairs.....	4,422,577	4,150,423
Power-plant machinery—Repairs.....	316,686	238,399
Machinery—Retirements.....	163,380	162,897
Machinery—Depreciation—U.S. Lines.....	77,304	76,431
Dismantling retired machinery.....	13,812	5,862
Steam locomotives—Repairs.....	38,953,152	37,714,654
Other locomotives—Repairs.....	3,835,699	2,253,476
Freight-train cars—Repairs.....	45,442,568	40,774,805
Passenger-train cars—Repairs.....	17,460,733	17,482,277
Floating equipment—Repairs.....	1,659,419	1,746,731
Work equipment—Repairs.....	4,173,588	4,085,473
Express department equipment—Repairs.....	439,349	367,387
Miscellaneous equipment—Repairs.....	288,160	255,375
Miscellaneous equipment—Retirements.....	12,444	21,421
Dismantling retired equipment.....	330,009	259,987
Equipment—Depreciation.....	23,215,889	21,288,394
Express department equipment—Depreciation.....	210,036	181,872
Injuries to persons.....	767,755	785,076
Insurance.....	335,459	354,277
Stationery and printing.....	123,182	117,896
Other expenses.....	124,827	40,263
Joint maintenance of equipment—Dr.....	405,759	362,187
Joint maintenance of equipment—Cr.....	409,528	319,536
	<u>\$145,533,632</u>	<u>\$135,319,782</u>
Traffic—		
Superintendence.....	\$ 3,910,479	\$ 3,546,503
Outside agencies.....	4,325,671	4,179,503
Advertising.....	1,416,590	1,317,215
Traffic associations.....	229,940	188,095
Stationery and printing.....	642,480	593,347
Industrial and development.....	374,185	341,289
Colonization and agriculture.....	292,838	263,873
	<u>\$ 11,192,183</u>	<u>\$ 10,429,825</u>
Transportation—		
Superintendence.....	\$ 6,923,970	\$ 6,549,007
Dispatching trains.....	3,897,405	3,493,374
Station employees.....	42,961,957	39,578,843
Weighing, inspection and demurrage bureaus.....	174,118	157,563
Coal and ore wharves.....	96,294	118,626
Station supplies and expenses.....	3,203,721	2,990,517
Yardmasters and yard clerks.....	9,275,363	8,325,456
Yard conductors and brakemen.....	15,635,247	15,414,304
Yard switch and signal tenders.....	1,589,480	1,466,736
Yard enginemen.....	11,047,299	10,711,642
Yard switching fuel.....	8,193,471	8,510,271
Yard switching power produced.....	33,720	31,830
Yard switching power purchased.....	102,501	116,286
Water for yard locomotives.....	213,177	206,395
Lubricants for yard locomotives.....	197,723	165,803
Other supplies for yard locomotives.....	142,065	119,402
Enginehouse expenses—Yard.....	3,707,789	3,375,084
Yard supplies and expenses.....	385,853	359,161
Train enginemen.....	26,637,714	25,253,936
Train fuel.....	54,036,313	50,826,078
Train power produced.....	54,815	21,173
Train power purchased.....	162,680	106,497
Water for train locomotives.....	1,977,854	1,818,073
Lubricants for train locomotives.....	1,172,206	979,688
Other supplies for train locomotives.....	721,138	649,806
Enginehouse expenses—Train.....	12,066,976	10,654,393
Trainmen.....	31,142,582	29,923,881
Train supplies and expenses.....	21,592,551	18,589,919
Operating sleeping cars.....	3,854,130	3,056,299
Signal and interlocker operation.....	1,043,087	852,812
	<u>\$262,243,199</u>	<u>\$244,422,855</u>

OPERATING EXPENSES—Continued

	1952	1951
Transportation—Continued		
Brought forward	\$262,243,199	\$244,422,855
Crossing protection	1,515,443	1,423,771
Drawbridge operation	293,255	262,241
Communication system operation	11,524,650	10,294,736
Operating floating equipment	6,154,397	4,889,208
Express department operation	2,238,894	19,789,936
Stationery and printing	1,387,759	1,250,521
Other expenses	2,361,586	2,071,450
Insurance	249,907	287,882
Clearing wrecks	1,059,478	1,014,577
Damage to property	208,246	181,640
Damage to live stock on right-of-way	94,957	80,634
Loss and damage—Freight	3,345,975	2,824,906
Loss and damage—Baggage	10,145	9,059
Injuries to persons	2,247,474	1,963,296
Operating joint yards and terminals—Dr.	2,699,932	2,528,986
Operating joint yards and terminals—Cr.	2,850,912	2,749,796
Operating joint tracks and facilities—Dr.	1,439,024	1,513,750
Operating joint tracks and facilities—Cr.	740,687	692,703
	\$316,482,722	\$291,366,944
Miscellaneous Operations—		
Dining and buffet service	\$ 4,855,377	\$ 4,816,640
Restaurants	341,740	335,446
Grain elevators	365,053	307,783
Other miscellaneous operations	462,830	417,007
Operating joint miscellaneous facilities—Dr.	397,539	385,417
	\$ 6,422,539	\$ 6,262,293
General—		
Salaries and expenses of general officers	\$ 762,118	\$ 801,809
Salaries and expenses of clerks and attendants	10,806,672	9,912,021
General office supplies and expenses	741,378	697,483
Law expenses	614,191	548,465
Relief department expenses	42,500	42,500
Pensions	19,716,514	12,320,390
Stationery and printing	553,005	465,903
Valuation expenses	11,250	10,398
Other expenses	501,234	308,574
General joint facilities—Dr.	124,837	118,165
General joint facilities—Cr.	15,756	15,183
	\$ 33,857,943	\$ 25,210,525

OPERATING EXPENSES AND TOTAL PAYROLL

	1939	1951	1952
Operating Expenses—			
Total expenses—thousands	\$182,965	\$580,150	\$634,853
Percent of total revenue	89.77	92.85	94.02
Distribution of operating expense dollar:—	¢	¢	¢
Labour	61.48	60.44	59.75
Materials	29.58	29.91	29.87
Other expenses	8.94	9.65	10.38
	100.00	100.00	100.00
Payroll—			
(Excluding hotel and subsidiary company employees)			
Average number of employees	78,129	121,199	127,930
Total payroll—thousands	\$122,354	\$381,654	\$405,541
Average earnings per employee	\$ 1,566	\$ 3,149	\$ 3,170

PROPERTY INVESTMENT ACCOUNT

EXPENDITURES YEAR 1952

Road—

New lines constructed.....	\$ 6,810,411	
Montreal terminal development.....	2,425,319	
Abandoned lines— <i>Credit</i>	1,415,470	
Rails and fastenings.....	2,118,149	
Tie plates and rail anchors.....	3,261,493	
Ballast.....	607,052	
Large freight terminals.....	3,924,664	
Yard tracks and sidings.....	2,691,013	
Roadway machines.....	1,540,742	
Bridges, trestles and culverts.....	1,581,672	
Tunnels.....	182,846	
Crossing protection.....	473,981	
Stations and station facilities.....	2,740,704	
Water supplies.....	120,405	
Shops, enginehouses and machinery.....	4,157,748	
Automatic signals and interlocking plants.....	1,570,208	
Communications department.....	6,368,604	
Stores department buildings and equipment.....	185,879	
General.....	995,565	\$ 40,340,985

Equipment—

Equipment purchased or built.....	\$ 82,025,662	
Equipment retirements— <i>Credit</i>	7,128,668	
General betterments to equipment.....	5,015,239	
Equipment conversions.....	981,506	
Express and miscellaneous equipment.....	534,839	81,428,578

Hotels..... 3,102,810

Separately Operated Properties..... 369,116

Net expenditures..... \$125,151,489

Capital investment of Government of Canada in the Canadian Government Railways—

Transfer of property—*Credit*..... 195,270

Net increase in property investment account..... \$124,956,219

Total property investment account at 31st. December, 1952, \$2,436,837,772.

GOVERNMENT OF CANADA LOANS AND DEBENTURES

PRINCIPAL AND INTEREST

	Principal outstanding at 31st Dec. 1952	Interest accrued 1952
Liability January 1, 1952, after adjustments under Capital Revision Act, 1952:—		
Debenture issued under Capital Revision Act, 1952, maturing January 1, 1972.....	\$100,000,000	—
Advances for Canadian Government Railways Working Capital 1923....	16,771,981	—
3½% loan Financing & Guarantee Act, 1951.....	4,416,388	\$ 165,614
	<u>\$121,188,369</u>	
Subsequent transactions:—		
Financing & Guarantee Acts—		
3½% loans—Act, 1951.....	17,333,940	578,758
3½% loans—Act (No. 2), 1951.....	3,225,924	94,010
3½% loans—Act, 1952.....	33,277,000	782,522
3½% debenture, maturing Sept. 19, 1967—Act, 1952.....	40,750,000	449,925
Refunding Acts—		
3½% loans—Act, 1947.....	2,506,623	73,847
3½% loans—Act, 1951.....	9,773,309	169,539
	<u>\$228,055,165</u>	<u>\$2,314,215</u>

FUNDED DEBT—PRINCIPAL AND INTEREST

Guaranteed by Government of Canada—

Rate %	Maturity (See note)		Year issued and currency in which payable	Principal outstanding at 31st Dec., 1952	Interest accrued 1952
5	Perpetual	G.T.R. Debenture Stock.....	1875 Sterling.....	\$ 1,016,092	\$ 50,804
5	Perpetual	G.W. Debenture Stock.....	1858 Sterling	499,709	24,985
4	Perpetual	G.T.R. Debenture Stock.....	1883 Sterling	5,446,491	217,860
4	Perpetual	Nor. Ry. Debenture Stock....	1884 Sterling	22,591	904
3	July 10, 1953	Can. Nor. 1st Mtge. Deb. Stock	1903 Sterling	1,162,768	34,883
3½	July 20, 1958	Can. Nor. 1st Mtge. Deb. Stock	1910 Canadian	5,246,268	183,620
			Sterling	390,239	13,658
3½	May 4, 1960	C.N.A. 1st Mtge. Deb. Stock..	1911 Sterling	550,727	19,275
3½	May 19, 1961	C.N.O. 1st Mtge. Deb. Stock..	1911 Sterling	3,597,518	125,913
3	Jan. 1, 1962	G.T.P. 1st Mtge. Bonds.....	1905 Can-US-Stlg.	26,465,130	793,954
4	Jan. 1, 1962	G.T.P. Sterling Bonds.....	1914 Can-US-Stlg.	7,999,074	319,963

Canadian National Issues:—

5	Feb. 1, 1954	30 Year Guaranteed Bonds....	1924 Canadian	50,000,000	2,500,000
4½	June 15, 1955	25 Year Guaranteed Bonds....	1930 Can.-US-Stlg.	48,496,000	2,303,560
4½	Feb. 1, 1956	25 Year Guaranteed Bonds....	1931 Can.-US-Stlg.	67,368,000	3,031,560
4½	July 1, 1957	30 Year Guaranteed Bonds....	1927 Can-US.	64,136,000	2,886,120
3	Jan. 15, 1959 (a)	20 Year Guaranteed Bonds....	1939 Canadian	35,000,000	1,050,000
3	Jan. 3, 1966 (b)	17 Year Guaranteed Bonds....	1949 Canadian	35,000,000	1,050,000
2¾	Jan. 2, 1967 (c)	20 Year Guaranteed Bonds....	1947 Canadian	50,000,000	1,375,000
2¾	Sept. 15, 1969 (a)	20 Year Guaranteed Bonds....	1949 Canadian	70,000,000	2,012,500
2¾	Jan. 16, 1971 (e)	21 Year Guaranteed Bonds....	1950 Canadian	40,000,000	1,150,000
2¾	June 15, 1975 (f)	25 Year Guaranteed Bonds....	1950 U.S.	6,000,000	165,000
Total.....				\$518,396,607	\$ 19,309,559

Canadian National Serial Equipment Obligations

2¾	Sept. 15, 1953	Trust Series "P".....	1938 Canadian	\$ 600,000	\$ 26,239
2	Dec. 1, 1957	Trust Series "R".....	1947 Canadian	2,800,000	66,267
2½	Mar. 15, 1958	Trust Series "S".....	1948 Canadian	16,800,000	369,396
2½	Nov. 1, 1958	Trust Series "T".....	1948 Canadian	12,900,000	318,469
2½	Mar. 15, 1960	Trust Series "U".....	1950 Canadian	16,500,000	393,937
2¾	Jan. 15, 1961	Trust Series "V".....	1951 Canadian	11,475,000	326,391
Total.....				\$ 61,075,000	\$ 1,500,699

Other Issues,

4	Perpetual	Can. Nor. Cons. Debent. Stk.	1903 Sterling	\$ 3,992,930	\$ 159,717
4	Perpetual	C.N.O. Cons. Debenture Stock	1909 Sterling	889,597	35,584
4	Perpetual	C.N.O. Guar. Debent. Stock.	1906 Sterling	465,545	18,622
4	Perpetual	Q. & L. St. J. 1st Mtge. Deb. Stock.....	1912 Sterling	285,342	11,414
4	Jan. 1, 1955	Can. Atlantic 1st Mtge. Bonds	1905 Can-US-Stlg.	9,947,934	397,918
4	Apr. 1, 1955	G.T.P. 2nd Mtge. Bonds, Prairie "A".....	1905 Can-US-Stlg.	3,574,530	142,981
4	Apr. 1, 1955	G.T.P. 2nd Mtge. Bonds, Mountain "B".....	1905 Can-US-Stlg.	3,144,906	125,796
4	Apr. 1, 1955	G.T.P. 1st Mtge. Bonds, "Lake Superior".....	1905 Can-US-Stlg.	2,152,008	86,080
4	Sept. 1, 1956	Pembroke Southern 1st Mtge. Bonds.....	1906 Canadian	150,000	6,000
2½	Mar. 1, 1957 (g)	Nfld. Ry. Reg'd. Instalment Notes.....	1941 U.S.	640,407	17,535
5	Nov. 15, 1958	Can. Nat. Indebt. to Prov. of N.B.....	1929 Canadian	380,023	19,001
4½	Jan. 1, 1980	G.T.W. 1st Mtge. Series "A" Bonds.....	1930 Can-US-Stlg.	400,000	18,000
Total.....				\$ 26,023,222	\$ 1,038,648
Grand Total.....				\$605,494,829	\$ 21,848,906

Note:—(a) Callable at par on or after Jan. 15, 1954.

(b) Callable at par on or after Jan. 3, 1961.

(c) Callable at par on or after Jan. 2, 1964.

(d) Callable at par on or after Sept. 15, 1964.

(e) Callable at par on or after Jan. 16, 1966.

(f) Callable on or before June 14, 1954, at 102½; thereafter at varying redemption premiums.

(g) Callable at par at any time.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Par value outstanding		Book value
	Total	Can. Nat. System percentage	Can. Nat. System holdings
Stocks—			
The Belt Railway Company of Chicago....	\$ 3,120,000	7.69	\$ 240,000
Canadian Government Merchant Marine, Limited.....	800	100	800
Chicago & Western Indiana Railroad Company.....	5,000,000	20	1,000,000
The Detroit & Toledo Shore Line Railroad Company.....	3,000,000	50	1,500,000
Detroit Terminal Railroad Company.....	2,000,000	50	1,000,000
Northern Alberta Railways Company.....	12,500,000	50	6,250,000
The Public Markets, Limited.....	1,150,000	50	575,000
Railway Express Agency, Incorporated (no par value).....	1,000 shares	0.6	600
Shawinigan Falls Terminal Railway Company.....	300,000	50	62,500
The Toronto Terminals Railway Company.....	500,000	50	250,000
The Toledo Terminal Railroad Company..	4,000,000	9.58	387,200
Trans-Canada Air Lines.....	25,000,000	100	25,000,000
Vancouver Hotel Company Limited.....	150,000	50	75,000
			\$ 36,341,100
Bonds—			
Northern Alberta Railways Co. 1st Mortgage Bonds.....	\$ 23,155,000	50	\$11,577,500
The Toronto Terminals Railway Co. 1st Mortgage Bonds.....	25,610,000	50	12,805,000
			24,382,500
Advances—			
The Belt Railway Company of Chicago.....			\$ 25,544
Chicago & Western Indiana Railroad Company.....			3,671,460
Northern Alberta Railways Company.....			150,000
Railway Express Agency, Incorporated.....			173,493
Shawinigan Falls Terminal Railway Company.....			12,500
			4,032,997
Deposit—			
Trans-Canada Air Lines— <i>Credit</i>			13,500,000
			\$ 51,256,597

MAJOR CONTINGENT LIABILITIES

Chicago & Western Indiana Railroad Company—

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated May 1, 1952, between Grand Trunk Western Railroad Company and four other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of the other tenant companies. The bonds are First Collateral Trust Mortgage 4 $\frac{3}{4}$ % Sinking Fund Bonds Series "A" due May 1, 1982, and the amount outstanding at 31st December, 1952, is \$64,239,000.

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 January 1, 1953. These bonds are to be redeemed out of proceeds of \$3,000,000 First Mortgage 3 $\frac{1}{2}$ %—30 Year, Series "A" Bonds, dated December 1, 1952, which are guaranteed jointly and severally by the Grand Trunk Western Railroad Company in respect of principal, interest and sinking fund payments.

The Toledo Terminal Railroad Company—

Assumed by Grand Trunk Western Railroad Company in respect of \$6,000,000 First Mortgage 4 $\frac{1}{2}$ %—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%.

C.N.R. Pension Plan—

Reserves have been set up against pensions in force under the 1935 plan, but not for the increase in allowances granted effective 1st July, 1952, to employees on pension on 1st January, 1952, or in respect of pensions conditionally accruing to employees in service covered by the 1935 plan or prior plans.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Balance at 31st Dec. 1951	Year 1952 Adjustment effective 1st Jan., 1952, under Capital Revision Act, 1952	Year 1952 Current transactions	Balance at 31st Dec., 1952
Equity Capital* —				
Capital stock of Canadian National Railway Company..	\$ 18,000,000	\$378,518,135 (a)	—	\$ 396,518,135
Capital stock of The Canadian National Railways Securities Trust.....	378,518,135	378,518,135 (a)	—	—
4% Preferred stock of Canadian National Railway Company.....	—	736,385,405 (b)	\$ 18,486,540	754,871,945
Capital investment of Government of Canada in the Canadian Government Railways.....	379,877,514	—	195,270	379,682,244
Government of Canada — Shareholder's Account.....	\$ 776,395,649	\$736,385,405	\$ 18,291,270	\$1,531,072,324
Percent of capitalization.	34.5%	—	—	64.75%
Borrowed Capital —				
Funded debt.....	\$ 615,197,035	—	\$ 9,702,206	\$ 605,494,829
Government of Canada loans and debentures.....	857,573,774	\$736,385,405 (b)	106,866,796	228,055,165
	\$1,472,770,809	\$736,385,405	\$ 97,164,590	\$ 833,549,994
Percent of capitalization.	65.5%	—	—	35.25%
Total capitalization.....	\$2,249,166,458	—	\$115,455,860	\$2,364,622,318

*Excludes shares of subsidiary companies owned by public — \$4,516,490.

Note:—(a) The capital stock of the Securities Trust, previously owned by the Government of Canada, was transferred to the Canadian National Railway Company in consideration for a like amount of capital stock of the National Company.

(b) The 4% preferred stock is represented by shares having a par value of one dollar each, in respect of which non-cumulative dividends shall, from time to time, be paid to the extent that earnings are available for distribution in any year.

The amount issued under the adjustment authorized by the Capital Revision Act, and for which a like amount of Government of Canada loans have been cancelled, is equal to fifty percent of the Borrowed Capital at 31st December, 1951.

FINANCING

YEAR 1952

Equity Capital —			
4% Preferred stock of Canadian National Railway Company purchased by Government of Canada.....		\$ 18,486,540	
Capital investment of Government of Canada in the Canadian Government Railways.....		195,270	\$ 18,291,270
Borrowed Capital —			
Funded debt — Retirements:—			
Equipment Trusts — Serial payments.....		\$ 9,560,000	
2½% Newfoundland Railway Registered Instalment Notes.....		142,206	9,702,206
Government of Canada loans and debentures:—			
Capital expenditures and working capital.....		\$ 94,586,864	
Debt redemption.....		12,279,932	106,866,796
		Net increase in borrowed capital	\$ 97,164,590
		Increase in total capitalization..	\$115,455,860

The 4% preferred stock purchased by the Government of Canada was issued under the provisions of The Canadian National Railways Capital Revision Act, 1952. The Act provides that in respect of each of the years 1952 to 1960, inclusive, the Government shall purchase, at the par value of one dollar each, shares of stock having a total par value equal to three percent of the gross revenues of the National System. At the 31st December, 1952, stock has been issued in respect of the revenues for the eleven months ended the 30th November. The amounts received from the sale of the stock have been utilized for additions and betterments included in the 1952 budget of capital expenditures.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY GOVERNMENT OF CANADA

Company number		
1	{ Canadian National Railway Company (Common).....	\$ 396,518,135
	{ Canadian National Railway Company (Preferred).....	754,871,945
		<u>\$1,151,390,030</u>

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
2	Atlantic and St. Lawrence Railroad Company...	1	\$ 6,302,340	\$ 7,840
3	The Bay of Quinte Railway Company.....	20	1,395,000	
4	The Bessemer and Barry's Bay Railway Company.....	20	125,000	
5	The Canadian Express Company.....	1	1,768,800	
6	Canadian National Electric Railways.....	20	1,750,000	
7	Canadian National Express Company.....	21	1,000,000	
8	*Canadian National Railways (France)—frances 30,000,000.....	1	1,893,574	
9	The Canadian National Railways Securities Trust.....	1	5 million shares	
10	*Canadian National Realities, Limited.....	20	40,000	
11	Canadian National Rolling Stock Limited.....	1	5,000	
12	*Canadian National Steamship Company, Limited.....	40	15,000	
13	Canadian National Telegraph Company.....	20	500,000	
14	*Canadian National Transportation, Limited.....	1	500	
15	The Canadian Northern Alberta Railway Company.....	20	3,000,000	
16	Canadian Northern Manitoba Railway Company	20	250,000	
17	The Canadian Northern Ontario Railway Company.....	20	10,000,000	
18	Canadian Northern Pacific Railway Company..	20	25,000,000	
19	The Canadian Northern Quebec Railway Company.....	20	9,550,000	3,849,200
20	The Canadian Northern Railway Company.....	1	18,000,000	
21	The Canadian Northern Railway Express Company, Limited.....	20	1,000,000	
22	Canadian Northern Steamships, Limited.....	20	2,000,000	
23	Canadian Northern System Terminals (Limited)	20	2,000,000	
24	Canadian Northern Western Railway Company..	20	2,000,000	
25	*The Centmont Corporation.....	28	176,400	
26	Central Counties Railway.....	1	500,000	12,000
27	The Central Ontario Railway.....	20	3,331,000	
28	Central Vermont Railway, Inc.....	1	10,000,000	
29	Central Vermont Terminal, Inc.....	28	5,000	
30	*Central Vermont Transit Corporation.....	25	5,000	
31	Central Vermont Transportation Company.....	25, 28	200,000	
32	The Champlain and St. Lawrence Railroad Company.....	1	50,000	
33	*Consolidated Land Corporation.....	43	64,000	
34	Duluth, Rainy Lake & Winnipeg Railway Company.....	36	2,000,000	
35	Duluth, Winnipeg and Pacific Railroad Company.....	36	100,000	
36	Duluth, Winnipeg and Pacific Railway Company	20	3,100,000	
37	*Grand-Trunk-Milwaukee Car Ferry Company..	43	200,000	
38	The Grand Trunk Pacific Branch Lines Company.....	40	200,000	
39	The Grand Trunk Pacific Development Company, Limited.....	40	3,000,000	
40	The Grand Trunk Pacific Railway Company....	1	24,940,200	
41	The Grand Trunk Pacific Saskatchewan Railway Company.....	40	20,000	
42	*Grand Trunk Pacific Terminal Elevator Company, (Limited).....	40	501,000	
	{ Grand Trunk Western Railroad Company (Common)	1	20,000,000	
43	{ Grand Trunk Western Railroad Company (Preferred)		25,000,000	
44	The Great North Western Telegraph Company of Canada (Including \$331,500 held in escrow).	13	373,625	6,825
45	The Halifax and South Western Railway Company.....	20	1,000,000	
46	*Industrial Land-Company.....	43	1,000	
47	International Bridge Company.....	1	1,500,000	

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM (Continued)

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC (Continued)

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
48	The James Bay and Eastern Railway Company.	20	125,000	
49	The Lake Superior Terminals Company Limited	20	500,000	
50	The Maganetawan River Railway Company....	1	30,000	
51	Manitoba Northern Railway Company.....	1	500,000	
52	The Marmora Railway and Mining Company....	20	128,600	
53	The Minnesota and Manitoba Railroad Company	20	400,000	
54	The Minnesota and Ontario Bridge Company....	20	100,000	
55	*Montreal and Southern Counties Railway Company.....	1	500,000	140,600
56	The Montreal and Vermont Junction Railway Company.....	28	197,300	
57	*Montreal Fruit & Produce Terminal Company, Limited.....	1	500	
58	*The Montreal Stock Yards Company.....	1	\$ 350,000	
59	*The Montreal Warehousing Company.....	1	236,000	10,440
60	Mount Royal Tunnel and Terminal Company, Limited.....	20	5,000,000	
61	Muskegon Railway and Navigation Company...	43	161,293	
62	*National Terminals of Canada, Limited.....	1	2,500	
63	National Transcontinental Railway Branch Lines Company.....	1	500	
64	*The Niagara, St. Catharines and Toronto Railway Company.....	20	925,000	
65	The Niagars, St. Catharines and Toronto Navigation Company (Limited).....	64	100,000	
66	*The Oshawa Railway Company.....	1	40,000	
67	The Ottawa Terminals Railway Company.....	1	250,000	
68	The Pembroke Southern Railway Company...	1	107,800	
69	Prince George, Limited.....	1	10,000	
70	Prince Rupert, Limited.....	1	10,000	
71	The Quebec and Lake St. John Railway Company.....	20	4,508,300	489,160
72	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company.....	20	201,000	
73	St. Boniface Western Land Company.....	20	230,000	
74	The St. Charles and Huron River Railway Company.....	20	1,000	
75	St. Clair Tunnel Company.....	1	700,000	
76	*The Thousand Islands Railway Company.....	1	60,000	
77	The United States and Canada Rail Road Company.....	1	219,400	
78	Vermont and Province Line Railroad Company.	1	200,000	
79	The Winnipeg Land Company Limited.....	20	100,000	
				\$4,516,490

The income accounts of companies indicated (*) are included in the System income account as "Separately operated properties."

EQUIPMENT PLACED IN SERVICE DURING 1952

Diesel-Electric Locomotives—

25	1600 HP road locomotives
42	1500 HP road locomotives
15	1200 HP road switching locomotives
15	1200 HP switching locomotives
8	1000 HP switching locomotives
10	660 HP switching locomotives

Passenger Equipment—

6	sleeping cars
4	standard baggage cars
3	postal cars
6	multiple unit cars
12	multiple unit trailer cars

Freight Equipment—

1760	50-ton box cars
60	30-ton box cars
1000	40-ton automobile cars
800	50-ton flat cars
100	30-ton flat cars
10	30-ton stock cars
1750	70-ton triple hopper cars
5	aluminum hopper cars
2250	70-ton gondola cars
75	70-ton ballast cars
500	50-ton refrigerator cars
7	caboose cars

Work Equipment—

30	30 cu. yd. 50-ton air dump cars
20	16 cu. yd. 30-ton air dump cars
2	diesel locomotive cranes, 30-ton
2	diesel locomotive cranes, 40-ton
1	scale test—four wheel type, 80,000 lb. capacity
3	Jordan spreaders
1	snow plow
9	miscellaneous units built from salvage in railway shops

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1952	Placed in service	Retired	Converted Added	Retired	On hand Dec. 31, 1952	Orders outstanding Dec. 31, 1952
Locomotives—							
Steam—Road.....	1,901		17			1,884	
“ Switching.....	539		6			533	
Electric.....	33					33	
Diesel-electric—Road.....	90	67				157	21
“ “ —Road switching....	30	15				45	6
“ “ —Switching.....	160	33				193	26
Total.....	2,753	115	23			2,845	53
Freight Equipment—							
Box cars.....	78,928	2,820	1,576		608	79,564	2,150
Flat cars.....	5,579	900	189	1	97	6,374	155
Stock cars.....	3,103	10	43			3,070	
Coal cars.....	15,489	4,080	813		11	18,745	2,875
Tank cars.....	224		3		188	33	
Refrigerator cars.....	3,952	500	31			4,421	250
Caboose cars.....	1,785	7	41	70		1,821	
Other cars in freight service.....	6		3			3	
Total.....	109,246	8,317	2,699	71	904	114,031	5,430
Passenger Equipment—							
Coach cars.....	1,110		24		15	1,071	166
Combination cars.....	266		6			260	5
Dining cars.....	92		2		1	89	
Colonist cars.....	146		1		1	144	
Parlor cars.....	60					60	
Cafe cars.....	20					20	
Sleeping cars.....	372	6			3	375	141
Tourist cars.....	42				1	41	
Baggage and express cars.....	1,265	4	10		1	1,258	118
Postal cars.....	53	3		1		57	
Unit cars.....	36	6				42	
Other cars in passenger service.....	79	12	4	3		90	
Total.....	3,541	31	47	4	22	3,507	430
Work Equipment—							
Units in work service.....	8,085	68	335	852	1	8,669	54
Floating Equipment—							
Car ferries.....	8					8	
Barges.....	6					6	
Steamers.....	14					14	
Tugs.....	5					5	
Work.....	3					3	

STATISTICS OF RAIL-LINE OPERATIONS

	1952	1951
Train-Miles—		
Freight service.....	49,541,512	48,353,158
Passenger service.....	25,533,678	24,412,847
Work service.....	2,216,042	2,390,845
Total train-miles.....	77,291,232	75,156,850
Locomotive-Miles—		
Freight service.....	52,478,053	51,433,200
Passenger service.....	25,469,027	24,548,619
Train switching— Freight.....	4,076,441	4,069,286
— Passenger.....	155,117	156,472
Yard switching— Freight.....	18,179,442	17,856,977
— Passenger.....	1,880,426	1,787,151
Work service.....	2,319,340	2,515,865
Total locomotive-miles.....	104,557,846	102,367,570

STATISTICS OF RAIL-LINE OPERATIONS—Continued

Car-Miles—

Freight Service:

Loaded freight cars.....	1,348,044,272	1,313,474,003
Empty freight cars.....	636,698,594	562,081,865
Passenger coach and combination cars.....	6,306,354	6,980,076
Other cars.....	9,074,540	8,522,548
Caboose cars.....	48,778,742	47,548,666
	<hr/>	<hr/>
	2,048,902,502	1,938,607,158

Passenger Service:

Loaded freight cars.....	610,862	627,687
Empty freight cars.....	116,680	89,545
Passenger coach and combination cars.....	64,726,314	63,831,093
Sleeping, parlor and observation cars.....	56,249,942	53,813,300
Dining cars.....	9,031,094	8,703,355
Motor unit cars.....	969,111	660,448
Other cars (baggage and express cars, etc.).....	89,249,973	82,961,530
	<hr/>	<hr/>
	220,953,976	210,686,958

Work service.....	3,784,742	3,824,341
Total car-miles.....	<hr/>	<hr/>
	2,273,641,220	2,153,118,457

Average mileage of road operated.....	24,190.01	24,176.07
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Freight Traffic—

Tons carried—Revenue freight.....	90,053,919	89,618,436
Ton-miles—Revenue freight.....	38,430,494,637	36,434,821,058
Freight revenue.....	\$536,723,241	\$498,800,344
Revenue per ton.....	\$5.96002	\$5.56582
Revenue per ton-mile.....	\$0.01397	\$0.01369
Average haul.....	426.75	406.55
Ton-miles—Revenue freight per mile of road.....	1,584,763	1,501,578
Ton-miles—All freight per mile of road.....	1,708,033	1,624,019
Gross ton-miles of cars, contents and cabooses.....	88,651,930,140	83,988,594,508
Net ton-miles of freight (revenue and non-revenue).....	41,317,325,044	39,262,386,491
Train-hours in freight road service.....	2,990,402	3,015,621
Gross ton-miles per freight train hour.....	29,309	27,593
Average speed of freight trains.....	16.6	16.1
Average gross load—Freight trains (tons).....	1,771	1,719
Steam locomotive miles per serviceable day (excluding stored).....	137	141
Diesel unit miles per serviceable day (excluding stored).....	294	294

Passenger Traffic—

Passengers carried.....	18,832,815	17,322,723
Passenger-miles.....	1,635,201,983	1,611,153,281
Passenger revenue.....	\$48,466,128	\$47,475,661
Revenue per passenger.....	\$2.57349	\$2.74066
Average passenger journey.....	86.83	93.01
Revenue per passenger mile.....	\$0.02964	\$0.02947
Passenger-miles per mile of road.....	67,598	66,642
Percent on time arrival principal passenger trains.....	66.0	59.8
Steam locomotive miles per serviceable day (excluding stored).....	225	225
Diesel unit miles per serviceable day (excluding stored).....	152	104

Net Railway Operating Income—

Gross revenue per mile of road.....	\$27,913.15	\$25,945.15
Gross railway operating charges per mile of road.....	\$27,107.27	\$24,786.36
Net railway operating income per mile of road.....	<hr/>	<hr/>
	\$805.88	\$1,058.79

SESSIONAL COMMITTEE

REVENUE TONNAGE BY COMMODITIES

	Year 1952	Year 1951	Increase or decrease	
	Tons	Tons	Tons	%
Agricultural Products—				
Wheat.....	9,017,832	7,389,538	1,628,294	22.04
Corn.....	452,388	508,563	56,175	11.05
Oats.....	1,750,257	1,407,428	342,829	24.36
Barley.....	2,445,854	1,607,644	838,210	52.14
Rye.....	199,254	121,155	78,099	64.46
Flaxseed.....	119,359	85,763	33,596	39.17
Other grain (including dried peas, beans, soya beans)...	229,163	219,271	9,892	4.51
Flour.....	975,924	975,448	476	.05
Other mill products.....	1,359,269	1,366,531	7,262	.53
Hay and straw.....	59,136	103,086	43,950	42.63
Cotton.....	86,482	87,533	1,051	1.20
Apples (fresh).....	73,494	76,446	2,952	3.86
Other fruit (fresh).....	363,457	326,872	36,585	11.19
Potatoes.....	364,283	346,474	17,809	5.14
Other fresh vegetables.....	284,350	264,430	19,920	7.53
Other agricultural products.....	732,905	795,481	62,576	7.87
Total.....	18,513,407	15,681,663	2,831,744	18.06
Animal Products—				
Horses.....	30,229	41,788	11,559	27.66
Cattle and calves.....	175,372	216,712	41,340	19.08
Sheep.....	7,007	8,198	1,191	14.53
Hogs.....	157,513	122,964	34,549	28.10
Poultry (live).....	77	133	56	42.11
Dressed meats or dressed poultry (fresh or frozen).....	177,417	215,442	38,025	17.65
Dressed meats (cured or salted).....	24,231	26,616	2,385	8.96
Other packing house products (edible).....	77,447	92,655	15,208	16.41
Eggs.....	7,519	8,268	749	9.06
Butter.....	27,607	38,743	11,136	28.74
Cheese.....	22,048	24,841	2,793	11.24
Wool.....	24,702	29,460	4,758	16.15
Hides and leather.....	60,028	63,410	3,382	5.33
Other animal products (non-edible).....	98,858	97,866	992	1.01
Total.....	890,055	987,096	97,041	9.83
Mine Products—				
Anthracite coal.....	2,334,498	2,377,551	43,053	1.81
Bituminous coal.....	10,219,575	10,728,805	509,230	4.75
Sub-bituminous coal.....	1,191,821	1,187,981	3,840	.32
Lignite coal.....	622,268	738,923	116,655	15.79
Coke.....	798,755	969,031	170,276	17.57
Iron ores and concentrates.....	1,522,072	1,562,925	40,853	2.61
Copper ore and concentrates.....	191,880	213,218	21,338	10.01
Other ores and concentrates.....	3,216,431	2,991,499	224,932	7.52
Base bullion, matte, pig and ingot (non-ferrous metals).....	595,813	616,871	21,058	3.41
Sand and gravel.....	2,615,471	2,299,310	316,161	13.75
Stone crushed, ground, broken).....	3,266,851	2,906,225	360,626	12.41
Slate, dimension or block stone.....	62,428	74,934	12,506	16.69
Crude petroleum.....	419,728	248,812	170,916	68.69
Asphalt (natural, by-product petroleum).....	475,297	404,825	70,472	17.41
Salt.....	551,420	553,375	1,955	.35
Other mine products (not fully processed).....	2,497,453	2,514,944	17,491	.70
Total.....	30,581,761	30,389,229	192,532	.63
Forest Products—				
Logs, posts, poles, piling.....	1,231,541	945,753	285,788	30.22
Cordwood and other firewood.....	165,363	211,704	46,341	21.89
Ties.....	101,387	63,252	38,135	60.29
Pulpwood.....	6,207,388	7,321,157	1,113,769	15.21
Lumber, timber, box, crate and cooperage material.....	4,268,709	4,766,706	497,997	10.45
Plywood.....	127,801	115,469	12,332	10.68
Other forest products.....	230,606	266,553	34,947	13.49
Total.....	12,332,795	13,690,594	1,357,799	9.92
Carried forward.....	62,318,018	60,748,582	1,569,436	

REVENUE TONNAGE BY COMMODITIES (Continued)

	Year	Year	Increase or	
	1952	1951	decrease	
	Tons	Tons	Tons	%
Brought forward	62,318,018	60,748,582	1,569,436	
Manufactures and Miscellaneous				
Gasoline.....	2,242,085	2,042,123	199,962	9.79
Petroleum oils and petroleum products {except asphalt. } {and gasoline }	2,089,374	1,956,627	132,747	6.78
Sugar.....	279,363	298,870	19,507	6.53
Iron, pig and bloom.....	572,898	604,970	32,072	5.30
Rails and fastenings.....	64,995	68,328	3,333	4.88
Iron and steel (bar, sheet, structural, pipe).....	1,948,035	2,049,387	101,352	4.95
Castings, machinery and boilers.....	346,107	337,065	9,042	2.68
Cement.....	1,164,841	993,759	171,082	17.22
Brick and artificial stone.....	379,762	414,683	34,921	8.42
Lime and plaster.....	514,766	581,876	67,110	11.53
Sewer pipe and drain tile.....	48,884	63,650	14,766	23.20
Agricultural implements and vehicles other than autos..	328,306	367,707	39,401	10.72
Automobiles, auto trucks and auto parts.....	1,851,597	2,135,524	283,927	13.30
Household goods and settlers effects.....	11,700	15,080	3,380	22.41
Furniture.....	73,121	69,450	3,671	5.29
Beverages.....	432,470	365,507	66,963	18.32
Fertilizers, all kinds.....	901,903	1,017,687	115,784	11.38
Newsprint paper.....	2,134,134	2,195,111	60,977	2.78
Other paper.....	397,942	428,548	30,606	7.14
Paper board, pulpboard and wallboard (paper).....	628,818	705,434	76,616	10.86
Woodpulp.....	1,289,308	1,642,026	352,718	21.48
Fish (fresh, frozen, cured, etc.).....	84,725	83,241	1,484	1.78
Canned goods (all canned food products).....	597,462	630,081	32,619	5.18
Other manufactures and miscellaneous.....	7,694,209	7,969,875	275,666	3.46
Merchandise (all L.C.L. freight).....	1,659,096	1,833,245	174,149	9.50
Total.....	27,735,901	28,869,854	1,133,953	3.93
Grand total.....	90,053,919	89,618,436	435,483	.49

OPERATED MILEAGE AT 31st DECEMBER, 1952

Operated Road Mileage	Owned	Leased	Trackage	
			rights	Total
Atlantic Region.....	3,790.36	6.41	82.95	3,879.72
Central Region.....	7,155.21	327.22	14.77	7,497.20
Western Region.....	11,341.16	34.84	92.54	11,468.54
Grand Trunk Western Lines.....	883.10	9.50	59.75	952.35
Central Vermont Lines.....	363.10	—	58.73	421.83
Total first main track.....	23,532.93	377.97	308.74	24,219.64
Lines in Canada.....	22,071.30	196.10	185.87	22,453.27
Lines in United States.....	1,461.63	181.87	122.87	1,766.37
Operated Mileage All Tracks				
First main track.....	23,532.93	377.97	308.74	24,219.64
Second main track.....	1,229.39	9.31	72.16	1,310.86
Third main track.....	30.30	—	3.49	33.79
Fourth and other main tracks.....	9.72	—	5.09	14.81
Spurs, sidings and yard tracks.....	6,233.72	122.99	1,353.21	7,709.92
Total all tracks.....	31,036.06	510.27	1,742.69	33,289.02

A 25-YEAR SYNOPTICAL HISTORY OF THE CANADIAN NATIONAL

Year	Operating revenues	Operating expenses	Net operating revenues	Operating ratio %	Cash surplus or deficit	Revenue ton miles (millions)	Revenue per ton mile c.	Revenue passenger miles (millions)	Revenue per passenger mile c.	Average hourly earnings per employee*
1928	\$ 304,591,268	\$ 249,731,696	\$54,859,572	81.99	\$ 3,463,752	22,588	1,011	1,514	2.585	\$.608
1929	290,496,980	248,632,275	41,864,705	85.59	12,261,631	19,375	1.108	1,401	2.650	.619
1930	250,368,998	228,288,023	22,080,975	91.17	35,677,097	16,910	1.086	1,214	2.710	.640
1931	200,505,162	199,312,995	1,192,167	99.41	60,968,438	14,610	1.020	866	2.679	.649
1932	161,103,594	155,208,161	5,895,433	96.34	60,841,727	12,818	.942	686	2.515	.612
1933	148,519,742	142,812,559	5,707,183	96.16	58,955,388	11,550	.972	665	2.261	.582
1934	164,902,502	151,936,079	12,966,423	92.14	48,407,901	12,950	.974	723	2.259	.559
1935	173,184,502	158,926,249	14,258,253	91.77	47,421,465	13,509	.990	770	2.162	.583
1936	186,610,489	171,477,690	15,132,799	91.89	43,303,394	14,814	.982	831	2.048	.582
1937	198,396,609	180,788,858	17,607,751	91.12	42,345,868	15,165	1.014	953	1.987	.605
1938	182,241,723	176,175,312	6,066,411	96.67	54,314,196	14,505	.964	892	2.030	.647
1939	203,820,186	182,965,768	20,854,418	89.77	40,095,520	17,084	.938	875	2.035	.646
1940	247,527,225	202,519,813	45,007,412	81.82	16,965,044	21,532	.904	1,125	1.929	.643
1941	304,376,778	237,768,437	66,608,341	78.12	4,016,327	27,200	.881	1,762	1.810	.675
1942	375,654,544	288,998,675	86,655,869	76.93	25,063,268	31,729	.909	2,708	1.784	.721
1943	440,615,954	324,475,669	116,140,285	73.64	35,639,412	36,327	.894	3,619	1.848	.734
1944	441,147,510	362,547,043	78,600,467	82.18	23,026,924	36,016	.893	3,697	1.888	.846
1945	433,773,394	355,294,049	78,479,345	81.91	24,756,130	34,600	.915	3,338	1.953	.831
1946	400,586,026	357,236,718	43,349,308	89.18	8,961,570	30,812	.975	2,289	2.190	.877
1947	438,197,980	397,122,607	41,075,373	90.63	15,885,194	32,945	1.040	1,845	2.332	.905
1948	491,269,950	464,739,970	26,529,980	94.60	33,532,741	32,943	1.195	1,755	2.368	1.085
1949	500,723,386	478,501,660	22,221,726	95.56	42,043,027	30,922	1.276	1,621	2.671	1.119
1950	553,831,581	493,997,079	59,834,502	89.20	3,261,235	31,988	1.394	1,408	2.834	1.135
1951	624,834,120	580,150,221	44,683,899	92.85	15,031,996	36,435	1.369	1,611	2.947	1.320
1952	675,219,415	634,852,915	40,366,500	94.02	142,327	38,430	1.397	1,635	2.964	1.405†

* Canadian lines only, excluding hotel and subsidiary company employees.

† This figure would become \$1.453 if adjusted to include retroactive settlements with non-operating employees and with trainmen and firemen.

The CHAIRMAN: I will call first the review of financial results.

Mr. FULTON: Do you want a motion that the statistical tables be included as well as the text? Is that necessary?

The CHAIRMAN: We usually take up the tables along with the review of the financial results and we will do that again this year.

Mr. MACDONNELL: Are we at No. 1?

The CHAIRMAN: Yes, the table.

Mr. MACDONNELL: Mr. Gordon, if I remember correctly a year ago in forecasting 1952 you gave us figures which you said at the time were a guess. Will you comment on them?

I have it that your estimate of operating revenue was \$663 million and operating expenses \$613 million. Would you be prepared to explain that?

Mr. GORDON: You mean compare the operating figures with our guess?

Mr. MACDONNELL: Yes. You told us quite frankly it was a guess.

Mr. GORDON: When preparing the budget last year our operating revenues were forecast at \$663 million and turned out at \$675 million, and operating expenses were forecast 613 million and turned out at \$634 million, the major reason being, in estimating our expenses, we had not taken into account the later wage adjustment.

Mr. MACDONNELL: Is the wage adjustment practically the whole answer?

Mr. GORDON: Yes. Plus a margin for any rise in prices, but the major difference is in wages.

The CHAIRMAN: Any further questions?

Mr. GILLIS: I would like to ask if Mr. Gordon can give us the figures for 1952 as to the cost of changing over to diesel engines. How much money was spent by the railway in replacing steam engines for diesel engines in that year?

The CHAIRMAN: I wonder if that should not come under motive power?

Mr. GILLIS: I would like it here, because Mr. Gordon agrees increased wages is the major difference in the balance sheet he shows today.

Mr. GORDON: I think you are confusing two things. We are dealing here with the income account. The expenditures for the diesel conversion would be in the capital account and that will come up in our capital budget and I will then have the figures available showing what diesels we put in.

Mr. GILLIS: It is also reflected in the statement here.

Mr. GORDON: Nevertheless it is a capital expense.

The CHAIRMAN: It is not an operating expense.

Mr. MACDONNELL: Mr. Gillis is right. It is reflected in the expenses?

Mr. GORDON: Yes, indirectly.

Mr. BROWNE: How does your position compare in 1952 with 1951 if you had to pay the interest charges?

Mr. GORDON: The 1952 actual results, you will observe, give you an operating surplus of \$142,327. If the Capital Revision Act had not gone into effect we would have had a deficit of \$25,500,000 compared with \$15,031,000 deficit for 1951.

Mr. BROWNE: How do you account for the worsening of the picture by \$10 millions?

Mr. GORDON: The facts I have already mentioned, which were in connection with increased costs, made our operating expenses actually come out at \$634 million of about \$20 million more than our estimate. If you go to paragraph 2: "increased operating expenses due principally to higher wage rates more than offset a gain of 8.1 per cent in operating revenues..." In other words, the

reason for the result is that our costs are steadily going up in relation to both prices and wages and our freight rates, our earnings, are not rising commensurately. If you look again at the chart on page 10 you will see what I mean, that prices have gone right up to the top of the chart, whereas our services have only gone up by 43 per cent.

Mr. BROWNE: Your prices came down in 1952 but your revenue went up?

Mr. GORDON: I am talking in this chart about the wholesale price index. This is what happened to the wholesale prices of commodities. The illustration is that what we got for our services did not rise as fast as the prices other people got for their goods. If you look at the item under prices on page 11: you will note it is estimated that increased prices for railway materials added about \$12 million dollars.

At the top of page 11 you will see we paid \$22 million for additional payroll costs as compared to 1951. We have paid in wages and materials about \$34½ million more than we did in 1951. That is where our increase expense took place.

Mr. GILLIS: What do you classify as materials?

Mr. GORDON: Any supplies used, rails, ties, anything needed to run the railway.

Mr. BROWNE: Diesel engines?

Mr. GORDON: No. That is capital account. This is only operating account. I am wrong about rails also. It is capital account. But coal would be in it.

Mr. MACDONNELL: I see ties and steel products.

Mr. GORDON: The replacement of rail would be maintenance.

Mr. MACDONNELL: I am referring to paragraph 32 on page 11. We have known, of course, about the wage increases because they have been of public interest. Can your economic department say anything as to the likelihood of rising cost of materials?

Mr. GORDON: I could not predict for the future. I would make a guess that we have reached a bit of a plateau.

Mr. MACDONNELL: Is there any difference in the situation?

Mr. GORDON: Yes. We are flattening out in regard to rising prices.

Mr. MACDONNELL: I notice there are certain statements made as to accounting practice. Is the practice you followed here normal?

I mean, do you turn back into income things which were previously provided by income?

Mr. GORDON: Yes. The only difference that can arise is as to the timing. In this particular case this reserve was set up during the war by reason of an arrangement with the government whereby the railroad was asked to provide a lot of siding tracks in a hurry for war industry. It was assumed at that time that those tracks would not necessarily be required once the war was over, and it was expected that they would be torn up and replaced. Therefore this reserve was set up for writing off the tracks when they were lifted. But with changing events and with the Korean situation, practically none of those tracks was lifted and we are using them today.

The CHAIRMAN: May I interrupt at this point? Is it the wish of the committee that the entire report today be printed at this point in our records? Our first reporter is now about to leave and I think we should decide it.

Agreed.

Mr. MACDONNELL: Why are we re-printing all this?

The CHAIRMAN: Mr. Gordon has read three parts of it. Are there any questions?

Mr. MACDONNELL: I thought that we did not do so.

The CHAIRMAN: Very well, Mr. Gordon.

Mr. GORDON: I was going to conclude that the only questions which could arise in regard to the accounting practice was the time of doing it, last year, or next year, and so forth. And this represents the decision of management that we are going to need these tracks and so we might as well make the entry now. And as a result of making the entry this year, it produces a surplus which would not otherwise have been produced.

Mr. MACDONNELL: I think you have made that quite clear.

Mr. GORDON: Yes.

The CHAIRMAN: It is agreed. Now, "Volume of Freight Traffic".

Mr. MACDONNELL: I am sorry, Mr. Chairman.

The CHAIRMAN: Very well, Mr. Macdonnell.

Mr. CHURCHILL: In paragraph 6 on page 7, Mr. Chairman, mention is made of this fact:

It is represented on the one hand by increased compensation, and on the other by the lowest average level of freight rates to be found in any country in the western world.

Mr. GORDON: Yes.

Mr. CHURCHILL: That sounds very nice. But what is the method of comparison? How do you arrive at a comparison with other countries?

Mr. GORDON: By actual statistical information which we secure from those countries. We are in touch with all the railway statistics of the various countries, and I have a table here.

Mr. CHURCHILL: Is it strictly comparable?

Mr. GORDON: Oh yes, as far as we know, it would be strictly comparable. Railway statistics are a statistician's dream, if I may put it that way. I mean that a statistician just loves to work on railway statistics. Every country in the world has a mass of railway statistics which are regularly produced. We keep in touch with each other. I have before me a statement for 1951 which shows the average revenue and so on, and it is also boiled down to a ton-mile basis. These include countries such as Australia, Belgium, Great Britain, and so on.

The CHAIRMAN: Would you like to have that list made an appendix to our record today?

Mr. CHURCHILL: I presume that would be all right. It is the average level of freight rates?

Mr. GORDON: I mean of the revenue, per ton-mile.

Mr. CHURCHILL: From freight?

Mr. GORDON: Yes, from freight. And my point is that you see the benefit of the over-all improvement in productivity which came out of the more efficient operation of the railway machine. It meant a reduction in cost of many many millions of dollars; and these millions of dollars have gone directly to labour, or to the consumer.

To put it another way, if the same forces had applied to our revenue dollar, that is, if the revenue dollar had had the same proportionate increase in 1952 as compared with 1928 as did the expenditure dollar, the effect would have been that the Canadian National would have shown a profit of close to \$400 million.

I did not stress that \$400 million in my report because I did not want spectacular headlines on the thing. I did not want to get into an argument about how it is made up. But I can easily justify it in any examination. The

reason I put it in the report was that questions have been asked from time to time in the committee, as to the efficiency of the railway and as to the extent by which labour or the consumer might get advantage of the increased productivity.

You are spending millions of dollars here for capital expenditures every year, and the result of doing that is to give the railway labour in this country and to the consumer of our services a very substantial benefit. I do not know what proportion, but I do say that if we were in the same position as we were in 1928, and with the same forces applied to our revenue dollar, we would have shown a profit of nearly \$400 million.

Mr. FULTON: Without capital reorganization?

Mr. GORDON: Without capital reorganization.

Mr. MACDONNELL: You mean in other words that could be arrived at, because your operating revenue would be virtually what it is now, and your expenditures would have been smaller?

Mr. GORDON: I think it is the other way around.

Mr. MACDONNELL: I would expect there would be an infinitely smaller amount in respect to earnings.

Mr. GORDON: I would say that if we had got the benefits under it, our revenue account—I am sorry, but what did you say again?

Mr. MACDONNELL: My understanding of what you have told us is: That if our revenues were what they are, and if there had been on change against us in connection with cost, we would have a \$400 million profit?

Mr. GORDON: You would have to include the traffic volume, and also get into the revenue dollar the same proportion of increase that has gone into our expenditure dollar. In other words, if our revenue had risen in the same proportion under the impact of economic forces as has the expenditure dollar, I would say that we would have got up to \$400 million profit.

The CHAIRMAN: Am I correct in understanding that you are saying in effect that if the freight rates and the passenger rate increases had paralleled the increases in your labour and material cost, you would have shown this \$400 million profit.

Mr. GORDON: That is putting it about right, yes.

Mr. FULTON: Could we take from this table United States, United Kingdom, and Brazil figures showing revenue?

Mr. GORDON: We have not got Brazil for 1952. But the United States figure of revenue per ton-mile is 1.420. Brazil is not out yet.

Mr. BROWNE: What is this 1.420?

Mr. GORDON: That is cents per ton-mile. That means that they carry one ton of freight a mile for a cost of 1.42 in the United States. And in Canada our figure as shown here is 1.397.

Mr. FULTON: And what is it for the United Kingdom?

Mr. GORDON: For the United Kingdom it is shown at 4.224. But let me warn you that there are always qualifications in these things, and we should bear in mind that this figure for the United Kingdom is more or less qualified by the effect of the short hauls there. They do not get the benefit of the longer hauls which we have here. But nevertheless, it is quite clear that my statement is right, and that we still have the lowest.

Mr. FULTON: What country on the North American continent is roughly comparable to Canada, having regard to density of population and mileage involved? Would it be Brazil?

Mr. GORDON: We have regard to the United States in our 1951 figure. It is hard to say in point of size. For instance, Sweden is regarded as a pretty well operated country. It shows 1.9. I have not got the Argentine here.

The sources of these figures are available. It is a matter of public knowledge. They are published by a source known as International Railway Statistics. I have only made a selection of them, and not the worst examples by any means. I have just taken across the line examples.

Mr. CHURCHILL: What is the basis of comparison?

Mr. GORDON: They are just as comparable as anything can be. There is always a variety of reasons. For example, in Canada we have two trans-continental railways so we get the operating benefits. You see here the benefits of the Canadian National System and the fact that there are only two railways, the Canadian National and the Canadian Pacific. It has given us an advantage in that respect. And I merely point out here, having regard to all the circumstances, that we have done a good job which is measured by the fact that we have the lowest freight rate per ton-mile of the world.

Mr. FULTON: Is that the Canadian average figure for Canada, or is it the system figure?

Mr. GORDON: This figure here is the system figure. It is the Canadian National System only.

Mr. BROWNE: Mr. Gordon has told us that if we had to pay interest, there would be another \$10 million.

Mr. GORDON: I beg your pardon. I mean there would have been a deficit \$25 million and not \$15 million.

Mr. BROWNE: Your position is \$10 million worse than it would have been 1951?

Mr. GORDON: That is right, as a comparison of forecast and actual net operating revenues.

Mr. BROWNE: How does that compare with the other system, the Canadian Pacific?

Mr. GORDON: I do not know.

Mr. BROWNE: That must be available to you. You are comparing your rates with all the other roads in the world. Are you not making a comparison with the Canadian Pacific?

Mr. GORDON: I have not got a copy of the annual report of the Canadian Pacific for last year. I do not think it is out yet.

Mr. FULTON: I understand that their net earnings were down this year. That is a matter of public knowledge, I think.

Mr. GORDON: I have not seen their report so I could not say. Of course, I have seen newspaper reports, but I do not go along with newspaper reports in every case.

Mr. MUTCH: Especially at such a time as this.

Mr. GORDON: I would like to see the facts for myself.

Mr. MACDONNELL: Are Canadian rates not uniform for both railways?

Mr. GORDON: I am talking about earnings and averages. Yes, that is right. As far as the result of the earnings of the Canadian National is concerned and the average revenue per ton-mile, that would be affected by the quality of traffic on the respective lines. We may or may not have carried a larger volume of higher rated traffic than the Canadian Pacific and so forth. But you are talking about the lowest average of freight rates, are you not?

Mr. MACDONNELL: That is my question.

Hon. Mr. CHEVRIER: On the table you have just referred to a moment ago there are given unit costs for Canada, and that is included by railways in Canada.

Mr. GORDON: That is right.

Hon. Mr. CHEVRIER: Whereas, in your report you refer to the unit cost of the Canadian National Railways.

Mr. GORDON: I am referring to the Canadian National Railways here. But when I refer to the lowest average freight rates to be found in the western world, I am talking about Canadian average freight rates per ton-mile and I am comparing them with other countries.

Mr. MACDONNELL: You said that our rates are lower than the United States rates. Could you give us a word in explanation of that? Does it have to do with the relative amount of our traffic which is longer haul, and also the Crowsnest Pass rates, which would seem to make it more difficult for our railways, with lower density of traffic, to get along with their rates?

Mr. GORDON: We are not getting along. That is the answer, and for the simple reason that although we have handled business totalling \$675 million, nevertheless I am only able to report a surplus of \$142,000. And by any standard of comparison with any other industry I submit we should have a surplus of from \$20 million to \$25 million, I should think.

Mr. MACDONNELL: In paragraph No. 5 you say:

"Canadian National freight services, as measured by the average revenue per ton-mile, has risen by only 38 per cent."

Mr. GORDON: Yes.

Mr. MACDONNELL: I am not clear about that. I seem to have seen a figure within the last few days. I am sorry but I cannot remember where I saw that figure; but it was very much larger than that.

Mr. BROWNE: It was 98 per cent.

Mr. GORDON: Let me explain that. There are three different figures which are affected when we talk about a freight rate increase. The first figure is what is called the nominal freight rate increase—that means taking the overall awards of the Board of Transport Commissioners and simply adding them together. They come to a figure as from 1948 when they started, of around 98 per cent. In other words, if we had been able to take advantage of what we had been given permission to do we would have made an increase in our rates which would be represented by 98 per cent. But there is another practical figure.

Mr. BROWNE: That would not necessarily mean an increase in your income by 98 per cent?

Mr. GORDON: It would, if we had been able to collect it.

Mr. BROWNE: Did your rates have a bearing on the amount of traffic?

Mr. GORDON: We are permitted to raise our rates to that extent on freight traffic. But the practical thing is this: There is a great deal of traffic on which we cannot raise the rates. We cannot raise them on the Crow's Nest Pass, and in connection with competitive traffic, and in regard to agreed charges, and things of that kind. So, if you try to explain just what has come about, you get into what is called the effective increase, and the effective increase in Canada turned out to be about 68 per cent.

Now then, I come to the practical matter which is this figure here of 38 per cent because that is all we have been able to get as average revenue per ton-mile, as between 1928 and 1953, and that is affected by the quality of the traffic. So I am saying here that in running the railway we have

only been able to increase the average amount that we get for carrying goods by 38 per cent. Actually, the Board of Transport Commissioners have given us permission to raise the rates to the extent of 98 per cent.

Mr. BROWNE: That is not very widely understood.

Mr. GORDON: No. And there is also this factor: I do not want to distort the picture. There are some phases of our freight traffic which will have to bear the whole 98 per cent; and there are also some phases of our freight traffic which will not have any increase at all. Therefore, we start with zero increase, being the statutory rates, the Crow's Nest Pass rates, and range all the way up to 98 per cent, depending on what we can get. We watch our competitive traffic very closely.

Mr. BROWNE: Perhaps you would be good enough to say a word about competition. What is the most important competition which you have to face?

Mr. GORDON: The most important competition which we have to face is obviously that of highway trucking. They go after our most valuable traffic, our highest rate traffic. That is what our trouble is in regard to that type of competition. We are in this dilemma all the time and it is getting increasingly worse with each freight rate increase which the Board of Transport Commissioners awards us upon our representations regarding higher prices, including, of course, labour costs.

The area in which we can get an effective increase without pricing ourselves out of the market is narrowing steadily. There are two ways of pricing oneself out of a market. It is not always competition. We can price ourselves out of a market if there are competitors who are willing to do the job at a less price. But we can also kill traffic which will not originate for anybody. It just kills off the shipper.

A good example, I think, is this case: I was down yesterday looking at the Chateau Laurier hotel. You may remember the days when we had a lovely strip of awning down the side, and all Ottawa would come out there to have tea. And there was a beautiful orchestra playing there on Saturdays and Sunday afternoons. There were a great many questions decided under that awning, and under conditions of harmony which perhaps were very favourable. But that has now been priced out of the market. One reason would be the high cost of providing music. Another reason would be that of the working hours. It would mean another crew of waiters, and people will not pay the price. It does not mean that people still do not like tea; but whereas we served it at one time for, let us say, 35 cents, it might cost \$2.50 today, and people will not pay that much for tea. They may be willing to pay it for other things, but not for tea.

Mr. BROWNE: Yes, for a high ball.

The CHAIRMAN: We seem to have covered "Volume of Freight Traffic". Are we finished with "Review of Financial Results"?

Mr. GORDON: May I make one correction for the record, Mr. Chairman? When I mentioned 98 per cent, I should say that that includes all the awards of the Board of Transport Commissioners. The actual increase up to the end of 1952 is only, nominally, 69.9 per cent. But when I mention 98 per cent, I take it right up to date.

Mr. FULTON: On page 7, under "Freight Rates", in sub-paragraph (2), at the end you say, when referring to this bridge territory between eastern and western Canada—

Mr. GORDON: Yes.

Mr. FULTON: You say:

...the railways are permitted to seek a compensatory subsidy from government up to an aggregate amount of \$7 million per year for both major railways.

To what extent has the Canadian National Railways shared from that benefit in the year before us?

Mr. GORDON: I think we have that. The subsidy claimed by the Canadian National in respect of the last eight months of 1952 amounted to \$1,605,000.

We understand the Canadian Pacific's portion was \$1,672,731. That is the first impact of it.

Mr. FULTON: And just what did you ask for?

Mr. GORDON: That is what we claimed and that is what we got.

Mr. FULTON: Both figures are the same?

Mr. GORDON: Yes. You understand that we get no benefit from that. We get no benefit in the sense that we give up the amount in rates. We are merely made whole.

Mr. FULTON: Would you say that the total is \$3,500,000 as between the two railways, and the maximum which you can ask for is \$7 million. Do you see a time coming when the maximum might be used?

Mr. GORDON: Yes, I think it will. There are only eight months there in 1952; moreover, the policy bearing on the payment of the subsidy is under challenge at the moment.

Mr. FULTON: From what source?

Mr. GORDON: From Canada Steamships and other carriers.

Mr. FULTON: And on what basis?

Mr. GORDON: Roughly they think they should get a share of it. They think they are being prejudiced by reason of our reducing rates, and they believe the subsidy applicable as recommended by the Royal Commission should also apply to them.

The CHAIRMAN: Are you through with your questions, Mr. Fulton?

Mr. FULTON: No. I have one further question. What would result in an increased payment to you? Would it mean simply an increase in the amount of traffic that you carry over the "bridge"?

Mr. GORDON: Well, either that, or an extension of the particular items upon which we are requested to make a reduction of the rates. But that is in the hands of the Board of Transport Commissioners.

Mr. FULTON: But under the present rates the only way you would be entitled to an increase would be by actually carrying more traffic?

Mr. GORDON: That is right. We are supposed to get back in the form of subsidy whatever we give up in the form of rates.

Mr. FULTON: As a concession to the shipper?

Mr. GORDON: That is right.

The CHAIRMAN: Now, Mr. Carter.

Mr. CARTER: I wonder if Mr. Gordon could explain something in respect to the graph which appears on page 10. In that graph the white line is coming down and the black line is going up. Does that have any particular significance in reflecting more favourable trends for the coming year?

Mr. GORDON: No. I want to repeat that this is merely an attempt to demonstrate the extent to which the railways have fallen behind in the race to raise the prices for their services as compared with what all the other suppliers, such as are included in the wholesale price index, have been able to get. The people included in the wholesale price index, the people who

produce the goods and distribute them to the Canadian market, have been able to increase their prices from 1939 through to 1952. That is the way it is shown up in the chart. The index goes to a peak of over 240 per cent. Just now it is about 230 per cent; whereas the price which the railway gets for its services in the Canadian market has risen much less. They have been able to get only an increase up to 43 per cent, with the index being 143.

Mr. CARTER: But now they are beginning to approach each other, are they not?

Mr. GORDON: I do not think you can read that into it. It will depend on our situation in regard costs of material and labour. As Mr. Macdonnell asked me, in regard to general supplies, I felt we had now approached a place where specific increases did not appear to be indicated. But that can change very quickly as it has done in the past.

Mr. BROWNE: In connection with the lines which are operated in the United States, are they governed by American freight rates over there, or by Canadian?

Mr. GORDON: They are governed by American freight rates.

Mr. BROWNE: Do you include them in this list of low freight rates which you have in Canada?

Mr. GORDON: We report on the Canadian National Railways total, and that covers the whole system.

Mr. BROWNE: It would be boosted a little by that factor, would it not?

Mr. GORDON: Yes.

Mr. THOMAS: In effect the material which the Canadian National is buying, if that white line were to continue to go up rather than to go down, would go to the 230 mark as the wholesale prices have? Would that be a fair statement?

Mr. GORDON: That does not necessarily follow. The wholesale price index is more or less a measure of the price of goods going to the market. Included in those goods may be the things which we buy, and some of those prices may be coming down while others may be going up. But as a general rule, our railway supply prices do not diverge very much from the wholesale price index. They would probably be reflected about the same.

Mr. KNIGHT: I want to ask Mr. Gordon about the difference in the rates of haulage charged by the railways on automobiles in different parts of the country. I am thinking particularly about English cars. There are people who think that there is some discrimination against English cars. I do not think it is a purposeful discrimination, but there is a difference in the rates which have to be paid on those cars which are imported from the other side, as compared with cars which are manufactured in this country. I think it would at least clear up the matter if we could put on the record whatever the expression is for the ton-mile rate from, let us say, from Montreal to the middle west, perhaps to my own point, Saskatoon, in comparison with the rate from the point of Canadian manufacture such as Oshawa or Toronto or Windsor?

The CHAIRMAN: Would you prefer to give the answer now or to supply a statement later?

Mr. GORDON: Yes. If I could get exactly what you would like to know, I would have to check on it. I have not got that immediately available.

Mr. KNIGHT: Would you care to offer a word of comment on the matter of the differential, or as some people say, "the discrimination"?

The CHAIRMAN: I think it would be more accurate if we waited for the evidence of the statistician, and then Mr. Gordon might comment on it. I will undertake to see that the point will not be overlooked. I have made a note of it.

Mr. KNIGHT: Very well. Thank you.

Mr. MCLURE: Who are the personnel today of the governing body of the railways, namely, the Board of Transport Commissioners? It seems that on every page we read they are quoted as being the supreme authority. Who constitutes the personnel now of the Board of Transport Commissioners?

Mr. GORDON: The Chief Commissioner is Mr. Justice Kearney, The Assistant Chief Commissioner is Mr. Hugh Wardrope. Perhaps Mr. Lessard could name the others.

Hon. Mr. CHEVRIER: Perhaps I could give you their names. There is Commissioner F. M. MacPherson, from the western region; Deputy Chief Commissioner, A. Sylvestre, from the Province of Quebec; Commissioner H. B. Chase from eastern Canada, and Commissioner O. A. Matthews who was recently appointed.

The CHAIRMAN: Are there any further questions on "Volume of Freight Traffic"?

Carried.

Mr. MACDONNELL: In paragraph 11 you referred to the decline in our pulp-wood shipments and you referred to the use of stockpiles as the explanation. I think you have a sentence where you say that other important increases were shown in bituminous coal.

Other important decreases were shown in bituminous coal, lumber, wood pulp and paper products other than newsprint, as a consequence of market conditions.

Can you say a word or two about it so that we can get a picture of what is likely to be the future situation in the transport business?

Mr. GORDON: Yes. Market conditions I would say are referred to generally there, and in regard to bituminous coal they are influenced by the extremely mild weather all through the east. And in regard to forest products, there has been a softening of the market, a general softening.

Mr. MACDONNELL: Where?

Mr. GORDON: It would affect any lumber producing area which is shipping now to world markets. British Columbia would be an outstanding case. Our shipments in British Columbia are affected substantially. There is also a substantial Ontario market, but the main market would be that of British Columbia.

Mr. MACDONNELL: Is it due to foreign competition?

Mr. GORDON: No. They are world-wide. I spoke of a market for forest products in the last year. That has pretty wide economic ramifications. I am just dealing with the advances.

Mr. MACDONNELL: One further point. Could you say anything as to whether we have been losing our relative place in any markets?

Mr. GORDON: No, I do not believe we have in any general way. I see no sign of it.

Mr. MACDONNELL: In foreign markets?

Mr. GORDON: No. As far as I can judge. I do not think we are losing our relative place at all.

Mr. MCCULLOCH: There is a serious situation down in Nova Scotia in regard to the small mines and I have a telephone message from the Minister of Mines for Nova Scotia, the Honourable Alex McKinnon, saying that in Westville the mines will likely have to be closed down if they do not get assistance from the C.N.R. And I have also a telegram from the Honourable A. B. de Wolf. in which he states that the mines at Westville would probably have to close failing assistance from the C.N.R.

Now, the town of Westville has a population of between four and five thousand people and the only industry there is the coal mines. During the last war the Westville mine gave the C.N.R. practically all their output at a price much lower than they could have sold it to individual customers and I think it would only be fair for the C.N.R. to take same interest in the Westville mines, even if they had to buy 100,000 tons less from the United States mines and give it to the small operators in Nova Scotia who helped the railway to keep going during the war. The C.N.R. during the last war used coal from the small mines in Nova Scotia and I think they should be congratulated on the way they handled the freight, the troops, and the passengers during the war. And they used all of the coal they could buy from the small operators down there and I do not see why they do not buy coal from the small operators now. I know what the answer will be—the coal is not suitable. But, if they could use the coal during the war, they can certainly use the coal now in order to keep a small town like Westfall going with about 300 miners who will be out of jobs. I think the least they can do is give small orders to the small mines. I think Mr. Gillis could vouch for that as well as myself.

Mr. GORDON: Mr. Chairman, I certainly do not like to find myself in the role of appearing to be a hardhearted person putting people out of employment, but I know of no authority that exists in the Canadian National Railways to accept the responsibility for keeping any particular industry alive by providing a subsidy above market price. Our position is we buy all the acceptable Canadian coal offered to us at the present time if the cost is competitive with the United States' coal, and when I say the cost is competitive I am making allowance for any subventions which may be provided by any authorities for the purpose of making Canadian coal competitive.

In some of the mines there is definitely a question of acceptability. We have situations where the coal is of such poor quality it will not move our locomotive from one coaling point to another.

Mr. McCULLOCH: Did that happen during the war?

Mr. GORDON: I cannot answer that specifically, but I would judge that the coal made available during the war was not necessarily the same coal being produced today. We have every desire to buy Canadian coal. We bend over backwards to buy Canadian coal, but we cannot buy coal that will start a locomotive off and will not take it to the other coaling point making it necessary to send another locomotive to bring it back.

Mr. McCULLOCH: Have you had that happen?

Mr. GORDON: Yes. The coal has to be acceptable in the sense it will meet the performance requirement and secondly it must be competitive with other coals provided elsewhere. I have some figures. Here is the basic difficulty with the Maritime coal situation: The fact is the mine head cost of Sydney lump coal is \$9.30 a ton. The mine head cost of United States coal, of generally better quality or better than the Sydney quality, is on the average, only \$4.14 a ton. Now when you start off with such a fundamental difference there is your trouble. We add to United States' coal the cost of hauling to the border, the duty and all the other factors and then compare that with the Maritime Provinces' coal with our bare cost of hauling to the consumer point, and if we get a differential in favour of the United States coal we buy United States coal. We get differentials that run as high as \$3.39 a ton in favour of American coal laid down in New Brunswick.

I cannot see for the life of me how I could be authorized to provide these coal mines with what is to all intents and purposes a concealed subsidy. I am not authorized to pay subsidies. There was a time I did. But I am not going to undertake to pay subsidies through the Canadian National Railways. I am perfectly willing to say I will bend over backwards and defend myself

against criticism if need be to buy Canadian coal, but I would be open to very sharp criticism for using moneys in that way. It is not my job to pay subsidies. If there are going to be subsidies paid to any industries I suggest it is the responsibility of the government and should go to the floor of the House of Commons.

Mr. GILLIS: I do not agree with Mr. Gordon's statement. Mr. McCulloch made an appeal on behalf of the small coal operators in Nova Scotia. Mr. Gordon gave us a general survey of the whole industry. Now, the small operators visited Ottawa here a few weeks ago and the basis of their complaint and what created the immediate problem was the dieselization program. The coal Mr. Gordon says will not pull a train has been used by the C.N. for many years. Practically the only market the small operator had was the market which dieselization has practically wiped out. I think the matter can very easily be resolved. I asked a question whether the C.N.R. was importing American coal and if so what was the tonnage. I got an answer on March 16. For 1951 the C.N.R. imported 4,617,317 tons of coal and in 1952 they imported 3,675,589 tons of coal. In the small places Mr. McCulloch is talking about there are only employed 1,500 people who have an investment in these small communities. Most of them are located not too far from New Brunswick. There is nobody can tell me that if an operation like the C.N.R. is importing that amount of American coal and stockpiling considerable of that in New Brunswick and in Quebec, that the Canadian National Railways could not hold back a very small fraction of their import from the United States and use the coal of the small operators in Nova Scotia and New Brunswick on the C.N.R. until such a time as a solution can be found for that problem. It is not a very big one. I do not think it necessitates subsidies. If it does then you are correct in saying the House of Commons should take care of it.

Mr. GORDON: If the price we have to pay for that coal — I am leaving aside the question of unsuitability — if the price we have to pay for that Canadian coal is substantially greater than U.S. coal would you not agree that is a subsidy.

Mr. GILLIS: Yes, certainly. And I would say you are justified in paying it.

Mr. GORDON: I have no authority to pay subsidies.

Mr. GILLIS: I know. But, Mr. Chevrier will take care of that.

Mr. GORDON: No authority can be given to me in law unless it is a law passed by the House of Commons.

Mr. McCULLOCH: Could you not pay small operators the same price as Sydney coal?

Mr. GILLIS: You figure pit head coal \$9 as against \$4.14 in the United States. Are you taking the average cost of coal produced in Nova Scotia? Dominion Coal Company mines are high cost. They produce coal by submarine long hauls and they are going through a mechanized program. If you had figures for small operations you will find there is a big difference. I do not think their cost adds up to that.

Mr. GORDON: I have the prices of our Canadian mines here and I can give them to you. I do not think it is fair I should mention the mines. Of the five mines listed here they range from \$9 to \$9.30 and a high of \$9.60. There is only one at \$8.75. All the others range from \$9 and the top is \$9.60.

Mr. GILLIS: Have you got a figure for that Drummond operation? Inter-colonial.

Mr. GORDON: The price is \$9.

Mr. GILLIS: Do you not think it is reasonable, say for a period of time to pay that? This was brought on pretty suddenly.

Mr. GORDON: This situation in regard to the maritime provinces coal has been under discussion for many many years and you have had ample warning as to what was likely to take place.

Mr. GILLIS: The problem of the small operators Mr. McCulloch makes his appeal for, came on because of diesel engines which replaced coal. Is it not possible to have any mined coal produced there for a year or so by holding back some of your imports from the United States?

Mr. GORDON: If you can tell me what justification I have to pay to Intercolonial—if that is the one you are talking about—higher than the market price for coal and refuse to do so for other purchases, then I might see some merit in it.

Mr. GILLIS: Do you say that it is the high cost of coal that prevents marketing coal with the C.N.R. and not the installation of diesel engines?

Mr. GORDON: It may be.

Mr. GILLIS: They do not say so.

Mr. GORDON: It does not necessarily follow. I am giving you the facts. I have no other purpose to serve. I am giving you the truth. The Canadian National Railways will buy all the coal that is being mined in the whole of eastern Canada. If they are prepared to offer us acceptable coal we will take all they can produce provided they can lay it down at the coaling point at a price competitive with United States coal. We have a need for coal in the provinces of Ontario and Quebec right now, and for many years to come, far greater need than the total production of these mines if they can get their costs comparable at the coaling point. That is the only point at issue.

Mr. GILLIS: Then the position is I take it that as head of the C.N.R. as far as you are concerned, it is a matter of dollars and cents, and there is no solution, as far as you are concerned, and that now it goes to the government as a matter of subsidy.

Mr. GORDON: I have no views to express as to how the price is determined of coal that is delivered to me as long as it is comparable with United States coal, but I can assure you we will give Canadian coal mines every possible break in the matter of differential.

Mr. McCULLOCH: What can you land American coal at Moncton?

Mr. GORDON: They all vary but I can land Moncton coal at \$12.33.

Mr. BROWNE: From where?

Mr. GORDON: From the U. S. coal minehead in this particular instance.

Mr. BROWNE: Any spot you have in mind?

Mr. GORDON: I do not want to mention names, but I am dealing in averages.

Mr. BROWNE: Carried on train or steamer?

Mr. GORDON: By train.

Mr. BROWNE: It would be from Pennsylvania. You can tell us that.

Mr. GORDON: I have not got enough information. I would need more analyses, and I am taking this for the purposes of example. Each case is analysed, when we have coal offered to us, to see whether or not we can buy shipments of United States coal delivered in Moncton at certain prices, but I am just giving as an order of magnitude the average price of the United States coal at minehead as \$4.14 a ton.

Mr. BROWNE: And that include the whole system?

Mr. GORDON: It includes coal we purchase from the United States regardless of origin.

Mr. BROWNE: But from Pittsburg to Detroit or Windsor is a very short haul, but you take the long haul from Pittsburg to Moncton.

Mr. GORDON: It does not matter. The point we are concerned about is the price at which we can buy coal delivered laid down in Moncton, and we do not care where it starts from. If we can buy American coal starting from any point, and charge that coal with factors such as duty and haulage cost, and lay it down in Moncton at a price substantially below at what we can get Canadian coal, then that is the comparison we make.

Mr. GILLIS: You are only dealing with coal that goes to Moncton.

Mr. GORDON: In this particular example. We also have coal, say, at Mont Joli. We have coaling points in western Canada. But when we talk about coal supplies, we talk about the price we are prepared to accept at the point of delivery. We do not care where it starts from, so long as it is of comparable quality. Our test of whether or not we will buy that coal is the laid down cost at the coaling point regardless of origin.

Mr. CHURCHILL: \$12.39 at Moncton.

Mr. GORDON: The example I have taken is \$12.33 compared with for example from Sydney coal mines after allowing for various factors of about \$13.04.

Mr. GILLIS: You have landed it for less than that from Westville.

Mr. GORDON: Yes, that would be so, and we take that into account.

Mr. GILLIS: Why are they not marketing that coal? Why is that mine threatened with closure?

Mr. GORDON: We do use Canadian coal, but we can buy United States coal much cheaper that we can buy Canadian coal at some points in Nova Scotia and New Brunswick.

Hon. Mr. CHEVRIER: I think you had better put the figures on the record of how much Maritime coal is being bought.

Mr. GORDON: Here is a statement of purchases last year—it is distinct from consumption. We bought, 734,085 tons of eastern Canadian coal. Of western Canadian coal we bought 797,291 tons; that is a total of 1,531,376 tons of Canadian coal. The total cost of that was \$13,230,207.

Mr. CHURCHILL: What is the comparison with the preceding year?

Mr. GORDON: In 1951 we bought eastern Canadian coal 1,043,085 tons. Western Canadian coal we bought 691,962 tons, at a total cost of \$13,780,063. In other words the dollar cost is about half a million dollars less in 1952 than it was in 1951.

Mr. CHURCHILL: What is the difference in volume?

Mr. GORDON: In the volume is a drop from 1,735,000 to 1,531,000 tons—roughly 200,000 tons.

It may be of interest to give the United States coal figures. I might as well give it. The situation there is that the consumption of United States coal has fallen very substantially because again the use of oil both for diesel and oil burning steam locomotives in the west is steadily increasing. These figures are based on actual purchase invoices passed; we have bought in 1951 from the United States 5,239,419 tons and in 1952 we bought 4,265,209 tons.

Mr. GILLIS: They are out quite a bit. The figures from the department were for 1951 4,617,377 tons and in 1952 they gave me 3,765,589 tons.

Mr. GORDON: But you asked for imports.

Mr. GILLIS: Yes.

Mr. GORDON: Well you did not ask for the right thing.

Mr. GILLIS: These are purchases.

Mr. GORDON: You could not buy it in this country if you did not import it, but there is a time lag between imports. We have been very carefully trained to answer exactly what we are asked for.

The CHAIRMAN: On this coal question, I think the committee has listened to it perhaps quite as long as we should, and I suggest if there are any further questions, they should be in writing and they will be answered in writing. Freight rates—

Mr. BROWNE: A question on number four there. Could you give any information on that. There are no figures given there.

The CHAIRMAN: Point four, no. Freight rates, page 7.

Mr. GORDON: This is, I will just have to confess, a very complex technical matter and it does not amount to a hill of beans in terms of revenue. It is a slight increase, but it does not amount to anything important. It is a technical adjustment. I could give you precise details.

Mr. BROWNE: As long as it is not substantial.

Mr. GORDON: No.

The CHAIRMAN: Freight rates carried? Passenger traffic?

Mr. CHURCHILL: On paragraph 3, what is meant by "parallel action by the Interstate Commerce Commission." What bearing has that?

The CHAIRMAN: Where is that.

Mr. CHURCHILL: Subparagraph 3. "These orders followed parallel action by the Interstate Commerce Commission in the United States."

Mr. GORDON: They did the same. The international rates affected both of us and they issued the same order as we did.

Mr. CHURCHILL: Is that always done?

Mr. GORDON: Yes, it has to be done, otherwise you get a difference in the overhead traffic.

The CHAIRMAN: Freight rates carried. We have reached the adjournment period.

Mr. MACDONNELL: I have one or two questions with regard to 15.

The CHAIRMAN: Perhaps we can clean that up.

Mr. MACDONNELL: It is a question of rates equalization which I would like to hear from Mr. Gordon on.

Mr. GORDON: I would like to say this about freight equalization, that the subject is under investigation by the Board of Transport Commissioners and hearings are being held all across the country. Naturally I would be reluctant in expressing an opinion here. It is really under trial by the court. As it stands now everybody concerned can express their opinion before the board. We will in due course make a submission to the board and so will the C.P.R.

Mr. MACDONNELL: Can you enlighten us about the problem without giving your conclusions on it. The scope and size of the investigation. Can you do that.

The CHAIRMAN: We will adjourn until 3.30.

AFTERNOON SESSION

The committee resumed at 3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Macdonnell, you were asking some questions with regard to the equalization of freight rates and Mr. Gordon indicated that the matter was more or less *sub judice*. Would you like to make a comment?

Mr. GORDON: I might make a comment, Mr. Chairman.

Mr. MACDONNELL: I say this with great deference, Mr. Chairman, but I did have the feeling this morning that perhaps we were being a little hurried. I regard this committee as having a tremendous responsibility.

The CHAIRMAN: I think we all do, Mr. Macdonnell, and if I have been hurrying you in any way, I apologize.

Mr. MACDONNELL: I hope you won't think me a problem, yet I find these things very difficult and perplexing and I cannot grasp them very quickly. Consider this question of equalization. I cannot help but feel that Mr. Gordon considers it a pretty complicated thing to talk about. Nevertheless I do feel there is a tremendous principle here. I have looked at the Turgeon report in the interval and I wonder if the witness could not give us an understanding of this matter because it does seem to me that it is a vital difficulty in our whole freight rate structure.

Hon. Mr. CHEVRIER: May I say this with respect to that problem: We have carried out the recommendations of the Royal Commission on Transport. We have put into effect by way of an Act, an amendment to the Railway Act, and we have given directions to the Board of Transport Commissioners under Order in Council 1487 to go about the equalization of freight rates. The board is proceeding by way of study and investigation under the legislation, first of all, passed by parliament, and secondly, under the direction given to them by the Order in Council. It is pretty hard to answer a question of what is going to happen when they are studying that very thing. So I think I should interject at this point that the board, as Mr. Macdonnell knows, have set Vancouver, Regina, Edmonton, and all the provincial capitals, including Ontario and Quebec, as places where they should invite the public to come and make representations on this very issue. To what extent we can go into that I do not know. I do not think we could go into it in detail other than in a very general way.

Mr. MACDONNELL: I bow to you, and if Mr. Gordon feels there is nothing that can usefully be said, I shall not persist in my questioning.

Hon. Mr. CHEVRIER: I would not like to see the problem interferred with at this time because I consider it of such importance, particularly to the extremities of Canada which are suffering from these economic, climatic, and geographic difficulties which they complain about.

Mr. CHURCHILL: Are you speaking about equalization of freight rates or about the problems generally?

Hon. Mr. CHEVRIER: I refer to the two problems: the problem of equalization referred to in the legislation adopted by parliament, and also to the investigation which the board was ordered to make by the government. I refer to both of them together.

Mr. MACDONNELL: Well, Mr. Chairman, if Mr. Gordon thinks there is nothing that can usefully be said by way of comment on the situation, I shall not press it.

Mr. GORDON: I think I may make a comment on it, in order to set it in perspective, which will indicate the nature of the problem. I take it that is what you are really interested in?

The nature of the problem first of all is this: the railways are in agreement with the general principle that there should be equalization of freight rates, that is to say, on the general idea that so far as practicable every part of Canada should pay the same rate for movement of the same specific commodity from one point to another. But it must also be kept in mind that whatever is done in the matter of equalization of freight rates as between one section of Canada in comparison with another should not and must not operate to reduce the over-all revenue of the railways. They cannot afford it.

The problem before the country, then, is how you can give everybody something and take nothing away from anybody. I have never been able to solve it. But as a means of getting it before the board, the board has set up certain specific rates which will come into effect on January 1, 1954. But as I stated in the report, the board particularly stated that they were setting down a scale in order to provide an opportunity, to give something concrete, whereby all across the country every person with views on the subject will have something to focus his attention upon and will be able to argue against something concrete in respect to the first scale of rates which the board has set down. These rates are not put into effect, nor will they become effective until the board has held hearings all across the country.

You cannot give something to everybody and yet take nothing away from anybody. Also, because of economic conditions in various parts of Canada, you will have certain exceptions no matter what equalization may be done. As it is now with competitive rates and things of that kind, one must be guided by economic factors in a given area. That roughly sets out what the problem is.

Everybody is against sin, but what are we going to do about it?

Mr. MACDONNELL: Leave it for other people.

Mr. GORDON: That is right.

Mr. MACDONNELL: I think you have stated it very dramatically, Mr. Gordon.

Mr. GORDON: That is the core of the problem. That is what the board is trying to study now and they have started off in what I think is a practical approach of the problem. They have set down for examination a scale of rates just as a means for every interest in the country to appear before the board, including the railways and the other shipping interests in the country. They will be invited to come before the board and talk to the subject.

Mr. MACDONNELL: Are these two requirements, first of all, that the railways shall not get less? Is that the first part of it?

Mr. GORDON: That is part of the problem which the railways would point out, that they cannot survive with an over-all average revenue return of less than they are earning now. I think the report justifies it.

Mr. McLURE: How about the consumer and the producer. How is he going to survive if he has got to pay all the shot?

Mr. GORDON: In the same way that he must survive in paying the price for any other service that he gets. He has to pay rent and he has to pay for his heating the same as everybody else. Railway freight is simply a service the same as any other service that he might require in order to exist.

Mr. McLURE: In your railway traffic do you take in truck traffic as well as railway traffic in coming to your volume of freight?

Mr. GORDON: Our revenue figures include revenue from every source, from trucking or anything else.

Mr. McLURE: Has your truck revenue increased year by year in comparison with what you considered it would when you went into the trucking business?

Mr. GORDON: I have not got before me the actual figures, but trucking in relation to our railway freight revenue is negligible. It is very small. That is, our own earnings in trucks that we own are very small in relation to over-all railway freight.

Mr. MACDONNELL: You have come to that in connection with some of the statements about new equipment?

Mr. GORDON: Yes.

Mr. MACDONNELL: One other question under the heading of equalization. Do I understand that it is recognized that in making these rates the board has to have regard to the hard facts of competition?

Mr. GORDON: Quite so.

Mr. MACDONNELL: Then may I ask a special question about a thing which we have heard so much discussed a year or so ago, and that was the rates to the coast in comparison with the rates to Alberta and other points in the prairies, and that was by reason of meeting water competition?

Mr. GORDON: We are compelled to do that.

Mr. MACDONNELL: Does that still stand out as one of the recognized factors?

Mr. GORDON: I would say that in the course of examining what can be done to achieve equalization, and in discussing equalization of rates, local economic conditions or local industrial conditions will remain a factor in this country. Let me put it this way: After all, water compelled rates are simply competitive rates, and either we give up the business or we meet the rates. We as a railway must make that decision every day in the week, whether it is in connection with a truck, a ship, a pipe line, or anything else, or any other form of competition. We must meet it. We are in the most fiercely competitive business in the world and we have to make decisions every day in connection with our rates.

You see, the principle is that in general freight rate cases the Board of Transport Commissioners is really setting a ceiling on rates. They are setting the rate this far and no further. Now, we can operate underneath that rate or we can go up to it in many cases, you see. But if we find that we are at the top of the rate and we cannot get the business, we have to begin to figure out if it is to our advantage to come down, and we finally reach a point where we have to decide whether it is a compensatory rate or not. If we go below a compensatory rate, and then if anybody alleges that we are quoting a rate which is below our cost, that person can go to the Board of Transport Commissioners and complain that we are being unfair to him.

We are the only outfit in the country which is under that obligation. We cannot go below a compensatory rate because of complaints.

Mr. MACDONNELL: You have both a ceiling and a floor?

Mr. GORDON: That is right. We have to prove that any rate is compensatory at any time, should anybody appeal against it.

Mr. MACDONNELL: Just what does compensatory mean? I remember having had something to do with a manufacturing concern and there was always an argument that one department lost money. And they always argued that they contributed so much to the overhead that they did not lose money. So how is compensatory arrived at?

Mr. GORDON: A compensatory rate is a rate which takes into account the nature of the business, the out of pocket cost in respect to upkeep of equipment, labour and so on in the operation that we put in, and a share of the overhead.

Mr. MACDONNELL: What is that last? The other things you mentioned were operating things?

Mr. GORDON: Yes.

Mr. MACDONNELL: What was that share of the overhead?

Mr. GORDON: It would cover everything and it is a very complicated thing to get at. It is not something I could attempt to be an expert about. We have a very efficient bureau of economics which analyzes these figures, and when they are challenged, they appear before the Board of Transport Commissioners. And the board also has competent experts who examine these figures. And we demonstrate how we arrive at a compensatory rate.

Mr. MACDONNELL: Your company may have very different ideas about how to determine a compensatory rate.

Mr. GORDON: That is right.

Mr. MACDONNELL: Can anyone challenge it?

Mr. GORDON: I think that is the law.

Hon. Mr. CHEVRIER: It is in the Transport Act.

Mr. MACDONNELL: But who in practice does challenge it?

Mr. GORDON: In practice it can be challenged by any shipper. Let me give you a concrete example. We try at times to make what are known as agreed charges. We will make a bargain with a given shipper according to which the shipper will undertake to ship a certain percentage, or all, of his shipments via Canadian National, and in return for that promise we will give him a special rate.

Now, a trucker might come along and say that we were quoting a rate which was below our cost and that in doing so we were putting that trucker out of business. So you see, if we answer the trucker's competition by putting in an agreed charge, then a shipper may go to the Board of Transport Commissioners and say that the railway is using its position because they can survive longer than he can, to put him out of business.

Mr. MACDONNELL: Have you the same right as against the trucker?

Mr. GORDON: No. There is nobody to go to in connection with the trucker.

Mr. GILLIS: And that line of action cannot be taken against the Canadian Pacific Railway.

Mr. GORDON: Oh, yes.

Mr. GILLIS: I thought you said you were the only people in Canada.

Mr. GORDON: I am sorry. I tend to regard myself as the only railway. I was thinking of the railways.

Mr. MACDONNELL: You were ignoring the Canadian Pacific this morning.

Mr. GORDON: I simply said that I could not speak for them.

Mr. MUTCH: Are you sure?

Mr. MACDONNELL: Yes.

Mr. MUTCH: A moment ago you were speaking of fixing these Pacific coast rates and a question was asked whether or not the water rate was a consideration in fixing those Pacific Coast rates. Do you really suggest that water competition between Montreal and Vancouver is in fact competition at all? And if you do so suggest, have you any idea what tonnage is available to the public?

Mr. GORDON: I am afraid that you are getting me not only into water but very deep water in that respect. I cannot speak as an expert on freight rates. I can only deal with general principles. But generally speaking water compelled rates are the rates which we have to meet in regard to these transcontinental rates. Every case has got to be judged on its merits; every case has to be judged on the facts. We have had to put in rates which will compete with rates for goods being shipped from Britain by boat to Vancouver.

Mr. MUTCH: That is understandable.

Mr. GORDON: Yes. The other day we discussed a rate which was in connection with iron pipe, or something like that, which could go by boat against us and be delivered in Vancouver at a better rate. So you see, each one of these things has to be considered specifically on the facts of the particular case. I do not think it applies today, but there was a water compelled rate in regard to a movement where ships would come out of Vancouver harbour and deliver lumber right to Montreal or Toronto via the Panama Canal. In that case the railways had to decide whether or not to meet that rate.

Hon. Mr. CHEVRIER: That is why the transcontinental rates are so low.

Mr. GORDON: That is exactly the case.

Hon. Mr. CHEVRIER: If the transcontinental rates were increased the shipping companies would come in.

Mr. MUTCH: That is a very interesting suggestion which we have had given to us over and over again. But I for one treat it with no regard because I have been at some pains to discover what is available in the way of competition by ships.

Mr. GORDON: At the present time it is very little.

Mr. MUTCH: Yes, at the present time it is very little, and the railways are sitting in the beautiful position that if anyone be fool enough to invest money in ships—it would be probably more expensive to procure ships today than rolling stock,—before those ships could be constructed, you could put them out of business by shifting the rates.

Mr. GORDON: That means of course that everybody is allowed to be competitive except the railways.

Mr. MUTCH: That has been argued time and again with respect to that particular matter, but I think the argument could be used both ways. To say that these competitive rates are water compelled from Montreal to Vancouver, I think, is a phoney. I wonder what you think about it.

Mr. GORDON: I do not know what you mean by the term “phoney”?

Mr. MUTCH: I do not think these are competitive rates at all. I do not think they have any potential or real competition.

Mr. GORDON: I beg to differ with you there. I know from actual experience gained long before I got in the railway business that there was a time when shipping carried a great deal of lumber from British Columbia, for instance, and other goods, and brought it over through the Panama Canal and delivered it in the ports—note the word “ports”—of Montreal and Toronto. What has been done before can be done again. Economic factors have a habit of changing from time to time. Nevertheless, what has been done once in that respect can be done again, and it will be done again—in my opinion it will be done again if this trend of constantly rising prices continues. That is something along the lines of what we have been discussing this morning, that there will come a time when we will price ourselves out of that market, too. Merely because at a given point today the shipping companies are not able to do what you suggest does not mean that it will remain that way forever. Take the St. Lawrence Seaway for an example.

Mr. MUTCH: If they offer you competition, there is nothing to prevent you from pricing yourself back into it.

Mr. GORDON: Yes, that is right.

Mr. MUTCH: And you have that hold over anybody who would be rash enough to invest capital in shipping.

Mr. GORDON: I do not know about that. Here is an advertisement which has just been handed to me which shows a Canadian intercoastal service, between Montreal and Vancouver via the Panama and United States ports. Here is a steamship service available to you right now operated by Saguenay Terminals. There is no doubt about it, the competition is there, but whether at the moment they can give us effective competition is a point. It all depends on what we are able to do.

Mr. GILLIS: The St. Lawrence Seaway will put you out of business then?

Mr. GORDON: No, I do not believe that. It is generally thought that the St. Lawrence Seaway will generate enough in the way of industrial power that it will develop Canada in a way the railways cannot help but benefit.

Mr. GILLIS: That will be just from Montreal westward.

Mr. GORDON: We are all going to get our share of the business if we are efficient and can meet the competition.

The CHAIRMAN: Any further questions?

Mr. MACDONNELL: Mr. Gordon, you raised the subject of the St. Lawrence Seaway and made an interesting observation about it. It is a matter of very great interest. How much diversion of your line, of your main line, from Montreal to Prescott will be involved through the construction of these works?

Mr. GORDON: It starts right outside Cornwall, mostly.

Mr. MACDONNELL: You are not going to submerge Cornwall, are you?

Mr. GORDON: No, it is in the area west of Cornwall. The flooding of the land will affect about 35 miles of the railways. That is the way it looks to us at the moment.

Mr. MACDONNELL: How far back will your main line be moved?

Mr. GORDON: Upwards to a maximum of four miles.

Mr. CHURCHILL: I would like to ask Mr. Gordon one question about this general problem of freight rates. Are you prepared to forecast the future with regard to railway rates? You mentioned the fact that it is the most highly competitive business in the world, this business of transportation. You pointed out that for every application for increase of freight rates there was a resultant loss of business, or the danger of a loss of business, and yet there is the constant demand for increases in freight rates in order to allow the railways to function. What do you see in the future?

Mr. GORDON: Well, that will depend on the balancing of the forces, so to speak, because the facts which are raising our costs are also applying to our competitors. Our competitors are paying higher wages and higher prices, too, and it depends at any given time how that balance is maintained. A further factor as I mentioned this morning, is not only the diversion of traffic which we might lose by pricing ourselves out of the market, but it is a question of a traffic that might be killed; it is the actual business which people will not go into because of higher costs, because they cannot find a market for the product. That is a dangerous thing from the standpoint of the national interest, in my opinion. Canada is a country heavily dependent on exports, as we know, and is one of the major trading countries of the world and if we do allow our costs to get to a point where we become non-competitive in foreign markets, then we are going to have real trouble and there may be certain producing industries which will suffer very seriously as a result.

Mr. CHURCHILL: How do we prevent that?

Mr. GORDON: At what point we get to it, I could not tell you. How do we prevent it? The old way of preventing anything is, in my experience, self-discipline.

Mr. MACDONNELL: You ought to discipline someone else?

Mr. GORDON: I have had enough of disciplining other people.

Mr. CHURCHILL: What do you mean by self-discipline?

Mr. GORDON: That of the various interests involved, and I do hope that I am not conveying the idea that I am anti-labour. I believe that labour is worthy of its hire, but with labour as with any other interest, various groups have got to determine what is in their own best interests and whether or not they are killing the goose that lays the golden egg. There will come a time when rising costs, if not stopped by our own collective decisions—it is not a matter of government, it is the collective decision of all the people—will lose markets. It may be that we have reached a stage of equilibrium at our level of economic activity and that that is where we must stay for a

while. We are in Canada under the most active and obvious competition from the United States, to give an example. Now we must keep our costs of our goods for sale in the market or in markets where we meet United States competition—we must keep them relative or we won't sell our goods. Our producers, I do not care whether they are agricultural or manufacturing, or what they are—our producers who have articles for sale in the United States market must obviously meet United States competition. Now, the United States can bear a level of wage rates, for example, that we cannot. That may be one of the economic factors. They have a terrific volume. We have not reached the stage of economic development as a country to compare with the industrial United States, yet we are getting up to the point where we have to watch ourselves to see that we do not become non-competitive.

Mr. GILLIS: Where would you suggest to make a start on that? I agree with your statement, but where do you think a start should be made on that?

Mr. GORDON: We got into bad habits during the war of assuming that some centralized authority could tell people what to do, and I did it with great effect for a while, but it was a bad habit. It is not the way that a democratic society can operate. The judgment I am referring to is the collective judgment of everybody in business, and the only way that it will work, in my opinion, is by the method of trial and error. We can only try and go so far. Now let us take the coal mines, for instance—

Mr. GILLIS: Why not start at steel?

Mr. GORDON: Start at steel, then. Exactly the same thing, so long as we can produce steel in this country that will meet our own domestic needs and compete with other people who provide steel, then they can increase the prices of their product and the wages so far as the traffic will bear, but when there comes a time when the product cannot be taken by the market, I suggest that the steel producers and all the forces in it — labour, management and otherwise — will have to take another look at the situation to determine whether or not they have gone too far.

Mr. GILLIS: Don't you think that the steel companies in this country should expand their plants and take steps to offset American imports?

Mr. GORDON: I do not know enough about the steel business to know whether they can do it, whether they have the efficiency or capacity to do that.

Mr. GILLIS: It is up to them to provide the capacity. The government made an offer to them that it would provide a dollar for every dollar that they put in to increase capacity.

Mr. GORDON: They might think the risk is not worth while. Remember this is a private enterprise economy.

Mr. GILLIS: As long as we are dependent on the United States for our steel and coal and other things, we are going to stay in that position, too.

Mr. GORDON: The United States are dependent on us for a great number of basic materials, too. You would be surprised to see how much the United States is dependent on us for basic materials. In my opinion we could do better if we processed them here, but you see there are two sides to the medal always. You cannot always go down one road.

Mr. GILLIS: As long as we sit idly by in this country and depend on the United States to supply us the finished products, that is not building Canada and will keep us in the economic doldrums.

Mr. GORDON: Just sitting idly by? There is nothing in this country that I know of to prevent any group of individuals, at any time they want to

put their capital at risk, from organizing themselves together and starting a manufacturing plant to use any of the basic materials they want to use. There is nothing to prevent you and me from doing that, Mr. Gillis, except that our capital won't be sufficient. Any group of enterprisers in this country are perfectly free to gather together, to get all the people they can to put their money together and start a manufacturing plant.

Mr. GILLIS: That is good theory but it does not work out in practice.

Mr. GORDON: It certainly does. Look how this country has grown.

Mr. GILLIS: Mostly on American capital.

Mr. GORDON: The figures do not support you in that. We have exported a large amount of capital to the United States, just as the United States has sent a lot of capital to us. It is a kind of give and take proposition.

The CHAIRMAN: This is a very interesting discussion, but I really believe it is not within our order of reference.

Mr. GILLIS: Well, Mr. Gordon raised it. He said everyone has got to come collectively to fix this thing up. That is where you have to start. I got the impression that he thinks labour in this country should say, "We are not going to demand any more increases in wages and are going to stay right where we are".

Hon. Mr. CHEVRIER: He did not say that.

Mr. GILLIS: No, not in those exact words; he did not say that, but I asked him where should we make a start and I think that a good start on this situation can be made by the steel people in this country, the steel manufacturers. They were given an incentive by the government that for every dollar they put into increased capacity, the government would match them dollar for dollar. Still they did not take advantage of it.

Mr. GORDON: The only thing was, it was not enough of an incentive. We have had an astounding development of industry in this country in the last ten years. Some part of it was due to government aid, and others to private enterprise. It was in effect a combination of several factors. But there is nothing to stop anybody in this country doing it. There is nobody saying, "You must not organize, you must not risk your capital".

Mr. GILLIS: If the government offered me to match dollar for dollar every dollar that I put into a business, as an individual, I think you would find a lot of people in this country who would take advantage of it, but that offer was made directly to steel manufacturers. It did not apply to everybody. If the government would underwrite your losses in housing such as they do for the insurance companies, you would find a lot of people in this country going out and forming a company to build houses.

Mr. GORDON: I remember some years ago a man coming to my office to discuss with me about making investments in Canada and I was cagey about giving advice because I felt he should make his own decisions. After some discussion he said in a rather broad Scottish accent: "Mr. Gordon, I fully understand one of the functions of capital is to be lost, but I am trying to find a place to lose it as gradually as possible."

The CHAIRMAN: Shall freight rates carry?

Carried.

Mr. GILLIS: You should have told him to put it into housing.

Mr. McLURE: Mr. Chairman, this was a kind of general discussion on freight rates and a very interesting one, indeed. There is one item that I would just like to mention. The only two provinces in Canada that are not squealing about freight rates are Ontario and Quebec. There is a way out of

that. They can bear part of this cost if they were approached by the government and the railways and put in a position that there shall be put into effect a stamp freight rate agreement. Some of the large concerns have that rate today. If you put into effect a stamp rate nobody will lose. The railway will get what they are getting out of it. The buyer of an automobile in Ontario gains by it. Presently he gets it \$135 cheaper than the consumer or buyer in Prince Edward Island. I believe in this stamp freight rates Act, if we could get a proper one going, even if it was only one-sided for the time being, to start off with. There are certain companies today shipping all their goods freight prepaid to destinations, so that a buyer in Prince Edward Island can buy his supplies just as cheaply as the buyer in more central provinces, or the buyer living next door to the factory. Now, there must be some plan there that we can get Ontario and Quebec to help pay. A good deal of our money from down east goes into these two provinces. If I was to tell you how many millions of dollars worth of goods we in our little province buy from Ontario and Quebec you would not believe it, but just the same that is one way, and they could not turn it down—coming from the railway or government they could not turn it down, because they could not afford to lose trade and they would be losing it. The only thing is they are making the people of Ontario—the easterners—all those paying freight in Ontario are supporting others making that profit, and why should they not pay part of the freight, and pay it under—what is it termed—the Stamp Freight Rate Act. They have it in the United States.

Mr. GORDON: My short comment on that is that I imagine the people of Ontario have some views on it, and that is exactly the sort of thing the board of transport will listen to. They will listen to points of view from transport and shipping interests, and they will be sitting in Charlottetown and there will be every opportunity for all interests in every section of the country to express their views to the board.

Mr. McLURE: Because in the United States there are five of the largest firms in the world that ship all their goods under the Stamp Freight Rate Act.

Mr. MACDONNELL: Mr. Gordon, this morning I asked you how you were able to get along with lower freight rates than the United States, and you said the simple answer was you were not getting along as well as you would like, and we rather dropped it there. I would like to know a little more about the freight rate situation. Could you indicate to us some of the operating figures of the American railways so we can get a comparison and can you also indicate whether the fact that we are able to do as well as we do do with smaller rates in this sparsely inhabited country is due to the additional amount of long haul, or what it is.

Mr. GORDON: I will be glad to get the figures, but let me say that I believe—although I do not suppose everybody will agree with me—that the Canadian railways taken as a whole, by reason of the fact that we have two major trans-continental lines are able to avoid some of the operating terminal complexities that arise with a great number of lines as in the United States. That gives us, over all, a more efficient through operation. For example, just a couple of years ago we started an intensive examination of our terminal congestion which proved quite remarkable. We found that if we started in to schedule or marshall a train which was going say from Winnipeg to Halifax, that if we started in at the point of origin, namely Winnipeg, and marshalled the train so that all the through cars would be in a block, we could save a great deal of money in switching at intermediate points. When the train arrived in Montreal or Toronto it was all of one kind. In the United States you would find a given train of say 70 or a 100 cars and they might have to use that switch engine 30 or 40 times to sort the cars out at the terminal point to get

them to their destination. In the United States, with numerous railways, one railway arrives at a terminal point and does its job and does not give a hoot who takes over, but in the trans-continental system we can issue instructions to Winnipeg, and say, now you see to it that all the traffic for Halifax is properly marshalled. I think Mr. Dingle, as vice-president of operations, could say a word on that point in regard to the kind of operating economies we have achieved.

Mr. MACDONNELL: I watched one train going through Brockville the other day, and it seemed to be as long as eternity.

Mr. GORDON: In May, 1951 on through cars to Montreal terminal we were averaging 20 hours to get through cars through our Montreal terminal. That is, in and out of the terminal on their way to their destination. In April 1952 we reduced that to 13 hours. That has primarily arisen out of the determined method of marshalling trains at the point of origin. In Toronto our through cars were taking about 14 hours, and we have it down to 11 hours. We had a terrific congestion in the Montreal terminal that was alleviated by reason of this marshalling procedure. That is one type of economy I mention as an example of the sort of thing we can do in the railway under the management running from coast to coast. That same car in equivalent conditions in the United States might go through six, seven or eight railways and maybe more— independent railways, none of them interested in the other except getting the traffic over their lines.

Mr. GILLIS: So centralization works sometimes.

Mr. GORDON: When properly applied.

Mr. MUTCH: Under your new system do you find very much of an increase in making up a train originally. For instance, in Winnipeg do you not have to do a certain amount of that shunting. Is not some of that time taken at the point of origin.

Mr. GORDON: No, there is an overall advantage. They take more time in marshalling, but we save far more time at the intermediate point. Is not that correct Mr. Dingle?

Mr. DINGLE: Yes.

Mr. MUTCH: You only have that shunting once.

Mr. GORDON: Yes. The other day when examining the work of terminal committees in the form of traffic flow charts we spent an interesting hour observing what happened in changing this system of marshalling, and while Mr. Dingle can speak with more knowledge, I happened to be aware that these economies have been effected, and I mention that example as one of the reasons why we have a cheaper service for the Canadian people than the United States railways can give.

Mr. MACDONNELL: Would improved marshalling involve a great deal of capital expenditure in the way of trackage?

Mr. GORDON: Yes, in some cases we would have to improve the trackage.

The CHAIRMAN: Passenger traffic.

Mr. FULTON: There is the third paragraph, the only place I could find reference to the subject I would like to ask Mr. Gordon on. In the third line there is the statement: "Heavier military traffic more than offset the decline in immigrant traffic which occurred in the latter half of the year." Can you give me a statement on immigration facilities which the railway operate, where you have immigration officers stationed, and what efforts, if any, your company is making to bring desirable immigrants to Canada.

Mr. GORDON: I am glad that question was asked because it gives me an opportunity to state that we have a very definite interest in facilitating immigration traffic, not only because it increases the population for rail services,

but also that we get a movement from overseas and can settle our own vacant lands and we still have a fair amount of land adjacent to the railway for settlement. Generally speaking we regard it as a very desirable thing to do.

We have an organization overseas through which we maintain close contact with all the governments in all these countries from which immigrants are secured, and we have a very close connection with the steamship lines carrying immigrant traffic to Canada, and with all the various agencies that function in that trade. Our London office is kept supplied with all the information on current Canadian immigration requirements, settlement opportunities, and so on, and we prepare a good deal of written material ourselves, and we distribute it through these agencies in Europe and elsewhere.

For instance, our literature contains "Guide to Settlement in Canada" a pamphlet which tells the intending immigrant what to look for and what to prepare for. We distribute a "Western Provinces Map" in five languages. These publications are sent out through Great Britain and the Continent and a folder entitled "Canada" is written in eight languages with a map provided which is used for distribution on immigrant trains when the immigrants arrive in Canada, and we have a great deal more literature containing pictures and other information which is distributed through our offices in Europe and the United Kingdom. Under arrangement with the Canadian government, both the railways and the Immigration Department concentrate their activities on recruiting and forwarding, and, having obtained a passage for the immigrant, we try to sell a ticket on the basis of a combined steamship and train ticket. It is our custom to meet every immigrant at the disembarking point, and at all our immigrant stations as well as on our special immigrant trains, we usually have officers capable of speaking at least seven or eight languages. We regard it as an opportunity to meet and greet each immigrant in the sense that we find out what he is worried about, and we accept it as our responsibility to take him from the point of origin and to put him down where he is going and see that he is introduced to his prospective employer. I think we have a service we can really be proud of, and we know that by reason of the fact that we keep in touch with these people for many months afterwards, and we have some very touching letters from these people.

Mr. FULTON: Do your agents overseas actually go out and solicit immigration in the sense of trying to encourage people to come to Canada, or is their responsibility limited to their trying to get those who have decided to come to come on your railway.

Mr. GORDON: The latter point mostly. We have not enough staff to do direct solicitation, but we do work through agencies who do solicit. The steamship companies have independent solicitors although quite a lot of it is done by mutual co-operation. A lot of people write in to us, and ask us to tell them about Canada, and we write back and provide maps and folders and get into correspondence with them. But we do not do a awful lot of personal door to door solicitation because we have not the staff.

Mr. FULTON: Are your relations with the governments overseas—are they based on the assumption that officers are trying to encourage people, desirable types, to come to Canada?

Mr. GORDON: Yes, we have government officers in all the countries you mention in close touch with us who obtain from us particulars about any sort of thing in regard to Canada. We used to inform them about exchange regulations, but they fortunately are now out of the way, but in a reverse fashion the intending immigrant still has a problem with his own authorities with regard to export exchange, and we try to help them in that respect.

Mr. FULTON: What has been your experience under the assisted passage scheme. Do your company help to work out details?

Mr. GORDON: Yes, we did. That is part of our service.

Mr. FULTON: What about relationships between your offices and the Canadian government offices in the countries where you have immigrant officers.

Mr. GORDON: There is close liaison kept with these officers as well as in Canada itself. Our colonization department in Canada is very closely in touch with the appropriate officers in Canada, and very often sit in meetings dealing with mutual difficulties, so we are well informed and through us we frequently point out things that might be straightened out at the other side.

Mr. FULTON: Can you give us a statement in summary form of where you have these offices and the number of staff.

Mr. GORDON: I think we have it in the report—or is it in the time table? We have these passenger traffic offices in Europe, located in London, Antwerp, Glasgow, Liverpool, Paris, Sydney, Melbourne and Wellington, where we provide that sort of information, and we also have liaison in Denmark which looks after the Scandinavian countries, and in Canada itself we have offices in Montreal, Winnipeg and Toronto.

Mr. FULTON: The only offices you have in Europe are in Antwerp, Paris and I think you said Denmark.

Mr. GORDON: Denmark is not shown here, but I know there is a liaison officer there—in Copenhagen—the Scandinavian representative.

Mr. MUTCH: Is there only one in the British Isles?

Mr. GORDON: The London office is what I am referring to. We have an overseas headquarters in London and we have a staff of ten in that office, and we have an office in Glasgow and we have passenger information offices in Liverpool, Antwerp and in Paris.

Mr. MUTCH: Have you any idea what percentage of the staff in Liverpool, London and Glasgow is Canadian?

Mr. GORDON: No. I could not be sure at the moment. There are Canadians there but there certainly is a local staff too.

Mr. MUTCH: I would suggest there is some advantage in a system which interests itself in immigration in maintaining a distinctly Canadian atmosphere. My own personal observation has been it is to some extent lacking. I do not want to go into an office and inquire about Canada and be told in European or British Isle language something about my own country and I would think the potential immigrant might make a beginning by talking to somebody from Canada about the country he is going to be located in in an atmosphere which is distinctly Canadian.

Mr. KNIGHT: We have a distinctive language I take it from your remarks?

Mr. MUTCH: I believe it is possible to discern the difference.

Mr. CHURCHILL: What is the cost of this immigration service and where is it shown in the report?

Mr. GORDON: Under our general operating expenses. I have not a breakdown. There is an item on page 26 headed "Colonization and Agriculture" showing a cost of \$292,838 last year. I think that is probably the total cost of that organization. That is covering Canada and all the points I have previously mentioned.

Mr. FOLLWELL: Mr. Gordon, I understand there is considerable acreage available for settlement and this settlement is held out only to immigrants. Is there any publicity given to the fact that Canadians already here also have the opportunity of locating on that acreage?

Mr. GORDON: I think it is pretty well known where we have land for sale anybody can make application for it. We have not enough land to warrant a monster selling campaign.

Mr. FOLLWELL: How many acres would be available?

Mr. GORDON: About 142,000. The cream is gone. This is the land which is difficult to sell.

Mr. CHURCHILL: Do you maintain a contact between provincial governments with respect to immigration and colonization?

Mr. GORDON: Yes.

Mr. MACDONNELL: And with the European offices?

Mr. GORDON: Yes, through our colonization and agriculture department. It is getting to seem like a big department, but it is not big. It is an active department. We have men who are interested in farming productivity and so forth who are in touch with provincial farming offices in that respect also.

Mr. FULTON: Who is your director?

Mr. GORDON: Mr. McGowan.

Mr. FULTON: Is he succeeding Mr. Guertin?

Mr. GORDON: That I do not know.

Mr. MUTCH: Is this the paragraph—

The CHAIRMAN: Mr. Follwell is trying to get in a question.

Mr. GORDON: The person in the department who reports directly to me is J. S. McGowan.

Mr. FOLLWELL: As recently as Saturday a chap pointed out to me a Canadian National commuter train which leaves Vaudreuil (Dorian) at 7.35 and arrives at 8.45 and C.P.R. operates on the same schedule and arrives at 8.15. Further he pointed out there was ancient equipment used on the Canadian National and very good equipment on the C.P.R.

Mr. GORDON: Did you say this was Montreal?

Mr. FOLLWELL: Yes.

Mr. GORDON: I thought it was only in Toronto we had that.

Mr. FOLLWELL: He was saying when he takes a long journey he travels by C.P.R. on account of the experience he had on that section.

Mr. GORDON: I am going to make an indiscreet statement and say I would rather the C.P.R. took over all the commuter traffic in Montreal and Toronto. It is a losing service.

Mr. FOLLWELL: Is it good business relations?

Mr. GORDON: I do not think so. Because, of necessity, the commuter service on a railway is an unprofitable service; it cannot be anything else. It is the situation in any railway I have knowledge of or seen and certainly it is in Canada. A service which any organization is forced into providing is going to be starved just as far as it can be starved. There is no use being hypocritical about it. I have here an extract from the judgment of the Board of Transport Commissioners as far back as 1920:

From the nature of the traffic and the service rendered in relation to cost, especially so with regard to existing costs today, it is clear that suburban service under commutation rates is at present, if it has not always, as contended by the railways, been unprofitable per se.

It is difficult to arrive at, and is not shown anywhere in evidence at the various hearings, the extent to which (if at all) the losses occasioned by actual operation of this traffic have been made up by indirect or consequential advantages or profits to the company.

This is a very interesting subject because it is the reverse of the subject I was talking about. Here we have been placed into a market we do not want to be in. We have been forced to provide fares away below cost. The irony of the situation is when any community grows up the first thing that happens is

some form of transport begins to provide that service. There is a time when electrical radial service was provided and it continued for a while and as soon as that became unprofitable they promptly abandoned it and threw it onto the railway. The railway is not designed to provide short haul service. We are not built for that. Moreover, the Board of Transport Commissioners tariff has been forced down to the point where it encourages people to look to the nearest railway for cheap transportation. If we were to charge the regular fare from a place called Oakville just outside of Toronto, from Oakville into Toronto we would have no passengers and the problem would be resolved. Because we are providing a cheaper fare it encourages people to take the railway. We are now examining this problem from the standpoint of going to the Board and pointing out that these very low fares are throwing the problem on the railways. We have, according to a statement I have in front of me, 98 coach units in commuter service in Canada. And that coach equipment is tied up considerably and used for only three or four hours a day and is idle the rest of the time. In every railway to my knowledge, and it is certainly C.N.R. policy, we put into commuter service the hand-me-down equipment. In certain instances I am prepared to concede we have gone too far and are improving some of those services when we get the new equipment we ordered. But, remember I came to this committee last year and asked for new passenger units and I have not got them. There have been a lot of criticisms of the service and all sorts of people have made proposals that we do not know our business.

Mr. FULTON: You are getting accustomed to it?

Mr. GORDON: I am getting accustomed to it but it still gives me some concern. But they forget we operate under rules and wage agreements and things of that kind. If we put on self-propelled equipment I suppose the layman would say "why not run that self-propelled equipment as fast as you can and get your traffic". We might make a faster service but we would have to pay several different crews instead of one.

Mr. GILLIS: Why not get someone to challenge you before the Board of Transport Commissioners?

Mr. GORDON: We have appeared before them on more than one occasion pleading our case on commuter service. We are going to do so again in such a fashion which I think will surprise them.

Mr. MACDONNELL: Do I understand you are forced to continue this service?

Mr. GORDON: Yes. I am glad you asked that question. The important thing about it is that we cannot abandon a service without the consent of the Board of Transport Commissioners, but by the same token we are not required to put on a service and what we are doing is resisting efforts to have us increase commuter service. If we have a service that is running we cannot abandon it without consent of the Board of Transport Commissioners. Here are samples of our rates. Regular rates from Toronto to Oakville—\$1.35. Average for each trip is 67½ cents. If we increased the commutation fare, which averages 22 2/5 cents on a 50-trip ticket, even to the regular fare then our problem would disappear because people would not pay it.

The CHAIRMAN: When you are referring to Oakville, could you give the comparable rates suburban to Montreal?

Mr. GORDON: Yes, I have two rates here: Montreal-St. Annes, the regular rate 67½ cents as against an average of 21 2/5 cents on a 50-trip commutation ticket.

The CHAIRMAN: On the question of commuters' rates; are the suburban rates around Montreal lower than suburban rates around Toronto?

Mr. GORDON: I would say that the Oakville to Toronto rate was 22 2/5 cents per trip, while the Montreal rate from St. Eustache to Montreal averages 55 cents for the regular rate as against an average of 17 3/10 cents on a 50-trip commutation ticket. The average per mile is about the same.

The CHAIRMAN: Surely you must have some suburban stations out of Toronto with a similar distance?

Mr. GORDON: I have not got the exact figures.

The CHAIRMAN: Take Long Branch, or Mimico.

Mr. BROWNE: Can you not work it out on a rate per mile basis?

Mr. GORDON: For the commutation fare, what we are doing is to proceed under the ceiling which is set by the board. If there is any fare which is cheaper, that is not our fault and we would charge more if we could.

Mr. MACDONNELL: But you are prevented from doing so by the board. You are prevented from doing certain business which you would like to do because they say it is non-compensatory. But on the other hand, you are forced to give this suburban rate on which you lose money.

Mr. GORDON: That is my contention.

Mr. MACDONNELL: You just put it on and the price is forced upon you.

Mr. GORDON: That is my complaint.

Mr. FULTON: My question is not intended to carry an implication, but you referred a moment ago to new business. Why is the suggestion often heard that the railways should be the first to put in lighter equipment for such commuter services? Why would it not cut down your costs?

Mr. GORDON: There are a number of answers. The equipment which is run on a railway has got to be standard so that it will fit into other operations of the railway. Otherwise, it would add to our cost and we would have to have specialized equipment for that section of the operation only. We can occasionally take coaches from a commuter run and use them for weekend or holiday trips, or trips when they are not in ordinary commuter use. So we are more or less forced to have standard equipment in order to make them interchangeable.

Mr. KNIGHT: Do not some of the American cities have a special type of equipment?

Mr. GORDON: There are some cases where the volume is so great that it can be utilized all day.

Mr. KNIGHT: On the other hand our population is not so great?

Mr. GORDON: There have been some comments about the Oakville service. Now if we could take that Oakville service and run it back and forth every 15 minutes during the day, there would be a different story. But in the present case you only get a peak load in the morning and a peak load at night.

In the cases you mention there are peak loads all day. And a comparable position is that of our tunnel at Montreal where we can run trains right down to the center of the city for shopping during the day. It is streetcar traffic which we should not be asked to provide.

Mr. McLURE: Why is the railway so anxious then to put in bus services, if you have this difficulty already with your commuter problem?

Mr. GORDON: "Anxious to put in bus services", where?

Mr. McLURE: Anywhere in Canada.

Mr. GORDON: The place I would like to put in a bus service is Prince Edward Island.

Mr. McLURE: But you will never get a franchise there.

Mr. GORDON: I cannot get them to take a sensible position on it.

Mr. McLURE: I told you a year ago not to bother.

Mr. GORDON: If we could put in a bus service, then we could abandon the rail passenger service. That is what we are offering to Prince Edward Island, that with our dieselization program of freight, we would be able to give them a bus service which would give them a more convenient and more efficient service and at the same time allow us to abandon the passenger trains. Moreover, we have said that if at any time when the roads are blocked, we will undertake to run the passenger trains. But that proposition has been turned down. We are now examining our position to see what we can do next. The legislative committee brought in a finding ruling against us and they will not give us a license. But if you are talking about a bus service on the Toronto-Oakville run, we would probably find that we could not get one in that case because there are existing bus companies in service there and it is up to them to extend their service, not up to us.

The CHAIRMAN: "Express Traffic".

Mr. FULTON: Is there a differential in the passenger rates as between eastern and western Canada?

Mr. GORDON: The passenger rate under the Mountain differential is being considered right now by the board. We used to have the Mountain differential on freight but that was washed out. However, the passenger differential exists still.

Mr. CHURCHILL: A comparison was made earlier with regard to the freight rates between Canada and other countries. Have we any comparison with regard to the cost of passenger travel as compared with other countries?

Mr. GORDON: Trying to figure the costs in passenger travel, is one of the most difficult things I have tackled. It is almost impossible to sort out from the overhead what you should charge against passenger business. But the Interstate Commerce Commission of the United States which is the body equivalent to the Board of Transport Commissioners here have produced a formula which they authorize in figuring out the operations of passenger service for class I railroads of the United States.

Under the operation of that formula the United States railroads show an annual operating loss on passenger service of \$681 million per year. And if we applied that same formula to Canada, which we do not do, we would show a very substantial loss on our passenger business. The analysis would show that on our main line passenger business we are probably making a little money, but on our branch line passenger trains we are probably losing money.

Mr. CHURCHILL: You say that the average revenue per passenger mile is almost 3 cents.

Mr. GORDON: Yes.

Mr. CHURCHILL: To get that figure did you take all passengers, whether they were paying or non-paying?

Mr. GORDON: Revenue passengers, you notice we said "revenue passengers".

Mr. CHURCHILL: And what does that mean?

Mr. GORDON: It means the people who pay us, not the dead-heads.

Mr. CHURCHILL: It says "revenue per passenger mile".

Mr. GORDON: I thought you were talking about revenue per passenger.

Mr. CHURCHILL: It is six lines down.

Mr. GORDON: That is based on revenue only, the revenue per passenger mile.

Mr. CHURCHILL: And you got that by dividing your total number of passengers?

Mr. GORDON: Into the revenue.

Mr. CHURCHILL: But that does not convey the picture of the actual cost per mile of the paying passenger.

Mr. GORDON: I cannot tell you what the cost per passenger mile is, but that is what it costs the paying passenger on the average.

Mr. FULTON: In making an application for rates in passenger fares do you not have to submit to the board that this will make a difference in the rate of so many cents per mile?

Mr. GORDON: That is right.

Mr. FULTON: What is your average for that?

Mr. GORDON: That is it right here, that we were getting a rate of revenue per passenger, on page 39, of 2.57 cents in 1952.

Mr. FULTON: No, not cents.

Mr. GORDON: I mean \$2.57.

Mr. FULTON: Per passenger per mile?

Mr. GORDON: Below that we show the revenue per passenger mile is really 2 cents, or almost 3 cents.

Mr. FULTON: Is that the figure you would use in applying to the board to fix rates for an increase?

Mr. GORDON: To get an increase?

Mr. FULTON: Yes.

Mr. GORDON: That is right, that would be it.

Mr. FULTON: How do you fix your passenger fares? Are you authorized to charge a maximum of so many cents per mile?

Mr. GORDON: That is right.

Mr. FULTON: And if you set a figure for Vancouver to Edmonton, you multiply it by cents per mile?

Mr. GORDON: That is right, and if we apply for an increase in that, we would obtain that increase in cents per mile.

Mr. FULTON: Is that standard across Canada?

Mr. GORDON: Yes, apart from the Mountain differential, that is the standard with the exception of a few minor places where, technically, second class passage is still permitted. But people do not know where they are or have lost track of it and I hope they won't find it.

Mr. KNIGHT: Is your immigration traffic profitable per se?

Mr. GORDON: We think so, from our analysis.

Mr. KNIGHT: I do not know if I make myself clear, but what is the difference in the rate that an immigrant pays as compared with the ordinary coach rate?

Mr. GORDON: There is a cheaper rate for the immigrant.

Mr. KNIGHT: If your every day passenger traffic is not profitable, I would suggest you are losing some money on the immigrants?

Mr. GORDON: No, no, because we handle the immigrant train in a block. We get a full train, and the facilities are fully occupied. Moreover, we do not provide anything like the posh services that we do on some of our main line trains.

Mr. KNIGHT: You mean that the facilities are all being used 100 per cent?

Mr. GORDON: That is right.

Mr. GILLIS: With respect to the Oakville-Toronto commuters' run, that means that the railways are subsidizing that run. You are offering a subsidy there?

Mr. GORDON: I would not apply that word to it, but I cannot refute your conclusion.

Mr. GILLIS: Would that principle not apply more particularly in the form of a little subsidy applied by the railroad for keeping those smaller communities?

Mr. GORDON: It has been recognized in hearings before the Board of Transport Commissioners that to the extent that passenger service is unprofitable it must be borne by the freight shippers of the country. That is the only place it can come from.

This specific commutation fare is a point of grievance with the railway. Perhaps I am being unfair with the board, because there is another side to the case but I would like somebody else to present that side. I am saying from a biased or prejudiced point of view, that we do not think it is fair. But the Board of Transport Commissioners could bring out quite a number of considerations which they think are valid, and insist that we should continue that service. The Board would say that communities have been built on the assumption that railway services would be provided. So I must emphasize the fact that I am giving you a biased point of view.

Mr. GILLIS: Perhaps they could order you to buy fuel from some of the small coal operators which operate in Nova Scotia.

Mr. GORDON: No. They have no power of which I know to do that. I do not think there is any power existing in Canada so far as I know which would permit them in law to instruct the Canadian National Railways to buy anything at other than competitive prices. I know of no such law and I know of no such authority. And if such authority did exist, I would doubt very much if it would be exercised.

Mr. GILLIS: But you have an order to maintain this service below cost.

Mr. GORDON: This is in the law. The Board of Transport Commissioners has the power to do that, and there is an Act in respect to it, the Railway Act, which deals with it. But the Railway Act or any other Act so far as I know gives no authority to force the Canadian National or to the Canadian Pacific to buy a machine or to buy coal at such and such a price. No such authority exists, but it could be brought into existence and it could be done through an Act of the House of Commons.

Mr. GILLIS: We will see that such an Act is passed.

Mr. GORDON: Do you want to bet?

The CHAIRMAN: "Express Traffic".

Mr. MUTCH: Before you go on to Express Traffic—

Mr. CHURCHILL: I have one more question on passengers.

Mr. MUTCH: Mr. Chairman, I have the floor, I hope. Is this the place to discuss passenger traffic? If so, let us get back to dining car service as I want to say something about it.

The CHAIRMAN: I do not know of any more appropriate place, so go ahead.

Mr. MUTCH: Mr. Chairman, I hope that Mr. Churchill will not think that I was intentionally rude.

Mr. CHURCHILL: It sounded that way to me.

Mr. MUTCH: I had been trying for some time to catch your eye, Mr. Chairman. And I thought from Mr. Churchill's expression that he might think I was rude.

At the last session, Mr. Gordon, you spoke about pricing yourself out of business. I noticed in November of last year that you made the comment that the dining car service were losing roughly at the rate of 2½ million. Now, I had occasion—I have not checked it against the figures—but I had occasion

to use the services yesterday and I brought with me a couple of menus, and about them I want to make one or two observations. The first one is this: I think that even the Liquor Commissions of the various provinces are pikers compared with the dining car service today because, when you charge for water, and when you get on your menus such things as a cup of tea, or a cup of coffee, or a cup of soup at 30 cents—I walked through a long train and I made a fairly close check of the number of people who used the services of the dining car.

I am well aware that on the short runs there are other and various services. But it seems to me that on the transcontinental lines, not only on your railroad but other railroads, where the passenger is completely at the mercy of the dining car, he is being taken for an increasingly rough ride. I do not think perhaps I am wrong when I say that the number of passengers was substantially reduced as compared with the number when I travelled last time, but the number who were using the services was substantially less. I read under the heading of

Dinner Special \$1.85
 Corned Beef Hash
 Boiled Potatoes—Green Beans
 Ice Cream With Wafers
 Coffee

for \$1.85, and I noticed that there was no soup and no bread and butter, and that on a reasonably accurate estimate about 20 cents worth of beef got into the corn beef hash. I am surprised that it was there.

Now, I am not an authority on catering or anything of that description, but I am an authority on hunger and on eats, and there were shocking remarks made by people on the train, No. 2, yesterday, which indicated to me that if the losses are anything of the nature indicated, that perhaps more contributions of similar amounts might make the travelling public much better intentioned toward the system, as well as much more comfortable. I will give you another of what I thought was an exceedingly interesting example: A head lettuce salad—it is on the à la carte side, but I noticed most people were eating on the à la carte side. A head lettuce salad at 90 cents, so I got one to see its size and proportion, and I find that it divided out, depending on the size of the head of lettuce, five or six persons per head of lettuce. The cost per head of lettuce to begin with was 15 cents and there was about seven cents worth of dressing. It looked like a return of \$5.23 on an investment of 22 cents, if anybody ate five of those particular salads. I am not going to go through the \$2.70 creamed chicken dinner with about 20 cents worth of chicken in it, by count, or a \$3.00 lamb chop dinner, that I would not have to take my teeth out to eat in four bites. It is on behalf of a lot of people, and not the least on my own, that I make the protest with respect to increasing prices, particularly on the transcontinental run, and to say that it is one thing to admit to the public in this interesting little document, and then to suggest that those of us who have a salary like the persistent or an expense account like mine are paying really for service that is in there rather than for the food. It has become a matter of very bad publicity. I know a lot of people who work on your dining cars who once in a while stick their head out of the dining car windows at a station stop and call me by my first name. I do not think your own employees are quite happy about the situation. I do not know how they feel when they take their own pay cheques, but I know they feel a little guilty when they hand me my bill, and it occurred to me this was not a bad place to mention the subject. It is a matter of general discussion. I know something of the nature of the president and I wonder if it might not be possible for us to have, first of all, some

better service in the interest of the road itself, and some explanation of it other than the fact that we are losing a certain amount of money and we are lucky to get anything at all.

Mr. GORDON: It seems to me, Mr. Mutch, you have pretty well answered your own questions because you pointed out the fact we are losing substantially on our service. We just get back again to Mr. Gillis' subject that we are pricing ourselves out of the market, that is all. We may some day have to face up to the decision that we will take dining cars off altogether. That may be the ultimate. I have before me here a statement. You will observe in the statement which you mention, it shows the size of the losses that we are incurring in this dining car business. We went to work on that two years ago and we went after every item of expense that we could control. We substituted on items that may not be visible to the public. We are told by our opponents in freight rate cases that we are not economizing at all, that all we have to do is to cut out our services, and as soon as we do that they complain about the service, so we cannot win. But, in any event, as a result of the most searching inquiry into things we could economize on in running this service, we cut our costs in 1952 by \$802,000 a year, and I began to feel we really had done something for the dining car service. Then on September 1, 1952 we had to pay out \$700,000 additional wages. It is just as simple as that. At the present time, in 1952, our average loss per meal is 55 cents, for every meal we serve, so in the cost of the meal you order at \$3.50 you have the satisfaction of knowing that it costs us \$4.05 to provide it to you. Now, if you think we should provide that meal for \$2.00, and that we bear the other part of the cost amounting to \$2.05 a meal, I cannot dispute your reaching that decision, but I am certainly going to do everything I can to reduce the amount of subsidy that we are providing to dining car passengers.

Mr. MUTCH: I do not suggest any prices that you should charge, but I do suggest to you that you won't have to pay the crew any more to feed 128 people a meal, at any given meal on a day on the transcontinental line, than you have to pay that same crew to feed 25 or 30 people, and my point is this, that the travelling public even when they are stuck—

Mr. GORDON: I am sorry if I misunderstood you. That is a question which is actively under experiment now. We are going to attempt to produce a package dinner. That has all been under experiment in the last two years, but now we have started looking to see what we can do. If it is not in effect already, it is in the process of going into effect, where we propose to try out a package dinner or meal that will, we hope, attract a volume market, to see if we can encourage coach passengers to come back into the dining car and have their meals. There is a very divided opinion as to whether or not that experiment will be successful. I am rather doubtful, but I am willing to try it.

Mr. MUTCH: Seeing that you are making an experiment, I will be happy to be part of the experiment.

Mr. FULTON: What about these pre-prepared meals that are served in the airliners?

Mr. GORDON: My report here says there is no potential economy which enters into the subject under this heading. The findings from our preliminary survey of possibilities in this field based upon experiments in the U.S.A. will be used as a base for further study. It is indicated that considerable capital investment will be necessary if this type of food service is to be adopted, but all of this is being developed. Where the aeroplanes get their advantage is that they have a terrific amount of electric energy that will allow them to keep the meals hot. Moreover, if I could get railway passengers to accept the type of meal they get on board plane, I think we would have answered Mr. Mutch's question.

Mr. MACDONNELL: I was going to ask that question, are we really being given a too high quality of service. I think of beautiful cleanliness, constant renewal of table cloths. Once I was in a dining car where there was a counter. It was not a perfectly appointed table, I admit, but being Scotch I was prepared to put up with it and get a reduction.

Mr. GORDON: The trouble is, Mr. Macdonnell, that all people in Canada are not Scotch!

Mr. KNIGHT: Well, let us go to Scotland for a moment.

Mr. GORDON: Here is the sort of thing we have been looking at, and under the very headings you mentioned. These are the factors of economy that we have been searching: food costs, plastic headrests, standard of equipment in dining cars, plastic table covers, pre-cooked frozen food, and so on. All these things are under experiment or examination now with an idea of reducing the costs.

Mr. MACDONNELL: Do you call that a dinette car, the one with the long counter in it?

Mr. GORDON: That is a lunch counter car.

Mr. MACDONNELL: What is the result of that from an operating point of view? Is that an economy?

Mr. GORDON: We still have to have the result of the experiment. We think it is, but to get the dinette in the first place you have to take an existing car in and spend maybe \$50,000 to \$60,000, or maybe \$75,000 to \$80,000; that is your first risk capital. Then you have to determine if the public likes it or not. It is fair to say that we hear from 50 per cent of the people who do not like it, and 10 per cent of those who do. Any change of this kind is resented; any reduction in the quality of service is resented. We built up in Canada, and in the United States, a hotel service on wheels which is far too luxurious. I want you to understand this, that I am not a one-man show in the railway. I do not try to be. I have had meeting after meeting with our traffic people and operating people about dining cars. I get the most violent disagreements from traffic men, who say, "Mr. Gordon, please do not degrade the standard of dining car service, it will hurt us, because people judge our service on what they see in the dining cars, and the passenger coaches". You cannot get me to believe, though, that there are people who send us their freight because they get a table napkin on a dining car. But there are the extremes.

Mr. McLURE: Or a silver teapot with the service?

Mr. GORDON: There are no silver teapots now. There may have been in 1930, but it is all stainless steel now. We have really done a job that we can be proud of in respect of cutting out these luxuries.

Mr. KNIGHT: We were going to Scotland a minute ago, at least I was going to suggest we might go. I do not want to take Mr. Mutch's position. I was doubtful about some of the things he said, but I think it is true, and generally admitted, that dining cars service on the railroads is a luxury service. When we talk about the Scotch, I was thinking of the old railway line coming down from Edinburgh to London. There is this about it, that everybody on the train east. I admit the service is not as good, I admit it is crowded. It has got to be crowded before it becomes good business, just like your immigrant trains, I would suggest that the passenger who travels in the coaches has as much need to eat as the man who travels in the drawing room. I would like to see all these people eat. I would like to see a less pretentious service. Table linen costs money. I would like to see, particularly in this country of long distances—and I might say that I know what these long distances mean ever since I was an immigrant boy in 1909. Since then I have been crossing this country many times, and it has always been my view that people travelling on

the train are embarrassed simply because they cannot get a bite to eat at what it is worth. There is a scramble with people asking information about, "Are we going to stop for 10 minutes", "Have we time to run up to the store for a dozen of oranges", and questions like that. I do not think that is the way it should be on this railroad that belongs to the people of this country. I am not critical of the Canadian National Railways. I am anxious to improve their services. I believe that is one way in which service to the people of this country could be improved, and I am glad that Mr. Mutch raised that point, although I do not agree with everything that he said.

Mr. GORDON: I want to say this, that I am very grateful for the opinions I have heard here because they support my general position. Rome was not built in a day, and dining cars cannot be degraded in a night. That takes time. There is the balance of managerial judgment as to how far that can go. It is actively under way now, and since this committee is here for the purpose of telling me what the representative opinion is across the country, I am delighted to have your opinion that the public would take that kind of degrading of service. I have had contrary opinions I can assure you.

Mr. FULTON: Would it not always be a fact that the railway company would serve meals cheaper at a counter than on the train no matter how much you economize on your service on the train.

Mr. GORDON: Generally speaking I would say yes, but then again there are difficulties in a country like Canada in that there are many places where it could not be done due to inconvenient hours and the fact that we are rushing like the devil to keep on schedule. We cannot afford the 15 or 20 minutes necessary to allow passengers to get off. Another problem is that even with our restaurant service we cannot get people to tender any more. At different stations we have asked private enterprise to bid and we are prepared to give them space and we cannot get them to bid.

Mr. MACDONNELL: Are most station restaurants run by the railway?

Mr. GORDON: Some are, but not most. We are having the greatest trouble trying to get people to take them.

Mr. MUTCH: It is manifestly impossible for a woman with a small child to get off the train when it is 30 below zero and try to get a meal at a luncheon counter.

Mr. GORDON: We are doing all we can to get the volume market. We are prepared to spend money to re-equip kitchens and form dinettes to get that traffic. We might find it is a bad gamble but we are going to make the attempt.

Mr. MACDONNELL: You had better find some humble members of parliament to sit with your officials.

Mr. GORDON: If you can find any I will be glad to have them. Perhaps that should not be on the record.

The CHAIRMAN: I think it is a natural. I think it should go on the record.

Mr. CHURCHILL: Concerning the safety of passengers, I was wondering if there were figures available to indicate the accidents suffered by passengers while travelling in trains on a comparative basis from year to year and how that standard of safety of Canadian National compares with other companies.

Mr. GORDON: That is a painful subject. It is not something I can express firm views on because conditions vary so greatly, and the element of luck—good luck or bad luck—plays such a part that it is difficult to form judgment. By and large however I am not too happy about the accident record of the Canadian National Railways, and we have been doing everything we can in that respect to tighten up regulations and so forth, but the fact remains that they are just simply an inevitable part of the day's business. I do not think

our record by and large is worse than that of any other railway, but that is poor satisfaction. At any given point it may be better or worse because, as I say, the element of luck seems to play a part.

Mr. CHURCHILL: Is there a constant study going on as to the cause of accidents and the records.

Mr. GORDON: Yes, every accident is thoroughly investigated and reported right through every supervisory level to my own desk. There is no sort of accident on which I have not a personal report through the vice-president of operations, and Mr. Dingle and I are constantly in consultation as to what lessons are to be learned from each individual accident, and we put into operation every precaution that we can think of but the accidents do happen.

Mr. BROWNE: Is there any outside inquiry on these accidents?

Mr. GORDON: The Board of Transport Commissioners of course always has an over-riding right to investigate any accident and does so.

Mr. BROWNE: They do?

Mr. GORDON: Yes. They hold inquiries from time to time. They held one inquiry two years ago.

Mr. BROWNE: Where was that?

Mr. GORDON: In British Columbia. You probably remember the accident we had there.

Mr. McLURE: Does it bring up the subject of level crossings.

Mr. FULTON: May I follow up a question in regard to page 25 an item on operating expenses about seventh from the bottom. It is \$958,000 on injuries to persons. Is that compensation to persons travelling on or injured by the railway or does it include compensation to employees injured in the whole system?

Mr. GORDON: That particular figure covers only our own employees.

Mr. FULTON: You would not have compensation to passengers or passengers injured?

Mr. GORDON: They are in general accounts. Under casualty account, the total injuries to persons paid in 1952 amounted to a total of \$3,675,000.

Mr. FULTON: Of which, according to page 25, \$958,000 was employees leaving \$3 million available to others.

Mr. GORDON: Yes, but remember that compensation to employees covers the cost of setting up Workmen's Compensation claims and things of that kind.

Mr. FULTON: How does the figure, in this year, of \$3 million compare with last year?

Mr. GORDON: Last year it was \$3,015,000 and this year it is \$3,675,000.

Mr. BROWNE: Reverting to the dining room, what was the number of meals served, the average price and so on.

Mr. GORDON: In 1952 we served 2,009,644 meals, and the average revenue per meal was \$1.54. The average expense per meal was \$2.09 and the average loss was 55 cents. I am dealing in averages.

Mr. MACDONNELL: Can you give a breakdown of the figure of \$2.09.

Mr. GORDON: In what?

Mr. MACDONNELL: In cost per meal. How much of it is food?

Mr. DINGLE: The cost for food was 58.6 cents, for laundry 8.2 cents, wages 114.1 cents, supervision and other items of expense 28.1 cents making a total of 209.0 cents.

Mr. KNIGHT: And no share in the operation of the train itself is charged against that?

Mr. GORDON: No, it is bare cost of dining car service—staff, wages, napkins or whatever services there are of cutlery, but the depreciation on equipment is not carried.

The CHAIRMAN: Nor the cost of hauling equipment?

Mr. GORDON: No, just the actual cost of providing the service.

The CHAIRMAN: Then the loss is actually greater?

Mr. GORDON: Of course.

Mr. McLURE: That figure you gave us of \$3 million compensation for accidents does not take in compensation and the cost of level crossing accidents that we are having so many of.

Mr. GORDON: That would cover any persons injured on the railway including employees.

Mr. MACDONNELL: You pointed out that the figure of 209 cents is not the total cost of the meal?

Mr. GORDON: It is the out of pocket cost.

Mr. MACDONNELL: Leaving these other things out do you think it is worth the work necessary.

Mr. GORDON: We know it is bad enough now without building it up further. If we were to advance a cause for eliminating the dining car service I would take in these other factors.

Mr. MACDONNELL: It is the bare fixed price of the meals.

Mr. GORDON: Yes.

The CHAIRMAN: Express traffic.

Mr. BROWNE: May I ask Mr. Gordon if the same increases apply to express traffic as did to freight.

Mr. GORDON: No, not in the same ratio.

Mr. BROWNE: How much would you say was increase in the cost of express traffic since 1948?

Mr. GORDON: My difficulty is there is no overall percentage of increase in express. It is obtained by going over individual items, but our actual dollar increase we can give you.

Mr. BROWNE: But the same arguments apply that the cost of material and the cost of wages have gone up.

Mr. GORDON: Yes, that is right.

Mr. BROWNE: We know what these are, but we do not know the express.

Mr. GORDON: We say we have an increase in express rates by going over the individual classes of commodities and increasing them where we can because we are in competition with mail and other types of carriers.

Mr. BROWNE: The same thing applies to freight. Can you estimate—you say a 98 per cent increase since 1948. This is a nominal increase. What is the increase in the express?

Mr. GORDON: I will have to get that for you.

Mr. BROWNE: How did the express traffic turn out. Did it improve since last year?

Mr. GORDON: Express traffic last year has improved as shown in my report, page 9.

The CHAIRMAN: Page 9—6 per cent.

Mr. BROWNE: I mean the outturn as far as money—dollars and cents are concerned.

Mr. GORDON: Turn to the statistical page, page 25. I think you will find the express results there. Express department shows that revenue has increased from \$30,670,031 to \$35,820,000, that is from 1951 to 1952.

Mr. BROWNE: And your costs.

Mr. GORDON: You will find the item on page 27.

Mr. BROWNE: Express department operation \$3 million. Would that be the figure?

Mr. GORDON: Two or three things have to be added together. There is the figure I gave of \$35,820,000 operating revenues and operating expenses are \$23,888,000 and the net revenue is \$11,932,000.

Mr. BROWNE: That is the profitable part.

Mr. GORDON: That does not include operating costs that we charge against the express for privileges that we give the express department so to speak.

Mr. MACDONNELL: For example?

Mr. GORDON: Well, hauling express cars.

Mr. BROWNE: You do not charge for that?

Mr. GORDON: We do as separate agents, but I am taking the figures I gave you on the money we take in, less what their direct operating expenses show and there is an operating profit of \$11,932,000 and against that we charge the express for haulage and handling business. The accounting method is to take the net revenue into the railway income statement. I have a figure here which shows whether or not our estimate of that service to the express department is profitable or not.

Mr. BROWNE: Can you tell me how much of that increase in revenue is made up by increased rates allowed by the Board of Transport Commissioners?

Mr. GRACEY: The increase was \$2,305,000.

Mr. GORDON: Increased rates.

Mr. MACDONNELL: And the rest was increased business?

Mr. GORDON: Yes.

Mr. MACDONNELL: If you go to the Transport Board to discuss your express rates do you not have to give them a complete picture of your costs before you discuss that with them? Do you not have to deal with your application for express rates on a true and complete picture of your business?

Mr. GORDON: Yes, and in the express department a great many of the rates were established under the ceiling and we had some room to move. At the last application for a freight rate increase we said we will deal first of all with freight rates and then look over our express department and communication department and see how increased costs have affected them and then come back and show how much we have not recovered of the wage increase.

Mr. MACDONNELL: I can see you cannot rationalize on a figure of every tiny operation, but here is an operation which is separable, I take it, the costs of which are ascertainable. Do you think it is sound not to have that separated so that you will know exactly what it is?

Mr. GORDON: I can get it for you. I do not have it before me now. I can get it for you tonight. To arrive at it really means we have to take a lot arbitrary judgments.

Mr. MACDONNELL: I would like to ask you that question again. Why we deal with so important a branch of the service without actually knowing what they are doing?

Mr. GORDON: I can tell you this: In analyzing the express department as we do from time to time we are of the opinion it is a profitable operation.

Mr. MACDONNELL: When the transport board considers this, do they not insist on knowing the actual condition of the express business?

Mr. GORDON: It depends on the situation. Here we had a specific situation; the board had to deal with where our wage cost had gone up by "X" dollars. They knew our over-all revenue could not afford that amount of increase and we said to the board: we are asking you to look at the freight rate increases that we think we can get by with. Whether that will cover enough of our cost to enable us to carry on, we do not know. We tell you now we are not yet in a position to say how much of that wage increase which is applicable to the express department or communications department can be covered out of increased rates; so, we will come back later and tell you how much we can recover by increasing express rates.

Mr. MACDONNELL: Your suggestion, as I understand it, is there are certain tentative figures which are not worked out and you are in difficulty in regard to the express department?

Mr. GORDON: Yes.

Mr. MACDONNELL: Would you be able next year to give us that?

Mr. GORDON: Yes. I can bring a statement which will answer your question.

Mr. MACDONNELL: If the difficulty is by reason of your being in a sort of transition period then I do not think I should ask you.

Mr. GORDON: I do not know how many of our rates will stick.

The CHAIRMAN: Do I understand your express business is highly competitive and the fact that you have not exacted the rates you should be allowed to charge would indicate that?

Mr. GORDON: It is highly competitive and even with increased rates we cannot be sure we can keep the business. So I do not know whether any changes we make will cover the complete costs.

The CHAIRMAN: Communications traffic.

Mr. BROWNE: What is the communications department?

Mr. GORDON: Telegraph and telephone.

Mr. BROWNE: You have cables on that?

Mr. GORDON: Yes. Private wires and things of that kind.

Mr. BROWNE: You charge tolls?

Mr. GORDON: Yes. Telegraph, private wire service; we also have to have telephone lines to operate the railway and we lease such for radio broadcasts and things of that kind.

The CHAIRMAN: I believe we have already covered operating expenses. It is now 5.30. Should we adjourn until 8.30?

Agreed.

EVENING SESSION

The committee resumed at 8.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Thank you for coming so promptly.

"Employee Compensation".

Carried.

"Prices".

Mr. FULTON: Mr. Gillis is not here, Mr. Chairman, and it is not yet 8.30.

The CHAIRMAN: I offered him the first call just as he was leaving, but he shook his head.

Hon. Mr. CHEVRIER: We have had two sessions already.

The CHAIRMAN: "Prices".

Carried.

"Taxes, rents, and other income accounts".

Carried.

"Hotel operations".

Mr. KNIGHT: Are you not a little ahead of time, Mr. Chairman?

The CHAIRMAN: We are right on the dot.

Mr. KNIGHT: You have carried two things before half past. I would like to reserve the right to raise a small matter.

The CHAIRMAN: Under what heading, and we shall revert to it immediately?

Mr. KNIGHT: "Employee remuneration".

The CHAIRMAN: All right, "Employee compensation", that is what we call it.

Mr. KNIGHT: Perhaps I should apologize for coming in at this particular moment. But the matter I wanted to bring up was a matter which Mr. Coldwell asked me to raise as a result of correspondence he had from a person. I do not know if I should mention that person's name, or that he would have any objection. He says that one of the handicaps that the Railway Brotherhood have is in regard to the actual wage structure of the Canadian railways, and that while wage rates are known, it is not known how many employees receive a certain wage. Consequently he says it is impossible to discuss intelligently any figures in that regard. The Dominion Bureau of Statistics figures show the average earnings of only the average number of employees. Consequently no correct deductions with regard to the trend of actual wages can be made from the figures. Now there may be a point raised that this is a matter of internal management, and that these figures are not usually disclosed. But the correspondent points out that Mr. Justice Kellock in his findings published the wage figures before March 1, 1948 until August 31, broken down according to certain categories. The problem that this man would like to solve—I think he is a research consultant—is how many railway employees receive a particular wage or salary. He suggests that Mr. Coldwell should address a question to Mr. Gordon upon this occasion, in view of the fact that Mr. Justice Kellock published the various wage and salary categories of the Canadian National non-operating employees in the period which I have mentioned in his article. It may be, Mr. Chairman, that it is difficult for you to hear me in the matter of maintenance of railway operations. And on December 18, 1950, it is requested that this table be brought back to 1939 as well as brought up to date, indicating the number of employees in each of these classifications. That is the matter that was handed to me by Mr. Coldwell who is not a member of the committee.

The CHAIRMAN: Do you think it is the duty of this committee to supply information to some expert or to some chap who is carrying on a private business of his own?

Mr. KNIGHT: I am not interested in a man carrying on a private business. I am interested in what I consider to be a matter of public interest, and of interest to employees.

The CHAIRMAN: Perhaps I did not understand your explanation correctly, but I thought you said that this gentleman is an analyst of some sort, and that he was complaining that he could not get some statistical information which he wanted for his own use.

Mr. KNIGHT: No, no. I simply disclosed the source from which this suggestion came that this information might be obtained. I did not have to do it. There was no necessity for me to do it. I can ask a question on my own hook as a Member of Parliament and as a member of this committee. I have not disclosed, as a matter of fact, the source from which the question came.

Mr. GORDON: Mr. Chairman?

The CHAIRMAN: I rather think that I would prefer to reserve expressing an opinion on that point. I would ask the members of the committee to think it over and at the next sitting we will deal with it. But so far as I am concerned, personally, I have always understood that the reason parliament elected to have corporate management of this tremendous institution rather than management by a department of government—and the decision was made quite advisedly—was the intention that the directors would administer the road for the Canadian people.

Mr. KNIGHT: Yes.

The CHAIRMAN: And that they would have the sole responsibility for administration. However, I am not making a ruling on that now. I would rather just reserve that point.

Mr. KNIGHT: What is your objection to it?

The CHAIRMAN: I might ask with equal force: Why is the question asked?

Mr. MUTCH: It would be an interesting answer.

The CHAIRMAN: Let us think it over anyway, Mr. Knight. I have usually found this committee to be pretty reasonable.

Mr. KNIGHT: Of course, it is within the function of the committee to refuse such information.

The CHAIRMAN: Are there any other questions on "Employee Compensation"? Mr. Gillis?

Mr. GILLIS: No. This is only a history of negotiations and settlement.

The CHAIRMAN: We now come to "Hotel operations"?

Mr. FULTON: On page 12 you make reference to what appears to be a new system of accounting which you are contemplating bringing in in the hotel department. You refer, in paragraph 38, to the prospect of using straight line depreciation, and you say:

Whether or not depreciation accounting should be introduced will be determined as part of a policy review of those accounting procedures which are most likely to give a realistic picture of operating results.

Do you consider a rate of 2 per cent adequate? Is that not a very low figure for annual depreciation?

Mr. GORDON: I do not think so, if you look at the record. Consider the case of the Chateau Laurier. It was built in 1912 but it still is a pretty good hotel.

Mr. FULTON: There is no question about that. But how do you propose this? Would not depreciation be normally considered higher than that?

Mr. GORDON: I think that the important thing when you discuss rates of depreciation on a straight line basis is that you reveal what rate you take, and then anybody who is critical may examine it. We have set a rate and it is quite severe. The whole question of depreciation is a troublesome one. It has been brought out in the report of the Royal Commission that the whole

question of depreciation accounting should be examined. It is now under very close study by the officers of the Board of Transport Commissioners who will in due course be having an inquiry into it.

There are several methods of depreciation all of which are equally recognized by the accounting profession. There is retirement accounting which contemplates charging the asset off to operating expenses in the year that it is taken out of service. There is quite a lot to be said for that because on the average in any large property such as ours, the annual charge will tend to even out. Then there is the matter of straight line depreciation. There is also what we call user depreciation, which the Canadian Pacific Railway uses in particular. It attempts to recognize the actual use of the particular piece of equipment or capital asset. The assets are used or punished by so much during the year, and the accountants try to estimate the life which has been taken out of them, and have a formula for setting it up. That is three. Then there is the sinking fund method of depreciation.

The accounting profession world-wide is troubled with the academic question and also the practical matter of how to handle depreciation in a period of rapidly rising prices. If you take the normal method of depreciation you may reach a situation where at the end of the depreciation period you may be fully depreciated, but if you have to replace that asset, you may have to pay twice the amount of money in order to replace it. So as I say the accounting profession itself is divided in its views on these matters—but from the discussions which I have had, and from the reading which I have done on the subject, I know there is a good deal of thought being given to it.

Since there are such widely different opinions I have employed the services of an outstanding expert to consider the whole question from the standpoint of the Canadian National Railways, and on the basis of his discussions and his report to us, we, in turn, will make our submission to the Board of Transport Commissioners during their inquiry, and we hope to make a contribution to the thinking on the subject. It is a question of how to deal with depreciation in a period of inflation. It is an awkward and a difficult one. It looks simple. It looks as if you should just increase it. But the fact of the matter is that you cannot, from one point of view, recognize in depreciation techniques the decline in the value of money. There is no depreciation or accounting method which recognizes that difficulty.

Mr. FULTON: I assume from the reference you make to the revision of your corporate structure that you will also be studying it. Possibly one of the ten companies you refer to would very likely be a company which could take over and hold the hotel system?

Mr. GORDON: I suppose so, but we have had a great deal of difficulty in connection with that. Our hotels have quite an interesting history. They came into the system with all sorts of differing types of ownership and rights and we have had quite a lot of trouble sorting them out. But we have made excellent progress and next year we should be in a position to say more about it.

Mr. FULTON: The question of depreciation is becoming important. It would be reflecting not only the real position, but since you are now subject to pay income tax, it would assume added importance.

Mr. GORDON: Quite so.

Mr. FULTON: Am I right in saying that an hotel, just as a public building, takes a good deal of punishment in the course of a year?

Mr. GORDON: That is right, and that again raises the whole question of the accounting system. Our policy in connection with our property, hotels in particular, has been to have a current maintenance policy. We put back and charge to operating expenses currently as far as we can do so the actual current

wear and tear, especially of hotels. We have put this comment in the report deliberately to indicate that I have come to the conclusion that we should not try to settle in isolation the question of depreciation in hotels and that there is a much broader question affecting the whole of the railway property. The hotel depreciation question is relatively unimportant when compared with the basic question as to what is the appropriate method of depreciation.

Mr. FULTON: One last question on that point. I am not sufficiently expert in accounting methods to comment on the reserves for depreciation which you have set aside in your accounts, and whether it takes into account the amount which you must have for depreciation as against income for tax purposes.

Mr. GRACEY: We would not attempt to adopt any rate unless it was satisfactory to the Income Tax Department, and which would be related to the depreciated value of the structure.

In practice what we would do would be to clear any method that we wished to adopt with the Income Tax Department first.

Mr. FULTON: You might be accumulating a depreciation reserve at one rate?

Mr. GORDON: And that brings up another point which is not dealt with because we are not ready to deal with it, since we have not thought it through. Take the dieselization program. In that program we have started off to dieselize in places where we can see that we can pay off the capital investment out of savings in a period of not less than 10 years.

In many cases it might be paid off in less, but if we did not get depreciation by reserves set up out of those savings, the effect of our dieselization program will be passed on through those savings to the consumer, and we would be left with a capital investment and nothing to get for it. So we must have some means of recovering our capital investment over some period of time which will be recognized by the proper authorities.

I believe there is one railroad in the United States which has a program which has been approved by the Income Tax authorities over a period of 15 years. In our program we are taking 10 years at the moment, but I think the question of reserves and how much we should charge into our current operations for capital investment is highly important, particularly having in mind that we have a trend of obsolescence ahead of us in the possible development of the gas turbine.

Mr. McLURE: What is the net operating income from the different hotels? We have got the bulk there in paragraph 35.

Mr. GRACEY: Yes, I can give that to you.

Mr. GORDON: Do you want it by each hotel?

Mr. McLURE: If you please.

Mr. GORDON: The Chateau Laurier—these are black in figures unless I mention otherwise—\$423,000. The Fort Garry, \$101,000. The MacDonald shows a red ink figure of \$168,000. The Bessborough, a black figure of \$91,000. The Nova Scotian, \$91,000. The Charlottetown, \$14,000. The Prince Arthur, \$37,000. The Newfoundland, a deficit of \$1,000. Jasper Lodge, a deficit of \$91,000. Minaki Lodge shows a surplus of \$35,000. Pictou Lodge shows a surplus of \$4,000, making a net of \$536,000.

In connection with the Macdonald hotel, there is a deficit which is brought about by reason of the fact that we made a retirement charge in connection with alterations now going on. This charge to operating expense in 1952 amounted to \$348,000. I should also point out that none of these figures which I have given makes any allowance for interest and depreciation, as I have pointed out in the report.

Mr. MACDONNELL: One question on retirement accounting, No. 37, where it says:

Retirement accounting, in which the book values of assets are charged out to operating expense at the time the assets are taken out of service, is the procedure followed in respect of the Canadian National Hotel Department.

Is that statement made without any limitation? Consider the Chateau Laurier. When the time comes for the Chateau Laurier's abandonment, will the whole cost of it come out of depreciation?

Mr. GORDON: That is the system at the present time, yes sir.

The CHAIRMAN: Are there any further questions on hotel operations?

Mr. BROWNE: I have one question about the Newfoundland hotel. Was there any capital cost charged in making up that estimate, or was that just the difference between income and expenditure?

Mr. GORDON: It was purely an operating figure. There was no capital cost charged up in that, at all.

Mr. MACDONNELL: Before we leave "Hotel Operations", there is a matter I wish to bring up and one which was brought up in the House of Commons where I was advised that I should bring it up here. I would like to read what the Right Hon. Mr. Howe said in the House of Commons. He was quite emphatic about it and these were his words at page 784:

If my hon. friend wants to know why this man was transferred, he has the privilege of talking up his complaint in committee on railways and shipping, and if he does not follow up in the committee I will be there to remind him to do so. It is his duty to find out. He can demand the facts; he can demand the files on the man; he can demand the operating records of the hotel. He can go to the bottom of this matter, and certainly it is his duty to this parliament to do so.

The Minister of Transport also, although not in quite such emphatic tones, suggested to me that this was the proper place for me to come. On December 15, at page 657 of *Hansard*—I do not know if it is necessary for me to read it.

Hon. Mr. CHEVRIER: I wish you would read all the statement which I made in the House of Commons in answer to my friend from Kamloops, if you are going to put it on the record.

Mr. MACDONNELL: I am reading what you said to me and you can go on from there. This was on December 15, 1952, at page 657 where the minister said:

(Mr. Chevrier) So that my friend has his answer there, and I ask him to accept that answer. Now, then, if he does not accept the answer let me make a suggestion to him, and it is this. There is a committee appointed by this house to deal with the affairs of the Canadian National Railways. He is a member of that committee or at least he was a member during the last session of parliament. He may appear before the committee and inquire himself from the officers of the Canadian National Railways what the facts are surrounding this case, and that is really the place where he should get his information, not in this house. It is the policy of this house, established by this house and followed by governments of the faith to which my hon. friend belongs, for many, many years, namely that in matters concerning the internal management of the Canadian National Railways, there should be no interference. If there is any question that comes up, it can be asked or dealt with in the committee on railways and shipping.

Hon. Mr. CHEVRIER: I certainly would not want to withdraw anything from that statement.

Mr. MACDONNELL: I remember the statement the minister refers to, but I am sorry I have not got it here with me, in which he made something like this statement, but then, I think, added some words to indicate it would be in the ordinary course of the policy that is followed in regard to these matters in committee.

Hon. Mr. CHEVRIER: My statement was this, that the matter was one for the committee to determine.

Mr. MACDONNELL: Perhaps I can say what I have to say and then the committee can determine. I do not need to tell you, Mr. Chairman, I do not find this the easiest task in the world, but it is my duty to bring the matter before the committee. When I first raised this question in the House of Commons, I said I was bringing it up not merely because of the injustice to a faithful servant of the railway but because I believe that this gross injustice was the result of political interference and pressure.

I wish to make it clear that the beginning of this business so far as I am concerned was the reports carried in the *Winnipeg Tribune* which made it clear that it was a spokesman for the Fort Garry Hotel employees who labelled Mr. Pitt's move to Brandon an "unjust" move.

My information is that Mr. Pitt was widely respected and liked among his fellow employees in the Canadian National service, and that there is a widespread resentment among his fellow employees at the treatment which he has received.

Apart from other reasons for believing that there was political interference—and I have much more reason to believe it now than when I spoke last December — the story of the events and correspondence which I shall read in my opinion makes it impossible to conclude that an administrator of the quality of Mr. Gordon could suddenly of his own motion have treated in this way a man with many years service in the railway, a man widely respected in Saskatoon and in Winnipeg, a man who on Mr. Gordon's own statement, as I shall show, was brought from the Bessborough to the Fort Garry on the basis of successful performance at the Bessborough and who on the witness of competent people substantially improved the position of affairs in the Fort Garry during the time that he was there.

The CHAIRMAN: Are you quoting from the *Winnipeg Tribune*?

Mr. MACDONNELL: I am not quoting now. I am making my own statement.

Mr. JAMES: He is quoting from Macdonnell!

Mr. MACDONNELL: The minister has said regarding the information refused in the House of Commons on motion of Mr. Diefenbaker, "That information can be asked from the president of the Canadian National Railways and I say this to my honourable friend, he will get at that committee all of the information that it is entitled to get in accordance with the practice that has been followed in this house."

Hon. Mr. CHEVRIER: I still have nothing to retract from that.

Mr. MACDONNELL: I am not asking the minister to retract.

Hon. Mr. CHEVRIER: No, but you look at me as if I had done something that I should not have done. I wish you wouldn't do that.

Mr. MACDONNELL: That is quite unintentional.

Mr. POULIOT: Mr. Macdonnell cannot pay Mr. Chevrier any better compliment than to quote him.

Mr. MACDONNELL: I think it is the most important speech I ever made because it concerns the welfare of another man, and I promise never to read again.

Mr. POULIOT: I do not want to be misunderstood. What I said was that I do not think you could ever pay a greater tribute to Mr. Chevrier than to read his speeches.

Mr. MACDONNELL: Oh, Mr. Pouliot, it is only a Frenchman who could utter a compliment like that!

I want to make a relation of the events in this matter.

Last September, when the Prime Minister went to the Fort Garry Hotel in Winnipeg, and just before the Prime Minister was to arrive, I believe the day before, the hotel had a wire from Mr. Pickersgill asking the reservation of a double room at minimum rate. When Mr. Pickersgill arrived he was told that the hotel could not supply him with a room such as he requested in his telegram, and accordingly was notified that he could occupy one of the rooms which had been reserved for the Prime Minister. The management asked him to be out of the room for nine o'clock in the morning or before the Prime Minister arrived. The next incident was a wire from a Mr. Munro. I understand he is a member of the organization of Cockfield-Brown and was travelling with the Prime Minister as a public relations expert. My information is that the wire was signed "Prime Minister's Party" and it asked reservations for three people — Mr. Munro himself, the Hon. Mr. Mayhew, and a third. When this wire arrived the hotel was not in a position to make the reservations asked for, and accordingly accommodation was found for these three elsewhere. Mr. Pickersgill and Mr. Munro both scolded the management for not having this accommodation.

I now come to the Prime Minister's part of the story. The exact hour of his arrival was not certain, but Mr. Pitt arranged with the elevator operator — the hotel is rather short of elevators, I think it has only two, which is a small number for such a big hotel — to try to have a car in readiness on the Prime Minister's arrival. Mr. Pitt, the manager, stationed himself on the ground floor waiting for the Prime Minister, who arrived with the Hon. Mr. Campbell, the Premier of Manitoba.

As soon as the Prime Minister was in the lobby a lot of young Liberals who had been waiting to see him crowded around and Mr. Pitt, though in readiness, did not force his way through this group of the Prime Minister's supporters. Meanwhile, it was difficult to keep one elevator out of action in waiting and when the informal reception was over and the Prime Minister and his daughter were ready to go to their suite, there were six people in the elevator which took the Prime Minister to his suite. This provoked an outburst on the part of Mr. Pickersgill who told him he did not know how to greet the Prime Minister and, in particular, said "You don't know anything about running a hotel". Actually, Mr. Pitt had taken every precaution, including putting a special mark in the reservation book indicating that the person concerned was a V.I.P.

The next development so far as Mr. Pitt was concerned was that he got a message from the head of the hotel services, Mr. R. Sommerville, and went out to meet him at the airport. His chief told him on the way in that he was "just here to do one job", "an unpleasant job", "to demote you". He then explained that Pitt was to be sent to the C. N. Hotel in Brandon with a reduction in his salary. The reason given was that he didn't know how to greet the Prime Minister, that he didn't take proper care of the Prime Minister and the cabinet minister. He further advised Pitt that he was going to be moved to Brandon. Pitt said "I want a hearing". The answer was, "I am here to carry out instructions".

Pitt said "I am going to write asking for a hearing". The answer was "The president won't see you". Pitt then wrote the president, Donald Gordon, asking for a hearing, but did not hear for 10 days. He then communicated further and got a reply from Mr. Gordon in which he said he would see him. When he saw Mr. Gordon, Mr. Gordon said that he knew all about it, that the decision had been made, and that he backed up his staff. Then he added "Pitt, you have been a good soldier, you be a good soldier now". Pitt complained that there had been no investigation and that "We know all about it". Pitt said, "I am not going to take a \$2,500 cut". Gordon said "You go to Brandon; do what you are told and you won't get a cut in your pay".

The CHAIRMAN: I don't like to interrupt you, but I assume, and I hope correctly, that you are taking the responsibility for the facts that you are reciting?

Mr. MACDONNELL: I believe them to be true, and I have taken steps to verify them.

Mr. POULIOT: Just a moment. This seems to be hearsay.

Mr. FULTON: Mr. Macdonnell is dealing with the question; let him finish.

The CHAIRMAN: I take it, Mr. Pouliot, that Mr. Macdonnell is making a statement of what he believes to be the facts as a groundwork for certain questions that he is going to ask Mr. Gordon, and all I wanted to be assured of was that Mr. Macdonnell was assuming responsibility for the accuracy of the statements.

Mr. MACDONNELL: I am taking the responsibility for the statement, but if there is any question of the committee doubting me I shall ask to have Mr. Pitt called before this committee; we will get the star witness here.

The CHAIRMAN: Regardless of whether the facts are correct or not correct, I want it on the record that you are taking responsibility for the facts you are reciting.

Mr. MACDONNELL: That is right. I have not done this lightly, Mr. Chairman; I have only done this because I believe it is the proper thing to do.

The CHAIRMAN: I am not suggesting you have, and I don't want you to take any offence. It was my duty to inquire on this and find out from you that you are taking the responsibility for the facts which you are stating as facts. They are all hearsay from the standpoint that they are not being given by way of direct evidence, and I wanted that assurance. I have that assurance and so far as I am concerned, carry on.

Mr. MACDONNELL: Thank you, Mr. Chairman. I understand fully why you say what you have, and I wish to repeat that on any question I am not going to rely on this, I am going to ask this committee to ask Mr. Pitt to come here.

The CHAIRMAN: You fully appreciate the fact that you are making a statement of fact and someone must take responsibility, and no member should make statements of fact unless he is prepared to back them up.

Hon. Mr. CHEVRIER: And you are also making statements of facts of a witness who is here. You have charged one of the witnesses here with certain statements as I have heard them read.

Mr. MACDONNELL: It has come to me from responsible quarters, and I am prepared to accept it as such, and if it turns out to be wrong I am prepared to accept the consequences, but I am telling the committee if there is any question about it that I am ready to ask Mr. Pitt, who is ready to come.

Pitt said he would think about it and returned to Winnipeg. The labour union men wanted to hear his story and also the *Tribune*, but he refused to talk. The labour men told him they resented political interference in the management of the operation, though Mr. Pitt had had a good deal of

controversy with the hotel union and had reduced the staff a good deal, but nevertheless they respected him for the way he carried out his undertakings.

Now, I do not think I need to read again, because I did put it on *Hansard*, the quotation from the *Winnipeg Tribune*. The *Winnipeg Tribune* set out that, and perhaps I had better read this from the *Tribune* of November 13, 1952:

The *Tribune's* report of the dismissal of Robert S. Pitt from his position as manager of the Fort Garry Hotel, and his subsequent transfer to Brandon, is chiefly important because of the one big question it raises in the public mind: Is there political interference in the management of the C.N.R. or its hotel system on the part of government functionaries close to the Prime Minister?

And then I skip and read another paragraph:

Was Mr. Pitt given any kind of a fair trial? Were the complaints against him and his hotel investigated? There is no evidence that we have been able to uncover that the answer is in the affirmative to either of these questions. Rather, the answer seems to be that the hotel manager was removed from his job without proper investigation because someone in the government or close to the government had thundered. It will be a bad state of affairs for the Canadian National Railways if it is saddled with government interference in management.

Hon. Mr. CHEVRIER: Now, Mr. Macdonnell, while you are reading that I hope you will be good enough to put in the rest of it.

Mr. MACDONNELL: The rest of this editorial?

Hon. Mr. CHEVRIER: Yes, and not only that editorial, but all other editorials; for instance, the article you have there in the *Winnipeg Tribune*, which is dated November 13, which goes on to say that J. W. Pickersgill, Clerk of the Privy Council and Secretary of the Cabinet, was not among those directly involved.

Mr. MACDONNELL: You are not reading from the same thing I quoted from.

Hon. Mr. CHEVRIER: I am reading from the *Winnipeg Tribune* of November 13.

Mr. MACDONNELL: What I am reading is an editorial. I was not reading the news. I have put some of these on *Hansard* already, but may I finish? There is nothing I want to run away from. Perhaps you will let me make my statement?

Hon. Mr. CHEVRIER: I am sorry if I interrupted you, but I thought you were reading from the story of November 13, and having read a portion of that I thought you should read the balance of it.

Mr. MACDONNELL: I am reading from the editorial. I had a letter sometime after my speech in the House of Commons, from a gentleman in Saskatoon who is not known to me but who is a great friend of Mr. Pitt and who had known Mr. Pitt when Mr. Pitt was at the Bessborough, and this man, who is H. J. Haskamp, of Saskatoon, sent me some correspondence which he had had with Mr. Gordon, and I would like to read it. This is a letter of November 17, 1952:

Mr. D. A. Gordon,
President,
Canadian National Railways,
Ottawa, Canada.

Dear Sir:

Enclosed please find clipping from the *Saskatoon Star-Phoenix*, dated November 15, 1952, regarding Mr. R. S. Pitt's transfer from The Fort Garry Hotel in Winnipeg to The Prince Edward Hotel in Brandon, Manitoba.

I have read in the newspaper wherein you state that such transfers are quite the normal procedure in the C.N.R. Hotel System. I know that this is so in the cases of managers moving up to better positions as they become available, i.e., through retirement, illness, etc. However, transferring a manager of The Fort Garry Hotel to the poorest hotel in the system cannot be construed as anything else but a very bad demotion. Mr. Pitt's great capabilities as a hotel man can certainly not be used to the greatest advantage in a small city such as Brandon.

Mr. Pitt does not know that I am writing this letter, as I feel that he might ask me not to. My feelings are that it should be written, with or without his knowledge.

Those of the general public in Saskatoon, who have had occasion to do business with Mr. Pitt, have a very high regard for him. It was shown on numerous occasions, one of the most outstanding being a farewell dinner given him by the Saskatoon Club. This club's membership includes most of Saskatoon's business leaders, and there was an unusually large turnout for this dinner in his honour. The sentiment was, 'Sorry to see you go; congratulations on your promotion; and continued success in your future.' You may well imagine our consternation on hearing of his demotion.

I own and operate The Senator and The Western Hotels in Saskatoon. I have been on the Committee for Reservations, with Mr. Pitt as chairman, on many occasions for conventions, being held in our city. His untiring efforts and unusual ability in this direction contributed greatly to the success of these conventions. One of these in particular, The International Convention of the Lutheran Church, brought well over five thousand people to our city, the largest convention we have had to date. Mr. Pitt did a masterful job on this occasion, and was given the heartfelt thanks and congratulations of the Lutheran officials.

I feel certain, sir, that if you personally investigated his case thoroughly, you would find that an injustice, a very grave injustice has been done.

I speak as a Canadian business man, and not as the friend (which I am) of Mr. Pitt. I often wondered, in my associations with him, how a mere employee could be so very conscientious and sincere about his job. To him nothing else mattered as much as his work. I can't believe he would let the Hotel System down. Not Mr. R. S. Pitt.

Please, sir, in the interest of the Canadian National System of Hotels, and of the Canadian public, give this matter your gravest consideration.

Yours sincerely,

H. J. Haskamp.

To this Mr. Gordon replied on November 25:

Dear Mr. Haskamp:

This will acknowledge your letter of November 17th, making known your views regarding the recent transfer of Mr. R. S. Pitt from Winnipeg to Brandon.

What you have said confirms my information about the work of Mr. Pitt when he was manager of the Bessborough Hotel. It was on the basis of this record that he was selected to manage the Fort Garry, where certain services had been deteriorating.

Mr. Pitt remained in the Fort Garry post for more than a year when, further and faster improvement being considered necessary, the general manager of hotels recommended and was authorized to arrange a general shift of managers which involved Mr. Pitt's transfer to Brandon.

At the time, Mr. Pitt had a meeting with me here and he was told of the reasons that prompted the decision of the general manager of hotels. He was also assured that he would be given every opportunity to demonstrate his capacity for advancement in the future.

In thanking you for writing me, I would like to reiterate my statement to the press, that the changes referred to were not made as a result of a complaint by either the Prime Minister or in his behalf.

Yours sincerely,

(Sgd.) D. Gordon.

Mr. Haskamp replied to Mr. Gordon on December 6:

Mr. D. A. Gordon,
President,
Canadian National Railways,
Ottawa, Canada.

Dear Sir:

Thank you for yours of November 25th answering mine of November 17th.

Enclosed please find an editorial from the *Saskatoon Star-Phoenix*.

Regarding your letter of November 17th. Is it not true that in the little more than a year of Mr. Pitt's management, the Fort Garry Hotel has shown a marked improvement? I have had numerous comments from guests of ours, who are also guests of the Fort Garry. They all say the hotel has changed for the better during the past year.

I believe Mr. Pitt brought back quite a lot of business, lost by the former management. I know of one good account, namely Henry Birks Limited, that had transferred their business to the Royal Alexandra in Winnipeg. Mr. Pitt retrieved that business and Mr. Henry Birks stated to his Saskatoon manager that he would like to continue doing business with the Fort Garry.

You may question my right to continue my protests on Mr. Pitt's behalf. However, I feel that a man with your splendid record, gained in handling the difficult Wartime Prices and Trade Board, and the reputation you have achieved as a strictly fair man in labour relations, would not condone anything like the petty jealousies mentioned in the enclosed editorial.

That is an editorial from the *Star-Phoenix* which I have not got at the moment. The letter continues:

I had thought, up till now, that this angle was only my private opinion. Apparently the opinion is not at all private. If the general manager of hotels has, through personal animosity, grasped at an opportunity to demote Mr. Pitt unfairly, it is my contention that he is not fit for his job!

The morale of the whole system is jeopardized if even the slightest indication of this situation exists. I feel sure that you would not tolerate this for a minute.

In closing, I must say that it is a most difficult situation. However, I feel that you, in keeping with your record in the past, will solve it in an unbiased and fair manner,

Very sincerely,

H. J. Haskamp.

Mr. Gordon replied to that on December 12:

Dear Mr. Haskamp:

Your letter of December 6 has further reference to the transfer of Mr. Pitt from Winnipeg to Brandon.

As mentioned in my earlier letter, Mr. Pitt requested a personal interview with me, claiming that he had been unjustly dealt with. I was glad to have that opportunity to go over the circumstances of the

case with him. I reviewed with him a number of criticisms against his management and quite frankly told him of the reasons for our dissatisfaction. He was then offered an opportunity to go to Brandon, which he accepted.

It is not true, as intimated in the newspaper editorial attached to your letter, that petty jealousies had anything to do with Mr. Pitt's transfer. It was upon the recommendation of the general manager of hotels that he was appointed to the managership of the Fort Garry and if he gives a good account of himself at Brandon you may depend upon it that he will receive consideration when subsequent changes are in prospect.

Yours very truly,
D. Gordon.

Now, Mr. Chairman, I have put that statement before you. There was a resolution moved in the House for papers, and I propose to move a similar resolution here, but I wish to repeat that I am also requesting the committee—and I suppose I should do that by resolution—to ask Mr. Pitt to come here. I wish to say that and I assume that of course if Mr. Pitt comes that will involve Mr. Sommerville coming to, and quite frankly my belief is that the correspondence before us will show that Mr. Sommerville believed that Mr. Pitt thought Mr. Gordon had received complaints of the handling of the Prime Minister's party. I am not saying who it came from, but I believe it will be shown that Mr. Sommerville believed that Mr. Pitt thought Mr. Gordon had received complaints of the handling of the Prime Minister's party. Now, Mr. Chairman, I know that in our party strife there is sometimes a good deal of cut and thrust but I submit to this committee of fair minded men that this has nothing to do with party strife. This is a case of a man—

An Hon. MEMBER: Not much.

Mr. MACDONNELL: This case is before this committee. These are unsolicited letters from this man Haskamp who was a competitor of his in Bessborough, Saskatoon. He was in a position to know his work. I submit that prima facie this is a case where he has suffered unjustly and he is a man who, incidentally, suffered in the service of the country, although, if he were not a good man, that should not be taken into account. Therefore Mr. Chairman, I wish to move:

for a copy of all letters, telegrams, and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel in Winnipeg concerning complaints as to allotments of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in his discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints since the first day of September, 1952, and to date.

Can I make two resolutions at the same time?

The CHAIRMAN: Yes.

Mr. MACDONNELL: Then I also move that Mr. Pitt and Mr. Sommerville be asked to appear before this committee.

The CHAIRMAN: There is just one question I would like to ask you Mr. Macdonnell. You read the letters rather rapidly, and I want to know whether I grasp the meaning of the second letter which is that this hotel proprietor apparently referred to some personal animosity which he assumed existed between the manager of the C.N.R. hotel and Pitt.

Mr. MACDONNELL: He did say that.

The CHAIRMAN: May I have an opportunity of reading that again?

Mr. MACDONNELL: Yes.

The CHAIRMAN: It was so totally different from the rest of your presentation and that is why I wanted to read it again. That would indicate that the underlying reason for the motion was totally different from the one which you outlined in the earlier part.

Mr. MACDONNELL: Well, Mr. Chairman, there is the evidence and I bring it before you. Sometimes there may be two causes.

Mr. MUTCH: And one is political.

Mr. KNIGHT: When the resolution is put I would like to have the privilege of saying a word very briefly in regard to it.

The CHAIRMAN: I think there should be a full discussion in regard to the matter.

Mr. GILLIS: Could I ask you a question as a member of this jury?

The CHAIRMAN: Yes Mr. Gillis, but before you do I am not having much luck in finding the letter I was looking for.

Mr. GILLIS: This is a case for a jury. Would it not be in order before you pass any resolutions to determine whether Mr. Macdonnell has established a case or not. In listening to him I would judge that Mr. Gordon now is the accused.

Mr. GORDON: I agree.

Mr. GILLIS: He not only accuse Mr. Gordon of acting as an underground agent for the government in sanctioning the dismissal of Mr. Pitt, but he also makes accusations that Mr. Gordon was countermanding orders he had for a reduction in salary. Pitt was to receive a \$2,500 reduction in salary, and Mr. Gordon said "go to Brandon and there will be no reduction." Before we take any action in the matter of motions and so forth, if a man is on trial he has a right to a hearing. Mr. Macdonnell has made his case. He has been given ample time and I think in fairness to Mr. Gordon he should be permitted now to tell us his story and after he has finished we can decide whether Mr. Macdonnell has established a case and if it is necessary to call any star witnesses.

Mr. MACDONNELL: I wish to say one thing.

The CHAIRMAN: May I have a minute now. The paragraph was read rather quickly and the paragraph I refer to is in the letter from Mr. Haskamp to Mr. Gordon dated December 6th. It reads this way:

If the general manager of the hotel has, through personal animosity, grasped the opportunity to demote Mr. Pitt unfairly, it is my contention that he is not fit for his job.

Mr. MACDONNELL: In view of what Mr. Gillis has said I want to add this. My own belief, and this is perhaps not of any interest to the committee, is that Mr. Gordon did what any good man would do. He backed up his subordinate. I had to bring this matter before the committee and I had to read these letters and give the facts as they came to me, but I want to make it clear that my complaint is, as I said in the House of Commons, not against the action which I believe was taken by and on behalf of the government or members of the government—and I make it clear that I do not think Mr. St. Laurent had any part or parcel of it, I cannot believe that for a moment—but I do believe some of the hangers on threw their weight about and they carried more weight than they should have done. But I wish to repeat that I agree with the statement made in that letter about Mr. Gordon's position. I think he has been in the unfortunate position here of having to back up a man whom, from all the evidence I have, I consider to have behaved improperly.

Hon. Mr. CHEVRIER: Mr. St. Laurent was not there for most of the time when this complaint you speak of took place. In the second place, the document to which I referred earlier—the news item in the *Winnipeg Tribune*—seems to have absolved some of the men you have charged here. And in the third place, now you seem to blame the government. Whereas, you have nothing against Mr. Gordon and in the House it is just exactly the opposite.

Mr. MACDONNELL: No. In the House I brought this up because I considered it a piece of political interference. I did say I found it difficult to follow Mr. Gordon when he said this move was in the ordinary course of hotel practices.

Hon. Mr. CHEVRIER: I do not want to stop you for a moment nor do I want to interfere with any right you have as a member of this committee to ask questions, but I am wondering within myself whether this is the proper practice to follow. I have been a member of this committee now for eight years and during that time this is the first time I have heard a matter such as this placed on the record.

Mr. MACDONNELL: This is the first time it has happened.

Hon. Mr. CHEVRIER: I think you have the right to ask the questions which would normally arise, but you have put on the record here a case which is based on hearsay in the same manner which I in my reply in the House charged you had.

Mr. MACDONNELL: And I will ask you if anything I had stated was incorrect and you repeated it was hearsay. In a sense everything in the newspapers is hearsay.

Hon. Mr. CHEVRIER: I said it was not only inaccurate but was also hearsay.

Mr. MACDONNELL: You only said it was hearsay.

Hon. Mr. CHEVRIER: It is inaccurate. The committee has allowed what constitutes hearsay information read in that statement of Mr. Macdonnell's.

Mr. CHURCHILL: Are we going to hear hearsay?

Hon. Mr. CHEVRIER: I think he himself said I would have the opportunity to put on the record items in the *Winnipeg Tribune*. I am quoting from an article used by Mr. Macdonnell himself. On January 13th the *Winnipeg Tribune* carried this article which I will not read in full, but part of it said this. I think I should be allowed to put it on the record.

Mr. BROWNE: Certainly.

Hon. Mr. CHEVRIER: Well, let me do it.

Mr. POULIOT: If it was good for Mr. Macdonnell why isn't it good for Mr. Chevrier?

Hon. Mr. CHEVRIER: On Nov. 13, the *Winnipeg Tribune* carried this article:

There was similar confusion about rooms for other big-wigs who were in Winnipeg at the same time.

J. W. Pickersgill, clerk of the privy council and secretary to the cabinet, was not among those directly involved. He stayed two nights in Winnipeg, one by pre-arrangement at the home of friends, the other at the Fort Garry.

No formal complaint was made by Pickersgill or anyone else. Comments on the service at the Fort Garry were, however, made to C.N.R. officials, including Gordon, informationally and privately by a number of people in the prime minister's party. Pickersgill may have been among these.

Then in the *Winnipeg Free Press* I find this news item:

Later Wednesday George S. Jones, special representative of the C.B.R.E. denied that any protest had been made and said a statement would be issued Thursday. He gave no indication of its contents, however.

Now, that is directly opposite to the charge you made in the House and repeated here today.

Mr. MACDONNELL: Not in the least. I read that statement in the House and said there was a statement made on behalf of the union. I did not say it was made by a senior official.

Hon. Mr. CHEVRIER: But the union made no protest. It is just a news story.

Mr. MACDONNELL: No, read on—

Hon. Mr. CHEVRIER: I have just read that no formal complaint was made.

Mr. MACDONNELL: I will do a little reading now.

Hon. Mr. CHEVRIER: If you will allow me to continue. I think you indicated you had finished your statement.

Mr. GILLIS: Rested his case.

Mr. FULTON: No, no, he finished a part of his statement.

Hon. Mr. CHEVRIER: I do not know whether this procedure is correct and so that you might not think you are being interfered with unduly. I am not going to challenge the procedure although I do not think it is the correct procedure. You have not asked any questions of the witness.

Mr. MACDONNELL: What do you mean, witness?

Hon. Mr. CHEVRIER: The President of the Canadian National Railways.

Mr. MACDONNELL: The man I want to see here is Mr. Sommerville. I have asked for documents which I think will considerably increase the knowledge of this committee.

Hon. Mr. CHEVRIER: The president of the Canadian National Railways is now the witness and I think he can take care of himself. If Mr. Macdonnell wants to ask him any questions, go ahead.

Mr. MACDONNELL: Mr. Chairman, I understand you are the chairman of this meeting and not the minister. I have moved two resolutions and I have tried to make a prima facie case for the resolutions I have moved, and incidentally I have said when questioned as to whether my facts were correct, if there is any question about that, get Mr. Pitt here; he will be glad to come here.

The CHAIRMAN: I understand I have the responsibility of chairing the committee and I take my responsibility rather seriously. I fully appreciate the fact that eventually I will have the responsibility of ruling, and while I do not enjoy it I certainly will not shirk the responsibility.

We have a motion before the committee which you have moved as to which I should express an opinion as the chairman as to whether the motion is in order. Now, the Speaker of the House adopts the practice of allowing members to speak to the point of order. I have allowed Mr. Macdonnell to speak to his motion and I think that is as far as I should go. I do not think I should allow other members of the committee to speak to the motion until the committee decides as to whether the motion is in order. I will hear any representation that any member of the committee wishes to make as to whether the motion is in order. There will be no further discussion as far as I am concerned to the motion, but simply to the point of order, and then after I have had the opinion of all the members of the committee I will make my ruling.

Is there any member of the committee who wants to speak to the point of order?

Mr. GILLIS: What is the point of order?

The CHAIRMAN: Whether Mr. Macdonnell's motion is in order.

Mr. KNIGHT: I do not know what are our authorities on points of order in this particular committee.

The CHAIRMAN: You have been a member of this House for quite some time and you know some motions are made before the House and some before the committee which are not in order.

Mr. KNIGHT: I can quote an authority of the Minister of Transport who stated to me through the chair that when I spoke on this matter in the House that the proper time to bring this matter up was in the Railway Committee of which I was a member and at which various witnesses might be called and whom we might have an opportunity of questioning. I came here in perfectly good faith, taking the minister's word for that, that we would have here an opportunity to bring this matter out in the open. May I say, personally, I am making no charges against anyone at the moment. My only interest in this matter is, let me say frankly, largely the good name of the Canadian National Railways.

The CHAIRMAN: All I am interested in is what opinion you have on the point of order.

Mr. KNIGHT: Then I am quoting the minister as having informed me in the House that witnesses could be brought and this is where we would have an opportunity to get at the facts whatever those facts may be.

Mr. MUTCH: Even if it is something the committee is not empowered to look into?

Hon. Mr. CHEVRIER: I think that the president of the Canadian National Railways who is in the witness box should be allowed to make a statement.

Mr. MACDONNELL: If you are saying I put him in the witness box, I wish to deny it.

Hon. Mr. CHEVRIER: He is very much in the witness box.

Mr. MACDONNELL: I hope the Minister of Transport is going to argue I am entitled to these, because he is the one in the House who said this is the place to get the information—not as firmly as Mr. Howe did. I would like to read what Mr. Howe said.

The CHAIRMAN: I take my position as chairman of this committee seriously and I think I have adopted the right practice up to date. I know if I were in Mr. Gordon's position I would be most resentful of the chairman of the committee that I had not been given an opportunity to answer. But I do not think, in deference to the Minister, the Hon. Mr. Chevrier, that that is the correct order of procedure. Mr. Macdonnell made a motion and had a right to speak to it before making it and it is now the duty of the chair to rule whether it is in order or not.

Mr. FULTON: One word on the point of order, Mr. Chairman, before your ruling. I think the thing to be decided here is whether or not these documents called for are properly admissible. I take it that is the point on which you wish to hear argument. The argument has always been advanced in the House and committee against the production of documents in the possession of the management of the railways, that those documents are entirely the concern of internal management and as such are privileged and should not be read before the committee if the management does not wish to do so. The minister when arguing this matter in the House placed his reliance, and I think I am fair in saying he went back and placed his main reliance on precedents built up since the statement of Mr. Meighen in the 20's on this same subject of production of documents. I submit to you that that statement of Mr. Meighen is authority only for the proposition that documents are not to be produced for the information of the House when to do so would reveal details of internal management which might be of advantage to competitors. That was the principle which Mr. Meighen established, and I submit that was as far as the principle goes.

The CHAIRMAN: I think there was another principle quite as clearly established before this legislation was passed and I would not be fair if I did not indicate that to you.

Mr. FULTON: I figured that you would mention that principle.

The CHAIRMAN: The other principle is quite as important. It is that there was a firm intention of parliament at the time the Canadian National Railways was set up under corporate management instead of a management by a department of government, that it would have a totally different form of management than it would have under government, and that political interference would be removed.

Mr. FULTON: That is perfectly correct, and that is the other point I want to deal with. That was the object of setting up the Canadian National Railways in a corporate form of management, or one of the objects. But I submit that the same principle initiated by Mr. Meighen only went so far as saying that it was only the production of those letters which would be to the advantage of competitors which would be refused on those grounds. Now, he did say that there was a difference as of right, between our relations with the Canadian National Railways under a corporate form of management and our relations with a government department in the matter of obtaining that information. But as you have said, one of the purposes of setting it up with a corporate form of management was to obviate political interference in management.

Here we have a charge. I am not speaking about the merits of it, but we have a charge not against the management. I want to make that clear. It is a charge that there has been political interference with the management, the very thing that the corporate structure of the Canadian National Railways was set up to avoid.

The CHAIRMAN: That is not the motion before the chair.

Mr. FULTON: The motion before the chair calls for production of all documents, and I submit to you that it is only by getting those documents we are going to be able to be sure whether or not that charge is substantiated. And I suggest that a charge of this nature is of sufficient importance. It is a charge which indicates that the object of setting up the corporate structure is not being met, and that in fact political pressure is being brought to bear on the management, and that it requires investigation and the only way we can find out the truth or otherwise of the charge is by the production of these documents. Therefore on that basis, Mr. Chairman, I suggest that the second branch of the argument to which you referred a moment ago is met and in fact it becomes an argument in favour of producing the documents. I cannot see that these particular documents would be of any advantage to a competitor of the Canadian National Railways business. So I submit that both principles on which their production is being refused have been refuted.

Hon. Mr. CHEVRIER: The question of the production of the documents raises matters which were raised in the House. They were raised by Mr. Diefenbaker and I think by Mr. Fulton and also by Mr. Macdonnell. This is not the first time that matters of this kind having to do with the production of documents for one reason or another have been raised in this committee. They were raised I think two years ago when my friend from Kamloops asked me in the House if I was going to adopt the same attitude that I take on this occasion.

On that occasion the witness who was then the president of the Canadian National Railways was allowed to express his opinion as to the effect of the production of documents of that nature, and the effect it would have upon the management of the Canadian National Railways. And for that reason I thought we should at least hear the witness.

Mr. Gordon has been here now for at least one hour listening to this discussion and he has not been able to say a word. I think in fairness to Mr. Gordon, when we have listened to a former president of the Canadian National Railways offer his opinion in so far as the production of documents is concerned, I think Mr. Gordon should be allowed to say what his opinion is with reference to this.

Mr. GILLIS: That is just what I suggested in the first place. We are hearing one side of the story. And by dealing with this motion at the present time we are putting this committee in a pretty awkward position. Most of the members of this committee do not take a personal interest in this trouble at all and they know nothing about it. Mr. Macdonnell has put his story on the record and in my judgment Mr. Gordon is not only a witness, but he is in the prisoner's box, he is the accused. The whole onus has been shifted from the government to Mr. Gordon, and the accusation now is that he acted as the cat's paw of the government in pulling their chestnuts out of the fire. I think it is absolutely unreasonable to ask this committee to vote on this motion until such time as Mr. Gordon puts the other side of the story on the record. Then we will be in a position to determine whether or not we have to call witnesses. Therefore I am going to move that these documents be tabled until such time as Mr. Gordon is heard from. Then we will decide whether they are in order or out of order, but we want to hear the other side of the story first.

The CHAIRMAN: As I understand your motion, Mr. Gillis, you are putting it as an amendment to Mr. Macdonnell's motion?

Mr. GILLIS: It is an amendment to table these documents.

The CHAIRMAN: It is an amendment that before the motion is put Mr. Gordon should be heard.

Mr. GILLIS: That is right.

Mr. MACDONNELL: I understood you to rule that there would be no more discussion. I have no objection to Mr. Gordon speaking if you want to ask him to, but if you are hearing more comments on the admissibility of this motion then I would like to add a word.

The CHAIRMAN: My problem is this: We are dealing collectively with two totally different matters. One is a motion for the production of papers, and the other is a charge which you have made which I think strikes pretty seriously at Mr. Gordon. Mr. Gillis has indicated that he believes it to be fair to Mr. Gordon that he should have an opportunity of answering this charge before your motion for production of documents is put. Now my problem is this: I am fearful that Mr. Gordon in making his statement before a ruling of the chair is made may feel that he is obliged to go further than parliamentary practice requires him to go. With that warning, Mr. Gordon, if the committee is reasonably unanimous that they want to hear you, we will hear you now.

Mr. MACDONNELL: I have made a motion, Mr. Chairman.

The CHAIRMAN: You made a motion for the production of papers, but you also made a charge against the management of the railway. Now, if you had simply made the motion for production of papers without making that charge—

Mr. MACDONNELL: I am asking that the information on which the committee could make up its mind should be produced. It is not reasonable to have that now? I had to make a prima facie statement, and I am conscious of the difficulty I was in, but do we want to discuss the merits of this matter before we have the evidence on which to do it? I am asking for the papers. On the question that Mr. Fulton mentioned with regard to Mr. Meighen and the practice which has been followed, I think the Minister of Transport has

referred to it, but I suggest that that is a world removed from this. Those are cases where information which might injure the railway by reason of coming into the hands of its competitors should not be given. Now this, I suggest, is an unprecedented matter. There is no suggestion that this is going to injure the railway by getting into the hands of anybody else. It is a question of relations inside the railway itself and with the government, and therefore I suggest it would be common sense to have these statements before us and when the members know what they are, they will then be able to reach a conclusion. At the present time it seems to me that we are just trying to reach a conclusion without having the basis of reaching it before us.

Hon. Mr. CHEVRIER: Well, then, let us listen to the witness who is before the committee.

Mr. KNIGHT: The minister's former idea was that we should question the witness on this. I have a letter from the minister here, signed by himself, in which he says:

As it has been the practice in the House since formation of the Canadian National Railways, a committee will review again this year the affairs of that railway. You, as a member, will have the opportunity of seeking a reply to any question which you care to ask from the chairman and president, Mr. Donald Gordon.

And then I want to add these significant words, because there has been talk here about irresponsible statements:

It may well be that the reason for the transfer of Mr. Pitt, if made public, would react unfavourably to his cause.

I suggest that is a statement that should not have been made in the House of Commons or in any letter.

Hon. Mr. CHEVRIER: Then why don't you allow Mr. Gordon to deal with the matter? You are putting the thing on the record.

Mr. KNIGHT: I am not suggesting that you do not hear Mr. Gordon.

Hon. Mr. CHEVRIER: I suggest to you that you ask the questions. Let us deal with the first thing before the committee.

Mr. MUTCH: I suggest, Mr. Chairman, that unfortunately we are getting into a hiatus because we have not one thing but three things before us. I suggest we are not going to get very far until we stop talking about the three things at once. Mr. Macdonnell makes a motion asking for documents touching on the case. In the course of the argument he gets himself involved in, what I agree, are serious charges against the president of the railroad himself. That is the second point. Then we had the third question, a motion by Mr. Gillis that we table this motion and do nothing about it until we hear from Mr. Gordon. I should like to suggest that with respect to these questions, whether or not these documents are to be tabled is one for decision by yourself in line with the practice of this committee, and the injustice or justice of the criticisms made of Mr. Gordon are irrelevant to that question. The only thing we have to decide is as to whether or not that is a proper motion. If you wish to reserve your judgment on that for the moment, we should then proceed to take the decision after hearing Mr. Gordon.

Hon. Mr. CHEVRIER: Well, then, why not hear Mr. Gordon and afford him an opportunity to reply to the charges which have been made against him?

Mr. POULIOT: Just one word, Mr. Chairman, before Mr. Gordon is heard. As I understand the question, Mr. Macdonnell's complaint is about political interference with railway management. The facts are obvious. There was a decision made with regard to Mr. Pitt by the management. Mr. Macdonnell suggests that it should be changed, under the pressure of speeches or state-

ments made by some members. Therefore, do you not think, Mr. Chairman, that the interference would be from Mr. Macdonnell rather than from the government, forcing them to change their decision about one of their employees. I never heard a thing like that before. Mr. Macdonnell should make himself the champion of interference instead of complaining about it.

The CHAIRMAN: I would judge that it is the unanimous wish of the committee that Mr. Gordon should have an opportunity of making such statement as he wishes to make at this time.

Hon. MEMBERS: Hear, hear.

The CHAIRMAN: Before your motion is put, Mr. Macdonnell, I take it we are unanimous on that point, so I will ask Mr. Gordon, but I do want to warn him again, Mr. Gordon, if in making your statement you feel obliged to make any disclosures or any statements derogatory to Mr. Pitt, then I think you bring the matter to this committee and from then on I think it is before the committee. I do not think the present motion is in order for reasons I will give later, but the committee are unanimous in that they want to hear you. And with that warning, would you please now answer?

Mr. GORDON: Thank you, Mr. Chairman—I almost said thank God, Mr. Chairman. I only want to touch on the point of the production of documents. After I have done so and, if it is the committee's wish that I should answer questions further, I am prepared to do so. I wish to state very emphatically that it is the duty of the President of the Canadian National Railways to sit in judgment of cases affecting staff matters, and that I hear every day of the week—if not every day, certainly every week—from members of the clergy, service organizations, boards of trade, etc., making representations on behalf of this or that individual. Now, in my considered opinion any file affecting the service record of an employee should be held privileged. I state that on behalf of the employee in the first instance. From the point of view of the employee, his status and record of service is a personal matter. If these were to become available for examination and public disclosure it would be most unfair to the employee. There would be cases, for example, in which the management, after expressing dissatisfaction with the employee's services, had given such an employee a fair chance to improve himself. I am stating a general principle and I make reference to no particular person at the moment. Obviously if such an expression of dissatisfaction were made to parliament or to parliamentary committees then the employee's business reputation would be hurt and his efforts to redeem himself badly prejudiced. Public disclosure or discussion in a case of this kind would be an unjustifiable intrusion on personal privacy in my opinion. Moreover, an employee may at any time decide to move out of the service of the railway and seek to benefit himself in some other field of endeavour. This may well arise because of differences of opinion with the management about his ability, his discipline record, or any one of many reasons. In such circumstances the employee would obviously be considerably handicapped if that sort of thing were a matter of public discussion and seriously interfere with his opportunity for other employment. From the viewpoint of the management a most important principle is involved. In my judgment one of the fundamental prerogatives of management is its authority over staff. Management must be free to exercise this authority to employ, to train, to promote and to discipline. Management must have its decisions respected. If a disgruntled employee were permitted to go over the head of the management and to have cases of dispute reviewed, then the management's authority would be seriously damaged. Indeed, this would produce a situation of chaos since no one would know where final authority lay. Moreover, in the practical administration of a business of the size of the Canadian National, there is a good deal of interdepartmental memoranda

and correspondence necessarily of the frankest character. Instructions, criticisms and reports are filed and reviewed and personnel records in particular must be carefully built up. No self respecting management could contemplate a situation in which such data were to become available for public discussion. No business could be successfully operated on such a basis, nor could the railway expect to draw into its services men of character and ability if they were confronted with such distasteful conditions.

I have tried Mr. Chairman to show you the position from the standpoint of the employee. It would be most unfair that his personal file should be revealed in discussion under any circumstances. I have tried to show you that it would be an impractical situation from the standpoint of management if files of that character should be produced and become a matter for public discussion. If members of the committee now wish me to proceed further I will be glad to do so.

Mr. MACDONNELL: The shoe is on the other foot. Here is a case where an employee wishes to come and be heard.

Mr. FULTON: And have the letters produced.

The CHAIRMAN: If no one else wishes to speak to a point of order, I will now give my ruling.

Mr. BROWNE: I thought we had discussed all that.

The CHAIRMAN: We are now on a motion. We have heard from Mr. Gordon and I have had ample notice that such a ruling would be required and I have taken an opportunity to read the record on the debate in parliament at the time the Canadian National Railway setup was initiated by parliament in the session of 1919 and I would ask members of parliament and anyone in doubt to read the long debate which took place. I will not weary the committee with too much of it, but I would like to read one or two quotes. I am reading now from Sir Thomas White who made a long speech outlining the reasons why the government of the day chose a corporate management rather than management by a department of the government for our national railway system.

Mr. White said at page 2103 of the 1919 *Hansard*:

What the government is seeking to do as a matter of administration, with a view of promoting the highest efficiency and economy, is to constitute a board of directors, responsible to the dominion government, who will administer the affairs of the Canadian National Railway system and receive its revenue and cause to be properly paid out its expenditures in accordance with the practice which is adopted in efficient railway administration in all parts of the world.

I will read on in order that there will be no doubt. He went on to say on page 2104:

There is a further reason why it is necessary that we should adopt a joint stock system in administering these great railway properties. In the public mind the idea is firmly embedded that direct government administration and control of government-owned railways results in abuse through the exercise of political patronage. But in order to prevent the exercise of patronage in connection with a system of such great importance to Canada, it has been provided that instead of direct administration by the Government, the administration shall be through a board of directors consisting of representative and capable men in whom the Government, Parliament and the country have confidence.

Now, if members will take the trouble to read that debate there will be no doubt in your minds as to the fact that it was distinctly understood at that time why the Canadian National Railways was set up with a corporate entity.

The matter came up again for discussion in 1921 and Mr. Meighen's remarks have already been quoted. I will just remind you of one or two of them. You will find this stated at page 1181 of the 1921 session where Mr. Meighen said:

It was decided to try the plan of corporate operation; to give this system the same chance to succeed as a business enterprise that other rival or corresponding systems had the world over.

He went on to say:

Owing to the immensity of the system it would be wholly impossible for Parliament to do its work, if it were to attempt from day to day as part of its duties to review the operations of that system, and if the Government were called upon from day to day to account for this or that action of the board of directors in matters of daily operation of the road.

I need not deal with the question of competitive business because it cannot be argued in this instance that disclosure of facts would prejudice the competitive system of the C.N.R., but the point Mr. Meighen stressed is on page 1183 when, he said nothing should be done to impinge upon "that latitude and freedom of management that every successful business must have." And Sir George Foster made a speech in that debate and he in dealing with the matter at page 1210 of the 1919 Hansard had this to say: "It proves that the Government, having laid down its policy, divested itself from the patronage in connection with the railways and held the management liable for the administration, the appointment of its staff, the promotion of its men and the general working out of the system."

Now, what could be plainer than that? It was obviously the intention of the government of that time when they set up the Canadian National Railways that matters purely of management were to be left with the directors and there was to be no political interference at all.

Having read this in advance and studying the underlying reports which lead to the formation of the C.N.R. and the debate which took place, it is my opinion the general policy in regard to production of documents concerned with internal management of Crown companies is that these documents should not be produced. I cannot find any occasions on which this position has been seriously questioned and I have gone through the records. For all of these reasons I say, with the increasing number of Crown companies, I believe that the abolition of political patronage, and that the charging of corporate management with full responsibility with respect to the appointment and promotion of staff, is a feature of increasing importance. If Crown companies are established in order that certain public undertakings may be managed, as nearly as possible as they would be managed by private enterprise, and without the inevitable disadvantages of political interference, then it does necessarily follow that everything possible should be done to empower these Crown companies to successfully carry out their responsibilities without political interference. By political interference, I mean interference by politicians.

It is my opinion that the production of documents with respect to the Pitt incident should not be withheld on the ground that his information would in any way prejudice the competitive position of the Canadian National Railways, nor would the production of these documents assist their competitors.

However, on March 11 last the House of Commons this year did defeat Mr. Diefenbaker's motion for production and, rightly or wrongly, the inference which I draw from this vote is that it was a vote in support of Mr. Meighen's stand that we should not impinge upon "that latitude and freedom of management that every successful business man must have."

Therefore, for the above reasons, it is my opinion that the Canadian National Railways management are not obliged to produce any document or

any evidence in regard to the Pitt incident at the Fort Garry hotel, and if this ruling is sustained, this committee should not call any witnesses regarding the incident.

I should add, however, that my ruling does not prevent a voluntary statement by the president of the Canadian National Railways should he desire to make one, nor does it prevent him from producing any documents relating to the incident which he desires to produce. On the other hand, should the president make any statement or produce any documents regarding this incident, derogatory to Mr. Pitt, then it is my opinion that all documents relating in any way to the Pitt incident should, upon request, be produced, and any witnesses with knowledge of the incident would be compellable witnesses.

Mr. BROWNE: Mr. Chairman, you have come here with your judgment all written out.

The CHAIRMAN: I did.

Mr. BROWNE: And you asked us for opinions on points of order. I consider that to be a joke.

The CHAIRMAN: You have the right to your own opinions.

Mr. BROWNE: You wrote that judgment, Mr. Chairman, even before you knew there was going to be a resolution. I never heard of such a thing.

The CHAIRMAN: I was not born yesterday. I listened to the discussion in the House, and I have chaired committees for a few years.

Mr. GILLIS: Let us argue about it tomorrow.

The CHAIRMAN: If anybody questions the ruling, of course.

Mr. FULTON: Well, we appeal it, of course.

Mr. MACDONNELL: I appeal the ruling because it seems to me that while I do not wish to be disrespectful to the chair, we are now faced with a technical ruling which I think has no application whatever to these unique circumstances, wherein the man in question wishes to come himself. If I understand your ruling correctly, whether or not he can come is dependent on the action of the president of the railway, whether or not he makes a statement as to whether this man will be allowed to come and make his statement.

Mr. GORDON: To whom did Mr. Pitt make this request?

Mr. MACDONNELL: To me.

Mr. GORDON: I deny his right to do so. He should first of all come to me. He is an employee of the railway. Do you suggest to me for one moment that any person who is an employee of the railway has the right to go to some person outside the railway to have his case heard?

Talk about an absurdity. I do not think I have ever heard of a proposition such as that which has been made. There has been a suggestion of political interference with the management. Who is the best witness to answer that charge but myself?

Mr. FULTON: You will get questioned, you can be sure of that.

Mr. GORDON: But you are not letting me.

Mr. FULTON: Nobody has suggested that Mr. Gordon should not be asked.

The CHAIRMAN: Yes. You are one of those who stopped him.

Mr. FULTON: We did not press the point that the point of order should be decided first.

Mr. GORDON: I have been accused of having given in to political interference. I deny it. Do you suggest that Jack Pickersgill could scare me into removing a man from a hotel? Who do you think I am?

Mr. FULTON: Do you suggest that you are going to scare me?

Mr. GORDON: No, I am not.

Mr. MACDONNELL: It has been very difficult for me.

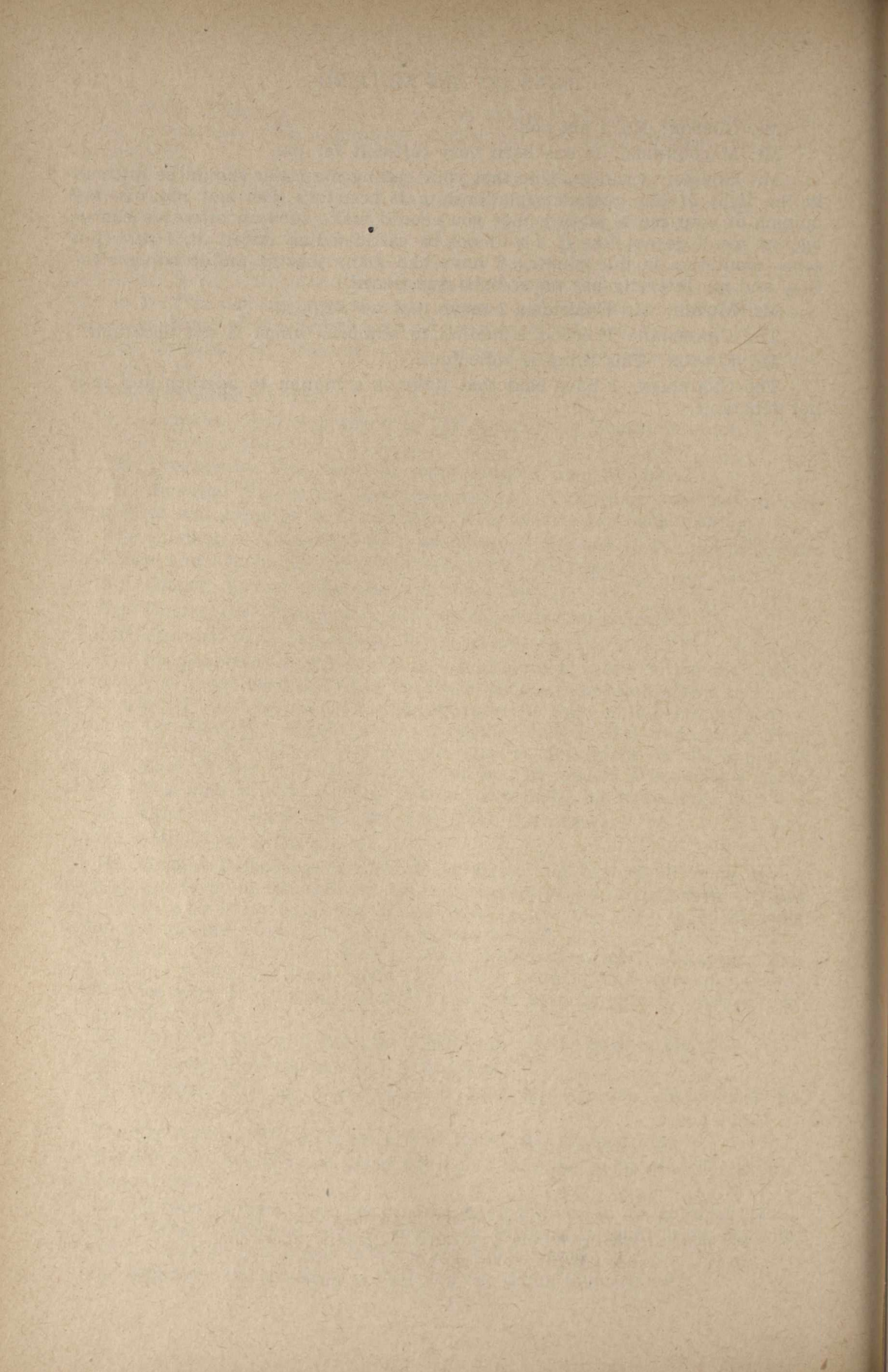
Mr. GORDON: I can imagine that your calling me a liar should be difficult in the light of our personal relationship. It certainly does not improve my opinion of your moral stature that you should make such an offensive charge against me. I do not like it. I will not be called a liar. After all, I have got some reputation in this country. I have had many jobs of public administration, and my integrity has never been questioned.

Mr. MUTCH: Mr. Chairman, I move that we adjourn.

The CHAIRMAN: There is a motion to adjourn, which is not debatable.

Mr. FULTON: This thing is ridiculous.

The CHAIRMAN: I have said that there is a motion to adjourn and it is not debatable.



EVIDENCE

MARCH 24, 1953
11:00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. MACDONNELL: Mr. Chairman, on a point of privilege. When Mr. Gordon asked me last night to whom Mr. Pitt had indicated that he was ready to come to Ottawa, I said it was to myself. I wish to amplify this statement to the extent of pointing out that the message from Mr. Pitt to me was relayed through a mutual friend in Winnipeg, a man in whom I have the utmost confidence.

I realized that objection might be taken to my unsupported statement and therefore communicated with Mr. Pitt through this mutual friend and have a message from him indicating his complete willingness to appear before the committee if requested.

I wish to make it clear that I am not retreating in any way from what I said last night but merely making the full details absolutely clear.

One further point of privilege. I presume everyone realizes that I did not call Mr. Gordon a liar. What has disturbed Mr. Gordon is that I said I could not accept the explanation that it was in the ordinary course of business to transfer a manager who had managed three of the company's largest and most important hotels, the Nova Scotian, the Bessborough and the Fort Garry, to a much smaller and less important hotel. I could not but regard this as a very serious demotion. I hoped that the above explanation of Mr. Pitt's transfer did not give an accurate account of Mr. Gordon's position and that a further statement might be forthcoming.

I wish to make it absolutely clear that in what I said my whole motive was to complain of government interference with the management of the railway and that I had not the slightest intention of attacking the management of the railway.

If Mr. Gordon chooses to regard what I have said as an attack on the railway management, I deeply regret this, but I cannot be deflected from attacking government interference and pressure by Mr. Gordon's mistaken reaction.

Mr. POULIOT: Mr. Chairman, dealing further with the question of privilege, I would like to refer to the proceedings of the Railways and Shipping Committee of last year, at page 45, where both Mr. Macdonnell and myself expressed our views about the duties and functions of Mr. Gordon as the head of the Canadian National Railways:

Mr. POULIOT: ...Speaking personally, I am for quality and not for quantity. The purpose of the board of directors is to advise the management and, as I see it, the more advisers we have the more difficulties we may expect.

Mr. MACDONNELL: Not with a man like Mr. Gordon; he keeps the directors in their place.

Mr. POULIOT: But Mr. Gordon is not the only man. We must have a board of directors to give direction to the board of management. The board of directors cannot have any say in the operation of the road so what difference does it make anyway.

Mr. MACDONNELL: Let me put it this way, Mr. Gordon; again, I don't want to appear to be interfering with the management; that is to say, I think the president and the executive are responsible. On the other hand, there are a great many conclusions which Mr. Gordon has to make which are very far-reaching and which I presume he brings to the attention of the board from time to time asking for their advice. And when I say I do not want the board of directors to interfere with management, I do not mean that they should not make decisions. They could make very important decisions, but they are decisions to be carried out by the president.

Mr. MACDONNELL: I don't think that was a bad statement.

Mr. POULIOT: No, but it was different from what you are doing now.

Mr. MACDONNELL: I don't think so, not at all.

Hon. Mr. CHEVRIER: Mr. Chairman, I would like to say a word on the point of privilege because I think my hon. friend is misinterpreting the whole attitude and the whole principle that we have followed not only in the House of Commons but also in this committee. I have not before me the statement read by my friend Mr. Macdonnell on privilege, but I did take down something to the effect that there had been government interference in the management, and since I am the minister responsible for the affairs of the Canadian National Railways in so far as the committee is concerned, I must immediately take issue with that statement. There has been, in so far as I am concerned, no interference whatsoever.

Some Hon. MEMBERS: Hear, hear.

Hon. Mr. CHEVRIER: Furthermore, I ask my hon. friend to believe this when I say that I had known nor heard nothing of the Pitt incident until a question was asked of me by Mr. Diefenbaker in the House.

Mr. MACDONNELL: When?

Hon. Mr. CHEVRIER: It was just after the newspaper report of November 13. The House met sometime in December, and I should think it was toward the end of December or perhaps early in January. I do not recollect, but in any event until that question was asked in the House—and that date is very easily ascertainable—I had known nor heard nothing of the Pitt incident. Now, then, there could have been, in so far as I am concerned, no government interference whatsoever.

Mr. KNIGHT: On a point of information, Mr. Chairman. That date must have been before December, because the minister's letter to me was written in December.

Hon. Mr. CHEVRIER: Yes, I have it now; it is November 25. And what my hon. friend Mr. Macdonnell is trying to do, contrary to the rules of the House and contrary to the rules of this committee, is to make a motion which is against all the precedents that have been established. Now, his motion—

Mr. FULTON: Mr. Chairman, is this a question of privilege or a point of order that is being dealt with by the minister?

Hon. Mr. CHEVRIER: I am dealing with a question of privilege in which the member indicated to me that there was government interference with management, and I am discussing this.

The CHAIRMAN: Mr. Fulton, I permitted Mr. Macdonnell, under the circumstances, to wander very far afield from the question of privilege. Now, in view of that I do think the minister should be permitted to make a statement without interruption.

Mr. FULTON: I merely asked whether it was a point of order or a question of privilege that he was discussing.

Hon. Mr. CHEVRIER: Now, the motion that Mr. Macdonnell made yesterday was:

For a copy of all letters, telegrams and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel in Winnipeg, concerning complaints as to the allotment of rooms to Federal Ministers of the Crown in the said hotel, or as to the conduct of Robert Pitt in the discharge of his duties, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints, since the 1st day of September, 1952, and to date.

Now, in the House of Commons in March of 1953, Mr. Diefenbaker moved the following motion:

For a copy of all letters, telegrams and other communications between senior officers and officials of the Canadian National Railways and Robert Pitt, M.B.E., then manager of the Fort Garry Hotel, Winnipeg, concerning complaints as to allotment of rooms to Federal Ministers of the Crown in the said hotel, and of all replies to such letters, telegrams and communications in any way referring to alleged complaints, since the 1st day of September, 1952, and to date.

At that time it was indicated in the House that the matter concerned the internal management of the Canadian National Railways. It was also indicated in the House that all matters having to do with interdepartmental communications and correspondence, and all matters having to do with communications between employees of the Canadian National Railways and the president and other executive officers of the railways were not producible because it had been the practice of the railways, and of the departments for that matter, not to make interdepartmental communications public. This policy is one of long standing and one which has been recognized by both Liberal and Conservative governments as essential to the successful management of the Canadian National Railways, and I do not need to repeat here what was said then, namely, that Mr. Meighen in a very strong statement indicated that that was the policy which should be followed. I think, too, that at that time it was indicated that it is not in the interest of the Canadian National Railways to give information which relates to the internal management of the system and which other competitors or other business organizations would not be required to produce; and then, again, it was certainly my impression that Mr. Diefenbaker rather agreed with that position, because earlier he had asked for the production of documents having to do with Central Mortgage and Housing Corporation, and my colleague, the Minister of Resources and Development, had quoted another paragraph, or another statement by Mr. Meighen in the House of Commons, and Mr. Diefenbaker in his reply seemed to argue—certainly that was my understanding—that while that does not apply to the Central Mortgage and Housing Corporation, I think there is a difference in so far as the Canadian National Railways is concerned, and I believe that perhaps it could not be made applicable to it. Now, the words of Mr. Diefenbaker can be found at page 2734 of *Hansard*, when he said this:

I would point out, Mr. Speaker, that Mr. Meighen was dealing with the Canadian National Railways and he stated it would be impossible to furnish parliament with the information, particularly in view of the size of the C.N.R. and the number of employees of that body.

So I conclude, by inference at least, rightly or wrongly, that Mr. Diefenbaker was then admitting the principle laid down by Mr. Meighen.

Now, then, I would like to go on just one step further and say that this committee is bound, I believe, in my opinion, by the ruling of the House. The House of Commons dealt with the notice of motion for production of papers, and the House of Commons decided by a vote, which can be seen in *Hansard*,

that this correspondence should not be produced. Then my hon. friend yesterday stated very emphatically that he was bringing this up because he thought it was his duty to bring it up. He was bringing it up and making it quite clear that there was no implication left in so far as the Prime Minister was concerned, that he had nothing to do with that.

Mr. MACDONNELL: I always said that. I said that in the House.

Hon. Mr. CHEVRIER: At page 575 of *Hansard*, December 11, Mr. Macdonnell is speaking, and I quote—he is dealing with complaints:

The first is 'that the Prime Minister and his party were not properly received at the hotel rotunda'.

. . . . Now then, the second complaint is 'that there were no rooms immediately available for all the members of the party'.

A little further on:

The complaint apparently might be that Mr. Pitt did not force his way through the group in order to present himself to the Prime Minister; a sort of bucking the line technique.

And a little further on:

Here perhaps we find something which we can understand better. Here we may find some very important personages, at least in their own minds, who take themselves very seriously and who may have fancied that they had not been treated with all the deference to which they considered themselves entitled.

And a little further on in his speech, Mr. Macdonnell, at page 576 of *Hansard*, says:

Does anyone imagine that a man who had served for that length of time in that capacity would not know how to treat a Prime Minister or would not know how to treat appropriately the other people who were with the Prime Minister?

And still further on:

Nevertheless according to this record which, as I say, came from the labour people, he was demoted for that reason. I regret to say that the president of the Canadian National Railways gave a different reason. I regret that Mr. Gordon, for whom I have immense respect, gave this reason because I cannot accept it and I do not believe anyone in this House can accept it.

Now, Mr. Chairman, the chairman of the Canadian National Railways has denied that charge, he has denied that allegation publicly in the press, and he denied it here again yesterday, and I, as a responsible minister of the Crown, deny it myself and say that I had no knowledge of it, nor did I have any interference whatsoever in this matter. Now, then, I just put that on the record in passing because my friend seemed to indicate, oh the Prime Minister has nothing to do with this, but in the four statements I have read he is dealing exclusively with the Prime Minister as he goes along.

Now, if I may conclude what I have to say in this way. This committee in the past has made important decisions, and one of them is that decision which I have indicated that we have made, namely, that the Canadian National Railways hotel system is under the management of the board of directors of the Canadian National Railways and it has been a long established policy of the government not to interfere with the management function of the Canadian National Railways. I say here and now that the government has not interfered through its minister, or certainly through any other means that I am aware of. The employee in question is an employee of the Canadian National Railways and he is responsible to the management, and to the management alone. He is not a government employee and he is not in any way subject to public interference or control. The policy of the management of the Canadian National

Railways is to operate this transportation system, including these hotels, efficiently and in the best interests of the country, and to do this the management of the railway, to do it effectively, must have a free hand with its employees. Now, that is the statement which Mr. Gordon attempted to give, and did in fact give yesterday. On the other hand, my hon. friend, notwithstanding that, insists that there has been political interference. I deny that there is.

Mr. MACDONNELL: May I have a word, Mr. Chairman? May I at least read what I said—

The CHAIRMAN: On a question of privilege, yes, but I think we have gone too far afield on the question of privilege.

Mr. McCULLOCH: Cut it out.

The CHAIRMAN: I want to be fair to the committee and I want to be fair to Mr. Macdonnell.

Mr. MACDONNELL: I just want to read one sentence to support what I said in my original speech in this matter. I referred to the Prime Minister in the same way I did last night. I am reading from page 578 of *Hansard*:

And finally, I put it up to the Prime Minister who was there. He, I believe, would have no patience with this kind of thing.

Now, Mr. Chairman, may I have a moment more to reply to the minister. I just want to say two things. I am not going to argue about your judgment. You have given that. It has already been pointed out, and I think the minister agrees that there is no question here of giving information that could be valuable to competitors, and to remind you that it was not only suggested, but I was challenged by Mr. Howe that I should come here, and what he said was:

He could demand the files, he could demand operating results, he could go to the bottom of this matter, and it certainly is his duty to parliament to do so.

Hon. Mr. CHEVRIER: May I interrupt you there? You were challenged to come here and ask questions, but you came here and made a 30-minute statement contrary to the practice of this committee.

Mr. MACDONNELL: I realize that a statement by Mr. Howe does not necessarily affect the practice of this committee. I am only saying that a responsible minister, when this was up in the House, said to me that that was the wrong place and "you should go to the committee".

Hon. Mr. CHEVRIER: He was quite right in saying that, because this is the place to deal with it.

Mr. MACDONNELL: Well, I am dealing with it.

Hon. Mr. CHEVRIER: Well, why not ask questions of the witnesses?

Mr. GORDON: Give me a chance to answer.

Mr. MACDONNELL: I do wish to say that I think the minister, instead of trying to prevent this thing from being gone into, with the documents produced, should have supported me. Obviously I am not going to spend a lot of time on that, because he did not support me, but I am saying that while I am on record—Mr. Pouliot read what I said, and I think I know something of the proprieties of managing a corporation, but I say there is a whole world of difference in this. This has arisen because of the action of fellow employees and it became a matter of public knowledge. I still maintain if this is hushed up it will be a bad thing, and I feel it should be gone into, and I feel if we are prevented here from going into it—

Hon. Mr. CHEVRIER: Go into it, then.

Mr. MACDONNELL: We are asking for the documents to be brought here so that we can go into it.

The CHAIRMAN: Gentlemen, we had a motion before us for the production of papers, and after an extended discussion—and I believe I showed great leniency in the discussion—

Mr. FULTON: You read a prepared statement.

The CHAIRMAN: I ruled. Do you object to a person studying a serious problem before expressing an opinion on it?

Mr. FULTON: I said that you read a prepared statement.

The CHAIRMAN: And so I did.

Hon. Mr. CHEVRIER: And so did Mr. Macdonnell. He read a prepared statement too.

The CHAIRMAN: Order, gentlemen. I ruled that the motion for the production of papers in this connection was out of order. Mr. Macdonnell has appealed from the ruling of the chair. I think I should explain to the committee why I consider that in fairness the rules of order should be bent a little. Mr. Macdonnell did make a statement in the heat of the discussion last night which was not factually correct. Therefore I think he should have an opportunity to retract that statement.

Mr. MACDONNELL: What I said, Mr. Chairman, was correct. I had a message from him.

The CHAIRMAN: I shall read from the record just what you said, Mr. Macdonnell. This is what was said:

“Mr. Gordon: To whom did Mr. Pitt make this request?”

That was a request to come and give evidence. And you said: “To me.” That is not factual.

Mr. MACDONNELL: It is true that I have been at pains to explain, but at the time the atmosphere was not good for explanations. But I repeat that the statement was correct. He did make a request to me and it came through a mutual friend in Winnipeg. That was his request.

Hon. Mr. CHEVRIER: I would like to hear from Mr. Gordon.

The CHAIRMAN: We shall come to that. Gentlemen, I think I have allowed perhaps more laxity than I should have in regard to this question of privilege. But I have done it. The appeal is from the ruling of the chair and the question is not debatable. All those in favour of sustaining the ruling of the chair will please signify.

Mr. FULTON: Mr. Chairman, may we have a recorded vote? Somebody says “too late” but I submit it is not too late.

The CHAIRMAN: All those opposed to the ruling of the chair? Mr. Fulton has asked that we have a recorded vote. He is late in asking for it but I instruct that the vote be recorded.

Mr. FULTON: Under the rules, Mr. Chairman, I submit that we can ask for a recorded vote. I think you will find under the rules that I was in time.

Mr. JAMES: Let us record it. What is the difference?

The CHAIRMAN: Let us take a recorded vote. The request is in.

(At this point a recorded vote was taken.)

The CHAIRMAN: I declare the appeal from the ruling of the chair to be lost. Now, we have a motion of Mr. Macdonnell's before the chair that Mr. Pitt be called before this committee as a witness.

Mr. FULTON: And Mr. Sommerville.

The CHAIRMAN: And Mr. Sommerville. As these men are employees of the Canadian National, I would like to have a statement from Mr. Gordon in this regard.

Mr. GORDON: Mr. Chairman, there are so many sections of this particular question now which have accumulated that I must ask for your indulgence if I try to cover the ground in respect of principle particularly.

I think I should first of all comment on Mr. Macdonnell's assertion this morning with respect of Mr. Pitt. I feel it my duty to defend Mr. Pitt.

When I left this parliamentary committee last evening I was not in a very good frame of mind. So I called my secretary and I dictated a statement of which I will now give you the essence.

Just at the close of the parliamentary committee proceedings this evening, Mr. J. M. Macdonnell made a statement. He said something as follows: "The shoe here is on the other foot. Mr. Pitt is asking that he be heard by this committee."

I thereupon directed a question to Mr. Macdonnell and I asked him to whom had Mr. Pitt made such a request. And Mr. Macdonnell's reply was that Mr. Pitt had asked him, (Mr. Macdonnell), to make such representation.

Mr. MACDONNELL: I said that it came to me.

Mr. GORDON: The words as I recall them, were "to me".

Mr. MACDONNELL: That is right.

Mr. GORDON: I then stated to Mr. Macdonnell that Mr. Pitt in my opinion had no right to make such a request through Mr. Macdonnell when he, Mr. Pitt, should have submitted it to me.

There was a great deal of further conversation, most of which I presume is recorded in *Hansard*. I do not recall too clearly much of that conversation, because quite frankly, I admit that I lost my temper.

However, upon returning to my hotel I telephoned to Mr. Pitt and I asked him if he would reply to a simple question and tell me if he, Mr. Pitt, had asked Mr. Macdonnell that he be called before the committee as a witness.

Mr. Pitt immediately denied that he had made such a request. He said that some friends of Mr. Macdonnell's had approached him and asked him if he was willing to appear if called as a witness. Mr. Pitt said that if he were called by the committee he could not do anything else but appear.

Mr. Pitt repeated emphatically that he did not make a request of Mr. Macdonnell to be brought before the committee. That is all the conversation I had.

At this point I wish to direct my further remarks solely to the question of principle here involved and the effect on management as I see it. It seems to me that the only question properly at issue is the allegation contained in a news report published by a Winnipeg newspaper charging that Mr. Pitt's transfer from the Fort Garry hotel in Winnipeg to the Prince Edward hotel at Brandon was brought about as a result of political interference arising out of the visit to Winnipeg by the Prime Minister.

That news report was not referred to the management of the Canadian National hotels before publication either for verification or for comment. Moreover, no charge such as contained in a newspaper report has ever been lodged with the management of the Canadian National hotels or myself.

As soon as the news report was brought to my attention I promptly denied its allegations and I authorized a statement in quotations to that effect. Nevertheless, on the basis of this wholly unconfirmed news item, and despite prompt denials of its accuracy by those concerned, there have appeared in the newspaper editorial comments, and in statements in the House of Commons, as well as in some correspondence, claims and allegations about political interference in the Canadian National hotel management.

To each and every one of these I repeat my categorical statement that no complaint has been registered either by the Prime Minister or on behalf of him in respect to the visit in question to the Fort Garry hotel.

Further, I now state equally categorically that no attempt of any kind has been made to influence the management of the Canadian National hotels in regard to the placement of any member of its staff, and that any decisions of this kind have been solely those of the management. I should also point out that Mr. Pitt was given the opportunity to discuss with me the reasons for his transfer following which I confirmed to Mr. Pitt orally the decision of the general manager of hotels. Mr. Pitt accepted that decision and so far as I have knowledge, Mr. Pitt has authorized no one to make further representations on his behalf.

For the reasons which I stated yesterday I regard it as most improper and highly unfair to any employee that his service record should be made a matter of public disclosure. Accordingly, the reasons leading up to our decision to transfer Mr. Pitt are purely matters for the internal management of the company, and I am strongly of the opinion that management's authority over the transfer, promotion and discipline of every employee must be placed beyond the possibility of doubt.

In parenthesis I may also say that I am delighted to realize that public opinion is so sensitive about any possibility of political interference with the management of the Canadian National, and I assure the committee, and through it every employee in the Canadian National organization, that if there were the slightest substance to these fears, I would be the first to complain.

Mr. Chairman, perhaps I may now deal with the question of principles as I see them and I wish to make a special statement in that connection. In the course of my duties I travel a good deal and I meet a great many people. In meeting a great many citizens in the course of my travels, I make it a practice to inquire about their experience with Canadian National service in its various forms. Moreover, I receive a heavy mail flow from people who write me about their experiences with our facilities,—some in commendation, some in criticism.

Still further, our public relations officers across the country keep in touch with expressions of opinion. In this way, I, as well as other senior officials of the railway, keep informed about how our patrons regard us and by acting promptly to correct evidences of indifference we often pacify customers with grievances or, alternatively, we build up staff morale by giving a pat on the back to an employee who has attracted commendatory comments by living up to our motto of "courtesy and service".

This is an important point of principle which I would ask the committee to consider very seriously. If the management of the Canadian National system were to be required to divulge the names of customers or others who have made comments about our services or be obliged to reveal what has been said in private conversation or correspondence then it would, in my judgment, become impossible to obtain this frank or constructive comment which is helpful to management.

Naturally we do not accept at face value all that we hear but it is of interest for us to know what people think of us and to have opportunities to investigate specific situations as we do. Still further, if individuals who have conversations with Canadian National management are to be subjected to call before parliamentary committees, it would rapidly become impossible for us to do business.

I conclude by affirming on my personal word of honour that there has not been the slightest interference, nor the slightest pressure upon me, or to my knowledge, upon any official of the Canadian National Railways, having regard to the transfer of Mr. R. S. Pitt.

Mr. MACDONNELL: Apparently there is one place in which there is agreement and that is that Mr. Pitt is ready to come if requested. That was what I said in my statement this morning and you can see that my statement was perfectly correct.

The CHAIRMAN: Are you ready for the question?

Mr. FULTON: Mr. Chairman, there are certain things which I think should be said before the question is decided. Mr. Macdonnell has made it clear that in anticipation of the challenge of his statement he felt it necessary to ascertain whether or not Mr. Pitt would be willing to come before the committee. He so ascertained and Mr. Pitt has indicated that he would be willing to come if called. That is the first thing. Now, certain of the statements made by Mr. Macdonnell have been called in question, and the whole situation has been called in question by the statement which has been made by Mr. Gordon and which I feel he was bound to make. I think that under those circumstances that is the only way we are going to get at the truth. I am not criticizing them for it, but it is obvious from the attitude of some members of the committee that they are disposed to question the accuracy of Mr. Macdonnell's statement.

This whole situation arises out of a very serious suggestion that has been made namely, that there has been an attempt to bring political pressure on the management of the railway. I should say to you, Mr. Chairman, and the committee that matters have now gone beyond the point where any ordinary principles might govern, such as those referred to by the minister. We can only settle this question if we call Mr. Pitt and Mr. Sommerville as witnesses before the committee.

I suggest that the statement made by Mr. Gordon is the strongest possible argument that this committee must call Mr. Pitt to get at the facts. Otherwise it will be left in the realm of uncertainty. And I submit that otherwise the suggestion which has been made that there has been political pressure brought to bear will not be disposed of.

Mr. BENIDICKSON: In other words, you do not believe Mr. Gordon.

Mr. FULTON: I submit that this issue will not be disposed of or the facts known until the witnesses, Mr. Pitt particularly, and Mr. Sommerville are called before the committee.

Mr. GORDON: What witness can give better evidence than mine in regard to that point?

Mr. FULTON: I suggest to you that Mr. Pitt can give evidence as to the circumstances surrounding his transfer.

Mr. GORDON: The transfer of Mr. Pitt was a decision taken by the management. I discussed the reasons with Mr. Pitt. He knows them. The decision that was made by the general manager of hotels was investigated by myself and I confirmed it. I have stated to you the only way in which there could be the slightest suggestion of political interference, in my judgment, would be that if there had been any impact on my mind by anybody to make that decision, but no witness in the world that you could call can state what motivated my decision on this matter. And I submit to you that I am the only person in the world who can reply to the question as to whether or not there was political interference because I was the man who made the final decision.

Mr. FULTON: May I ask you this question, Mr. Gordon: You would naturally receive a recommendation from your general manager of hotels.

Mr. GORDON: That is right.

Mr. FULTON: Would you care to admit that it is relevant to this discussion to find out the whole circumstances under which the general manager of hotels arrived at his decision which caused him to make a recommendation to you?

Mr. GORDON: The point is that the general manager of hotels arrived at his decision for a series of reasons which I say, as management, should not be a matter for public discussion. And I simply touched on the point of principle as to the political interference. The charge here, after all, is not

whether I made a bad decision, or even that. It is not whether I made an unfair decision, or even that. The charge here is only that there has been political interference.

Even if I had made a bad decision, it is still not the business of this committee to investigate it. You have a right to have an opinion about me as President of the Canadian National Railways. But as President of the Canadian National Railways I must take the responsibility for management, and I must have supreme authority and control over the staff and employees of the Canadian National Railway Company.

Let me ask you this one question, Mr. Fulton. A man in your constituency, let us say, working for the railway, is dismissed from the service. He does not like it. No man likes to be dismissed. He appeals to his superior officer, and in due course the appeal comes to Mr. Dingle, the Vice-President of Operations; and in due course the appeal will reach me. It is my duty to examine his appeal and give him a fair trial. Now, of necessity, if management is to have any authority over staff, that must be the end of the matter.

If an employee is to be given the right to appear before this committee and argue his case, then the authority of management disappears. There is no business in this country that can operate that way.

Mr. FULTON: But the situation here, I suggest to you, is very very different. We are not asking Mr. Pitt to appear. The suggestion is not that the committee ask Mr. Pitt to appear before it to argue his case. The suggestion is that Mr. Pitt be called before the committee in order to answer questions which members of the committee may put to him.

And I say to you in answer to the proposition which you have just made, that if I had any reason—you have stated it as just a general proposition and you will permit me to do the same, and you will leave personalities out of it—that if I had any reason after such an investigation as I have been able to make of the case to conclude that this hypothetical man in my constituency had been unfairly treated, then I would most certainly be prepared to bring it before this committee and demand that the employee be called before the committee to answer questions which I would ask that employee.

Let me conclude here, Mr. Gordon.

The CHAIRMAN: In order that there will be no question as to who has the floor, will the members please stand when they are addressing the chair.

Mr. FULTON: Mr. Gordon.

Mr. POULIOT: Mr. Chairman, the question I will ask you to discuss with Mr. Macdonnell and Mr. Fulton is this. I have no power of attorney, but I shall ask a question, if you will permit me.

The CHAIRMAN: If Mr. Fulton is willing to have a question asked, then all right.

Mr. FULTON: May I suggest that after I am finished, and if I have not asked all the questions that I should, that I will be prepared to allow Mr. Pouliot to ask any that I left out. Mr. Gordon has himself stated as to the reasons for his decision in this or any other case, that he is the only man who would know what is in his mind when he makes that decision. That, of course, is obvious, but I submit that it is a principle, and I ask Mr. Gordon if this is not correct; is it a principle of management that management receives recommendations, that is, the top men receive recommendations from those whom they have placed in positions of responsibility to carry out the diverse functions of the railway?

Mr. GORDON: Yes.

Mr. FULTON: And when these subordinates arrive at their decision to recommend a certain course of action, the motives and reasons in the minds of those subordinates would be known only to them. So it seems to me that

it is very simple. There have been statements and there has been, I suggest, a good deal of evidence to support the claim that there is evidence of an attempt to bring political pressure to bear, but the first place where that would be brought to bear is, as I suggest in the case of a complaint or an incident involving the manager of a hotel, is at the level of the general manager of hotels. The only person who can answer questions as to the circumstances under which those complaints involve the manager of one of those hotels would be the general manager himself, and Mr. Gordon would not necessarily, I submit to you in all seriousness, know all the surrounding circumstances, particularly those which do not appear in the record.

Mr. BENEDICKSON: He says he does know in this case, though.

Mr. FULTON: Mr. Gordon has said that nobody but himself knows what is in his own mind when he arrives at a decision, but the general manager of hotels would know all of the circumstances when he came to a certain decision. All we are asking is that that gentleman, who is not a junior official but is a pretty senior official of the Canadian National Railways, be called before this committee so that he can be questioned to explain the circumstances under which he made the decision he did.

The CHAIRMAN: Do I understand this, that having called this witness, who is junior to the president, and after hearing his evidence, is it your contention then that if his evidence is so and so, that this committee should overrule the decision of the president of the company in a matter regarding staff?

Mr. FULTON: I am not suggesting what action this committee might take after hearing the evidence.

The CHAIRMAN: What other action would you take? Are you not driven to that? I would suggest you read from Arthur Meighen, Sir George Foster, Sir Thomas White.

Mr. FULTON: One thing that still might be open to this committee to do after hearing the evidence would be to pass a motion of censure on the government in the matter—

Mr. BENEDICKSON: Over the word of honour of the president?

Mr. FULTON: —for having brought political pressure to bear on any official of the Canadian National Railways.

Mr. GORDON: That is not true.

Mr. FULTON: You are now saying, Mr. Gordon, you know what was in the mind of Mr. Sommerville.

Mr. GORDON: I do know, because it was my duty to inquire of Mr. Sommerville and ask him to explain the decision to me. We are talking here about a principle of management which is fundamental, and that is the authority of management over its staff. Now, it has been clearly stated here that the management of the Canadian National Railways has to be an independent management free from political interference and that the business should be run as any other business. If this principle is established that you have the right to call the general manager of hotels of the Canadian National Railways, then I would ask you why you should not call the general manager of Canadian Pacific Railway hotels and ask him why he made a transfer of, let us say, the manager of the Royal York Hotel.

Mr. FULTON: I answer Mr. Gordon by saying if I were a shareholder of the Canadian Pacific Railway and I thought that an employee of the company had been demoted or transferred for reasons which were unjust and which should not prevail in the management of that concern, I should most certainly take the opportunity of attending at the annual meeting and bringing the question up.

Mr. BENEDICKSON: And you would talk only to the president of that company.

The CHAIRMAN: And how far would you get?

Mr. FULTON: I know that I would not find any more loaded committee against me than I find here in the case of Mr. Pitt. Now, Mr. Gordon has made certain statements here and I would like to ask him some questions arising out of what he just said. I want to know whether a message was sent on or about the 22nd September to the Fort Garry Hotel, which is about ten days after the visit of the Prime Minister's party, demanding the submission of the file in connection with the matter of the Prime Minister's reservation.

Mr. GORDON: That is quite true.

Mr. FULTON: And on September 23, was there a further wire sent saying that the file had not yet been received?

Mr. GORDON: I cannot confirm the date, but the files of that visit were requested by the general manager at my suggestion. It was several days before the manager replied to that request.

Mr. FULTON: And that initial request was made by you ten days after the visit of the Prime Minister to Winnipeg?

Mr. GORDON: I won't dispute your date, but that would be approximately correct.

Mr. FULTON: Now, did Mr. Sommerville—

Mr. GORDON: And, incidentally, that is not all that was asked for.

An Hon. MEMBER: Would you like to hear it?

Mr. FULTON: If Mr. Gordon wants to say what else was asked for, he can do so.

Mr. GORDON: I asked for sufficient information to review the case and the decision which the general manager of hotels had made. I asked him to place before me the record on which he based his recommendation in order that I would make a suitable inquiry into it.

Mr. FULTON: When was that recommendation of the general manager of hotels received by you?

Mr. GORDON: I could find that date.

Mr. POULIOT: Owing to the Connelly precedent, I would suggest to Mr. Fulton to be very careful.

Mr. GORDON: It is too late, Mr. Pouliot. The recommendation made to me by Mr. Sommerville—at least, the recommendation that came in the first instance through my executive assistant for the changes in the hotel organization that included the transfer of Mr. Pitt, was made under date of October 14.

Mr. FULTON: Well, Mr. Gordon, I think you told me that you had caused the instructions to be given which resulted in the request for the file in connection with the Prime Minister's reservations, which was made on September 22. You told me you made that request on a recommendation from Mr. Sommerville?

Mr. GORDON: Well, then, I must have misunderstood the meaning of your questions. I instructed Mr. Metcalf, who is my executive assistant and in the first instance the supervisor of hotel operations for me, to instruct Mr. Sommerville to make a review of our hotel operations with particular reference to the Fort Garry Hotel, because information that I had received from a number of places had indicated that the service at the Fort Garry was not satisfactory and not up to standard, and as a result of my general request that there should be a review of our hotel operations. With that in mind Mr. Sommerville,

after investigation, in a report to Mr. Metcalf dated October 14 made his recommendation that there should be certain transfers made in our hotel organization, which included the transfer of Mr. Pitt.

Mr. FULTON: Then I shall have to go back to my initial question as to the dispatch of the message on September 22 calling for the file in connection with the reservation of rooms for the Prime Minister and his party.

Mr. GORDON: The origin of that is a letter from Mr. Metcalf to Mr. Sommerville carrying out my instructions.

Mr. FULTON: When were your instructions given?

Mr. GORDON: My instructions were given under date of September 19, and following my instructions, which were directed to Mr. Metcalf, Mr. Metcalf wrote to Mr. Sommerville a letter in which he called for that review. Mr. Sommerville made his review and in due course, as I have said, made his recommendations that he felt a shake-up in the organization was called for.

Mr. FULTON: On September 22, Mr. Sommerville sent a message requiring a file at the Fort Garry Hotel about the Prime Minister's hotel reservations.

Mr. GORDON: It was following my letter. If we must be precise in dates, I suppose I can trace it. Mr. Sommerville wired to Mr. Pitt on September 22, asking for the file. The only message that he sent him without any comment at all—I think I might as well read this message:

Send first airmail your file on reservations for the Prime Minister and also state what accommodation he and his party occupied.

That was dated September 22nd.

Mr. FULTON: Is there a further telegram on September 23?

Mr. GORDON: He wired him again, asking why it had not been sent.

Mr. FULTON: That was one day later, asking him why it had not been sent?

Mr. GORDON: That is right.

Mr. FULTON: Do you not think that indicates some rush or desire to receive this file?

Mr. GORDON: It indicates simply that Mr. Sommerville had had experience before with delays in the Fort Garry Hotel.

Mr. FULTON: I suggest that when your wire of September 22, asking for a file from Winnipeg, was received, that there was hardly time to comply when the second wire of September 23 was sent, and in this I suggest that some indication of urgency is apparent about receiving it.

Mr. GORDON: I have no doubt Mr. Sommerville wanted to complete his review as rapidly as possible. Mr. Sommerville was due to leave on a trip having to do with affairs at Jasper—no, it was later than that, he was due to leave on a trip and was anxious to get this matter cleared up.

Mr. FULTON: Would you expect to receive a file in one day from a place as far away as Winnipeg?

Mr. GORDON: Certainly.

Mr. FULTON: How?

Mr. GORDON: What have we got air mail for?

Mr. FULTON: Would you read the first wire again, the September 22nd wire?

Mr. GORDON: "Send first airmail your file on reservations for the Prime Minister and also state what accommodation he and his party occupied."

At that point Mr. Sommerville knew nothing about the matter except what I had told him, to make an investigation.

Mr. FULTON: Yet he asked specifically for the file on the reservations of the Prime Minister's party?

Mr. GORDON: That is right.

Mr. FULTON: Mr. Sommerville went out to Winnipeg, did he not, in October?

Mr. GORDON: I believe so, yes.

Mr. FULTON: Do you know what information he gave to Mr. Pitt at that time?

Mr. GORDON: Yes, I do. I have the report of it.

Mr. FULTON: What does it say?

Mr. GORDON: I am not going to discuss what Mr. Sommerville talks to Mr. Pitt about, nor am I going to give the reasons, as I said before, which will have any reflection on Mr. Pitt. Mr. Pitt is entitled to be defended in that respect and I propose to do so as far as I can.

Mr. FULTON: Mr. Pitt has already indicated his willingness to come here.

Mr. GORDON: Mr. Pitt has simply answered a question. Someone went to him and said: "Mr. Pitt, will you appear before the committee if you are called?" and Mr. Pitt said, "what else can I do?" He did not ask to come.

Mr. FULTON: I am not pressing that point.

Mr. GORDON: I am pressing it because that is the statement that was made.

Mr. FULTON: The statement I am making—

Mr. MACDONNELL: My statement, I believe, was that he was ready and was willing to come.

Hon. Mr. CHEVRIER: You said he told you that he was coming.

Mr. GORDON: You said the reply was "to me".

Mr. FULTON: I think we can dispose of this—

Mr. MACDONNELL: I was at pains to explain this morning that it was relayed through a responsible person, and I explained that so that there would be no misunderstanding.

Mr. FULTON: We can dispose of this by saying that, whether or not Mr. Pitt is willing to come, it is obvious that this committee is not willing to hear him, for obvious reasons.

Hon. Mr. CHEVRIER: You are trying to make a political issue in this committee.

Mr. FULTON: I take it, Mr. Gordon, you refuse to give us any information with regard to this conversation?

Mr. GORDON: I will not disclose the file of Mr. Pitt's service record with the hotels for reasons which I have already given. That is not fair to Mr. Pitt. There is no reason why Mr. Pitt should have his file revealed to this committee, and the same applies to 120,000 other employees.

Mr. FULTON: There is a letter dated October 27, apparently confirming that Mr. Pitt would be transferred and stating what his salary would be.

Mr. GORDON: I think, Mr. Chairman, I had better claim privilege that I am not going to be talked into revealing individual letters. I have already gone too far on that. It is perfectly true I had the recommendation of the general manager to transfer Mr. Pitt to Brandon, and that is what took place.

The CHAIRMAN: The chair has already ruled as to your position and the committee has supported the ruling of the chair. You should not in the committee make any disclosure of contents of documents or anything regarding internal management of the Canadian National Railways.

Mr. FULTON: Was Mr. Pitt informed on November 27 that he would be transferred to Brandon at a salary of \$440 per month?

Mr. GORDON: That question has been answered in the House, so I see no objection, Mr. Chairman, to repeating that Mr. Pitt was so advised and he was told what his salary would be. It has also been answered in the House that a decision was later made that his salary would not be changed. If you will ask me why, I will be glad to tell you.

Mr. FULTON: I want the full information.

Mr. GORDON: The decision for the transfer would carry with it the normal salary and the position at the Brandon Hotel carried with it that salary. That is the salary that would be payable to Mr. Pitt after that decision has been made. Mr. Pitt made representations to Mr. Sommerville and Mr. Sommerville came to me and recommended that in view of personal reasons which Pitt had disclosed to him, which would indicate that because of his personal situation, his money position being what it was, that a reduction in salary would work a very severe hardship. Mr. Sommerville and I discussed that point and we decided that, all things considered, it was unnecessary to impose that further hardship on him, but purely because Mr. Pitt appealed to us on personal grounds which I am not prepared to disclose, and I call to your attention if I produce that file that among other things that will be disclosed, and that is not fair to Mr. Pitt.

Mr. FULTON: Then let Mr. Pitt come before this committee. He is willing to come before the committee.

The CHAIRMAN: That is not true. I am taking the word of the president against the hearsay statement of Mr. Macdonnell.

Mr. GORDON: In all fairness to Mr. Macdonnell, he has amended his statement. He no longer says he was requested by Mr. Pitt to arrange for him to come before the committee.

The CHAIRMAN: Have matters got to the point, Mr. Fulton, in this committee, where a member of the committee will say he won't take the word of the president of the Canadian National Railways against hearsay evidence?

Mr. FULTON: You are very skilful, Mr. Chairman, in trying to place a member in a position—

An hon. MEMBER: You are not out in Kamloops, now.

Hon. MEMBERS: Order, order.

Mr. FULTON: I will leave that particular matter to be dealt with by Mr. Macdonnell, who will leave no doubt about it, but we have it established now from Mr. Gordon's answer that Mr. Pitt was first informed he would be transferred to Brandon at \$440 per month, and afterwards he was informed that his salary at Brandon would be the same as his salary in Winnipeg.

Mr. GORDON: For reasons which I gave him. I want again, in fairness to Mr. Pitt, to make this statement, that I informed Mr. Pitt that he had every opportunity to progress in the service of the hotel system, and I do suggest here that all this sort of thing that has gone on has been most prejudicial to the personal position of Mr. Pitt, and I imagine that when he says his prayers he also says, "Oh, Lord, deliver me from my friends!"

Mr. FULTON: You are, of course, suggesting in that statement that this matter has been embarked upon lightly, and without considering the position of Mr. Pitt. I am in a position to inform you that this matter has not been embarked upon in that manner at all, and it was for these reasons that the precaution was taken of ascertaining from Mr. Pitt whether he would have any objection to this course being pursued, and if he had any objection to our asking for full disclosure of the facts, and Mr. Pitt's answer to Mr. Macdonnell was that he would have no objection.

The CHAIRMAN: Did he say that to Mr. Macdonnell direct?

Mr. MACDONNELL: I told you how it came about and I assume full responsibility for it.

Mr. FULTON: I suggest to you if Mr. Macdonnell had got in touch with Mr. Pitt direct, you would be the first to say that that was a very improper action. Gentlemen in this country are entitled to place reliance on the words of other gentlemen, and that is what Mr. Macdonnell is doing.

Hon. Mr. CHEVRIER: May I ask you a question?

Mr. FULTON: Not just now.

Hon. Mr. CHEVRIER: I would like to ask you a question.

Mr. FULTON: Wait till I have finished.

Hon. Mr. CHEVRIER: Then you deny me the privilege?

Mr. FULTON: You can ask me your question later, but I wish to complete this portion because the suggestion is continually being made that Mr. Macdonnell is denying the accuracy of what Mr. Gordon has said. Mr. Macdonnell has said, and I know he will repeat it, that he took the precaution of ascertaining Mr. Pitt's reaction through an intermediary.

Hon. Mr. CHEVRIER: Who is the intermediary? Tell us who it is. If you do not, I will put it on the record.

Mr. FULTON: All that Mr. Macdonnell has said is that he has ascertained from Mr. Pitt whether he would have any objection to this matter being taken up in the committee and pressed to its utmost conclusion, and if he had any objection or reservation with respect to the disclosure of the fullest information, and the answer which Mr. Macdonnell received, through the intermediary, was that there would be no such objection, and there is nothing there inconsistent with what Mr. Gordon has said.

Mr. GORDON: Mr. Pitt has made no representations for further investigation.

Mr. FULTON: Mr. Macdonnell did not say that Mr. Pitt made representations.

Mr. GORDON: Who is Mr. Pitt working for?

Mr. FULTON: I repeat, the fact has been established that the approach was made to Mr. Pitt and that the answer was received, an answer upon which reliance was placed, that he would have no objection to having this matter pressed in the committee. I will leave that there.

Hon. Mr. CHEVRIER: May I ask my question now? Who is the intermediary that operated between Mr. Macdonnell and Mr. Pitt?

Mr. POULIOT: Tim Buck!

Mr. FULTON: You will have to ask that question to Mr. Macdonnell if you wish, and the answer—I am not sure you are entitled to an answer.

Hon. Mr. CHEVRIER: Then I ask Mr. Macdonnell.

Mr. FULTON: Will you wait? I have just a few more questions to ask. Mr. Gordon, you have heard the facts that have been placed on the record by Mr. Macdonnell last night as to the circumstances of the Prime Minister's visit and the visit of Mr. Pickersgill. With regard to the items, do you accept that statement as correct or have you any alterations to make?

Mr. GORDON: I am not going to start a trial as to somebody's assertions as to what happened. I merely say this, that following Mr. Sommerville's inquiry as to the handling of a party, whether it was the Prime Minister's party or any other, at my request he inquired into the handling of a party, and on the basis of his examination he came to the conclusion and reported to me that he was dissatisfied with the handling of that party. He also reported to me that he was dissatisfied with a great number of other matters.

Mr. FULTON: And you have no alterations or corrections you wish to make as to the assertions of fact?

Mr. GORDON: Now, wait a minute. You are putting words in my mouth.

Mr. FULTON: I asked you this. I said, do you wish to make any alterations or corrections as to the assertions of fact which Mr. Macdonnell placed on the record last night regarding the circumstances of the visit of the Prime Minister's party?

Mr. GORDON: Assertions of fact by whom?

Mr. FULTON: Mr. Macdonnell.

Mr. GORDON: Wait a minute. I reply to that very simply, that I heard no assertions of fact.

Mr. FULTON: You reveal then a hardness of hearing which is not characteristic of you. Mr. Macdonnell has made assertions of fact. They are on the record. I ask you if you wish to avail yourself of any opportunity of altering or disagreeing in any respect with the assertions that have been made, and I may point out to you that up to the present you have indicated to me that you do not wish to make any corrections of these assertions.

Mr. GORDON: I have done no such thing, Mr. Fulton, with all respect. I have said I have not heard Mr. Macdonnell make any assertions of fact of which he has knowledge. He has placed on the record that some mysterious person has given him some information. He has also said that somebody wrote him a letter on behalf of Mr. Pitt.

Hon. MEMBERS: Order, order.

Mr. FULTON: Mr. Gordon, I point out you are not answering my question. My question relates to the circumstances of the visit of the Prime Minister and his party and Mr. Pickersgill, on which Mr. Macdonnell did not rely on letters, as you yourself know. There have been statements appearing in the newspapers and coming to the attention of the public as to the circumstances of the visit. There is additional information which may be in my possession or in Mr. Macdonnell's possession, but I point out to you that Mr. Macdonnell made assertions of fact—

Mr. GORDON: Of which he has no knowledge.

Mr. FULTON: —with respect to the circumstances of that visit, and they are on the record.

The CHAIRMAN: I would ask, Mr. Fulton, that you would state your—

Some hon. MEMBERS: Order, order. Sit down.

Mr. FULTON: Mr. Chairman, I yield.

The CHAIRMAN: I would ask, Mr. Fulton, that you would state your question and then that you would permit Mr. Gordon to answer without intermingling arguments as he answers.

Mr. POULIOT: And do not speak when he answers.

Mr. FULTON: I will be glad to state my question, but I would ask that you require the witness to answer the question and not to make arguments when he is answering, and not to make statements that have no reference to the question.

The CHAIRMAN: Let us get on!

Mr. FULTON: My question, Mr. Gordon, is in reference to a statement of fact.

Mr. JAMES: Of fact?

Mr. FULTON: Which Mr. Macdonnell placed on the record with reference to the circumstances surrounding the visit of the Prime Minister and his party to the Fort Garry. Do you disagree with that statement or do you want to vary the facts of it?

Mr. GORDON: I have heard no statement of facts by Mr. Macdonnell.

Mr. MOTT: That is five times, Mr. Chairman. He has said it five times.

Mr. JAMES: Let us hear from a new one.

Mr. KNIGHT: It is a disadvantage in a committee of this kind, I have discovered, to have a soft voice. I did try to say something yesterday afternoon but with very little success. Mr. Macdonnell was allowed to make a long statement. I have no quarrel with that, but I think we should be allowed to say a word or two, because after all there are more sections than one in this particular committee.

I made a statement or a speech here — which is perhaps a different thing than in the House of Commons — and I want to say a word or two in relation to this matter now and get it over with. I want to state my position which is somewhat different from that of my hon. friend.

As I said yesterday, I was bringing no charge. I am not interested in the political implications of this thing, or in whether or not there was governmental interference with the management of the hotels. I am purely and simply interested in it as a member of parliament who has received letters. I have the letters here which could be filed. Of course, it is not necessary. But they are letters from various people. I have letters from doctors and from lawyers, and I have letters from employees of the Canadian National system and of the hotels. They have asked me to raise the matter, and it was with that intention and with that purpose only that I raised the matter in the House of Commons.

I say that the charges have not been all one-sided. And as I indicated yesterday, I would quarrel with the Minister of Transport in that connection. The Minister of Transport said that these gentlemen — and since I was in the opposition I thought perhaps he included myself — that this decision taken on Mr. Pitt, or whoever it was, was not a decision of the government, but actually a decision of the Canadian National and its management. I want to assert most vehemently that my sole purpose in raising the question in the House of Commons was to fulfil what I considered to be my obligation to my constituents who are interested in this particular thing. I say that the people in Saskatoon are greatly interested in this particular thing. I have an editorial from the *Star-Phoenix* which, at several places mentions dissatisfaction. As a matter of fact in the second line of the editorial it says:

. . . the dissatisfaction of thousands of his constituents of all parties when he asked for more information on the summary demotion of Mr. Bob Pitt from the Fort Garry hotel in Winnipeg . . .

And in regard to this particular matter. Moreover, further down it talks about this thing as being an outcry. And I would point out to all of you that this man, Mr. Pitt, is a man I do not know. I never met him but he was considered to be a very amiable, congenial and efficient person and a good manager so far as the Bessborough hotel was concerned. What his record was before or after I do not know. But I am conscious that was his record during the years he was manager of the hotel in my particular city.

I said that the minister had thrown some charges around, and he also said that we, and I suppose that includes members of the opposition — after all one can see a political element in the thing — he said there were political reasons. But I deny that and I deny it vehemently. And the third thing on which I would find fault with the minister is this:—that Mr. Gordon told us that he was defending Mr. Pitt. I hope he is but his Minister of Transport is not defending Mr. Pitt when he wrote to me in a letter which should become published and which letter says:

Office of the Minister of Transport, Ottawa, Canada,
December 2nd, 1952.

Dear Mr. Knight:

I have for acknowledgement your letter of November 28th, and I note your dissatisfaction at the answer which I gave in the House on the transfer of Mr. Pitt from the management of the Fort Garry hotel to that of the Prince Edward at Brandon.

You will appreciate that the question of changes in personnel in the Canadian National Railways is one of internal management, in which it has always been the policy of this department not to interfere. In this particular case when the question was asked in the House, I inquired, as I always do from the management of the railways and, based on the report which was given me, I replied to the query of the member for Lake Centre.

As it has been the practice in the House since formation of the Canadian National Railways, a committee will review again this year the affairs of that railway. You, as a member, will have the opportunity of seeking a reply to any question which you care to ask from the chairman and president, Mr. Donald Gordon. It may well be that the reasons for the transfer of Mr. Pitt, if made public, would react unfavourably to his cause.

Yours very truly,

(Signed) Lionel Chevrier.

R. R. Knight, Esq., M.P.
House of Commons,
Ottawa.

I suggest that neither the Minister of Transport nor any other man should leave a man's reputation in that regard under a shadow unless he is prepared to have witnesses called to this committee to have the matter thrashed out.

That is the reason I support the resolution which has been moved by my hon. friends to my right.

Mr. MOTT: No, to your left.

Mr. BENEDICKSON: Your rightist friends.

Mr. KNIGHT: I have dealt with the minister's statement and with the assertion that it is an attack on the railway company and with the assertion that there is a political intent which, on my own behalf I can only deny. And I want to say, too, that it raises the very same difficulty which came up this morning. I have to be fair, politically or non-politically so far as I am concerned. And if my hon. friends wish to sneer at that statement, they can apply it to their own case.

Mr. MOTT: We still sneer.

Mr. KNIGHT: Mr. Pitt has not taken any initiative in this question so far as I know. I have letters in my file to prove that Mr. Pitt was approached by a friend who, to my knowledge, did not have any political bias. He was simply a friend in the ordinary sense in which that expression is used. That friend approached Mr. Pitt, I think it is correct to say that Mr. Pitt was perfectly satisfied, or would be perfectly satisfied if an investigation such as Mr. Macdonnell wishes to have made were in fact made.

I have told you that there is in Saskatoon certain public dissatisfaction. I think that is a matter of record. And I would go further. I would say that

there is a feeling among certain railroad people that this thing should be brought into the open, and that if it is not so brought into the open there will be in their minds and in the minds of railroad employees and hotel management across this country some feeling of fear and uncertainty and, perhaps, some loss of morale which may not add to the efficiency of the hotel system.

In conclusion I would like to say that I am speaking not for the sake of a man as manager of a hotel or in a high position. I know that he works for a government corporation and I realize that. But after all, the public in my city, so far as it is concerned, whether rightly or wrongly, think that if there has been an injustice, it must be the duty of a member of this House to bring before this House any such case of injustice, when he is requested so to do. I would be just as interested in a janitor or in a man who wipes the floor. As a matter of fact, I know that man in the hotel very well.

I do know that this manager was a man of the highest principles and I know that he left a most favourable impression upon the citizens of my city when he left.

I would like to speak of one other thing and that is the interest which the legion has shown in this particular matter. I understand that Mr. Pitt was a veteran of the war. I do not want to go into past history, but there are assertions that Mr. Aslin and Mr. Pitt were at the war when the present general manager of hotels superseded Mr. Pitt.

Mr. GORDON: I object. I think that is scandalous.

Mr. KNIGHT: All right, I will leave it out then.

Mr. GORDON: I object that any member of the Canadian National system should have such a smear placed upon his name. I suggest, Mr. Knight, that you are by innuendo trying to reflect on Mr. Aslin or on Mr. Sommerville.

Mr. KNIGHT: No, I am not.

Mr. GORDON: I am going to defend the employees of the Canadian National Railways.

The CHAIRMAN: Mr. Knight, in view of the president's statement, I suggest that you—

Mr. FULTON: I think it is up to Mr. Knight, Mr. Chairman, if he cares to make the statement or not.

Mr. KNIGHT: I am not saying that. I am simply saying that there has been a suggestion made that when Mr. Pitt came back from the war he found that he was not in as good a position for promotion as he had been before he left.

Mr. GORDON: That is not true.

Mr. KNIGHT: Very well, I will not put it in the record.

Now, I have two letters. First of all the secretary of the legion wrote to Mr. Gordon and there is a reply from Mr. Gordon. And in reply we have a second letter from the legion of which, no doubt, Mr. Gordon has a copy. I can identify it by the date. It is December 18.

The CHAIRMAN: What are these letters? Whom are they from?

Mr. KNIGHT: This is a letter sent by the secretary-manager of the legion branch in Saskatoon. It is written to Mr. Donald Gordon in reply to a letter which is dated December 18.

Mr. GORDON: May I suggest that if Mr. Knight is going to read letters from the legion that he read them all.

The CHAIRMAN: I think that is only fair.

Mr. MUTCH: I thought we had settled that.

Mr. GORDON: If it is correct that he should read the letters, I suggest that he read them all.

Mr. KNIGHT: Very well, I will do that. I will read the first letter. It is dated November 25, and it reads as follows:

November 25, 1952.

Mr. Donald Gordon
President
Canadian National Railways
Montreal, P.Q.

Re: Mr. R. S. Pitt.

Dear Sir:—

On behalf of the officers and members of this branch of the Canadian Legion, I am to make the strongest possible representations to you, in view of the newspaper reports and editorials and the knowledge of the facts which we have been able to acquire by investigation, against the demotion of Mr. Pitt, who is a member of our branch of the Legion, in urging that the injustice done him be speedily rectified.

During his tenure here as manager of the Bessborough, we always found him kind, considerate and courteous. The cooperation which he extended us in our arrangements for our Dominion convention in 1948, left nothing to be desired.

He was and is, in our opinion, a valued executive employee of our national railroad system, and is not deserving of the demotion accorded him.

We therefore urge you to reconsider the matter and restore him to the managership of one of the system's hotels having at least an equal standing as the Fort Garry.

Yours faithfully,

H. T. Pizzey,
Secretary-Manager.

That was the first letter. I do not see the point of my reading it.

The CHAIRMAN: Then there is Mr. Gordon's reply?

Mr. KNIGHT: Yes. And Mr. Gordon replied on December 1, 1952, and it reads as follows:

December 1, 1952.

Dear Mr. Pizzey:

This will acknowledge your letter of November 25th, making known your views regarding the recent transfer of Mr. R. S. Pitt from Winnipeg to Brandon.

What you have said confirms my information about the work of Mr. Pitt when he was manager of the Bessborough hotel. It was on the basis of this record that he was selected to manage The Fort Garry, where certain services had been deteriorating.

Mr. MUTCH: Hear, hear!

Mr. KNIGHT:

Mr. Pitt remained in The Fort Garry post for more than a year when, further and faster improvement being considered necessary, the general manager of hotels recommended and was authorized to arrange a general shift of managers which involved Mr. Pitt's transfer to Brandon.

At the time, Mr. Pitt had a meeting with me here and he was told of the reasons that prompted the decision of the general manager of hotels. He was also assured that he would be given every opportunity to demonstrate his capacity for advancement in the future.

Yours sincerely,

D. Gordon.

H. T. Pizzey, Esq.,
Secretary-Manager,
The Canadian Legion of the
British Empire Service League,
Saskatoon Branch No. 63,
Saskatoon, Sask.

Mr. KNIGHT: To that letter Mr. Pizzey replied on December 18 as follows:

December 18, 1952.

Mr. Donald Gordon,
Chairman & President,
Canadian National Railways,
Montreal, P.Q.

Dear Mr. Gordon:—

I am to thank you most kindly for your letter of the 1st inst. relative to Mr. R. S. Pitt, and I am to press for a full impartial inquiry as to wherein he failed in his duty to assure "faster improvement" of conditions of operation while serving as manager of the Fort Garry hotel. According to our information considerable improvement was effected during his term of office of which many of us here, personally observed.

We believe you were wrongly advised by your general manager of hotels and cannot help but feel there must have been a motive for this, which very probably dates back a number of years.

In fairness to this war veteran and having due regard for his length of service with the hotels branch of our National Railways, we think you should be willing to initiate the inquiry pressed for.

Yours faithfully,

H. T. Pizzey,
Secretary-Manager.

The CHAIRMAN: And Mr. Gordon's answer to that letter?

Mr. KNIGHT: I have not got Mr. Gordon's answer here. Mr. Gordon can probably put it on the record himself.

The CHAIRMAN: At this point?

Mr. GORDON: The reply is dated January 6, 1953 and it reads as follows:

Office of the Chairman and President,

Our file: E 222-3

Montreal,
January 6, 1953.
cc—R. Sommerville, Esq.

Dear Mr. Pizzey:

This is the first opportunity I have had to reply to your letter of December 18, which reached my desk in the interval between Christmas and New Year's.

Persons dismissed from the service or subjected to discipline are entitled to appeal their case to higher authority within the company. Mr. Pitt exercised that right by appealing to me. He was given every opportunity to express his views and I listened carefully to his explanations. He was then told in specific terms why the management were dissatisfied with his services at the Fort Garry and why a transfer to another hotel was considered in the interests of the company. I can assure you therefore that this matter has already been the subject of an impartial inquiry following which I confirmed the decision of the general manager of hotels. Mr. Pitt has accepted that decision and so far as I am aware has authorized no one to make further representations on his behalf. Consequently, however well meaning the motives may be I suggest that further correspondence on this subject is inappropriate.

A decision of this kind is always difficult to make but it is of course the duty of management and no one else to make such decisions. There have been suggestions made that some improper pressure was brought to bear on management in connection with this case. This I have already publicly denied and I repeat that the decision was made solely on our own assessment of what was required in the best interests of our hotel organization.

I have complete confidence in our general manager of hotels so that I attach no credence whatever to the intimation in your letter that I was wrongly advised, arising out of some motive dating back a number of years.

Yours sincerely,
D. GORDON.

H. T. Pizzey, Esq.,
Secretary-Manager,
The Canadian Legion, B.E.S.L.,
Saskatoon Branch No. 63,
Saskatoon, Sask.

Mr. KNIGHT: In concluding my few remarks I simply say that I am not making any charge. I like to speak only of the things that I know, and my whole motive in this matter has been that I was requested to do so because some people in my constituency asked me. They have an interest in Mr. Pitt as well as in the efficiency of the system and in the railroad itself. Perhaps it would be a good thing to get the facts out into the clear light of day.

The CHAIRMAN: I think, Mr. Macdonnell, I should see other members of the committee. You have already had one chance. Now, Mr. Gillis?

Mr. GILLIS: I am a member of this jury who is not biased one way or another. I have received no letters on this matter.

Mr. McCULLOCH: No politics!

Mr. GILLIS: And no pressure of any kind. All the previous people who have taken part in this debate apparently have been influenced by some external pressure, because there are letters on it.

Mr. FULTON: Mr. Chairman, I think that statement is completely out of order. Mr. Gillis knows that it is completely incorrect.

The CHAIRMAN: Mr. Gillis has the floor.

Mr. GILLIS: I listened with great attention to Mr. Macdonnell and Mr. Fulton and others without any interruptions. So having had no push from the outside, I have made up my own mind on this thing and it differs a little bit from my colleagues on the committee.

My reaction to the whole discussion is this: first, Mr. Pitt has not made any request to anybody to raise this storm on his behalf. So my own reaction to the matter is this: that political propaganda, just like communist propaganda, requires a victim, something to hold out on the end of a stick and wave. It is a good method of propaganda and in this particular case I am afraid that that is the purpose for which Mr. Pitt is being used, perhaps unwillingly.

The whole trouble arises out of inspection reports. We all know how inspection reports can be in many instances. As Members of Parliament we have all had that experience. Now, as I see it, Mr. Gordon has told this committee that there has not been any political interference in so far as the management of the railways is concerned. On his word of honour to the committee he has made that statement. So far as I am concerned, I am accepting it.

Mr. GORDON: Thank you.

Mr. GILLIS: He has buttressed his facts with further evidence which strengthens my opinion in that direction, and that was that previous to the Prime Minister's visit, instructions had been issued by the management that an investigation of the hotel set-up should be undertaken. And at the time of the Prime Minister's visit to Winnipeg and to the Fort Garry took place, that investigation was in the process of being carried out. The Prime Minister's visit was included in it by accident. It happened to take place during the process of this job. And as far as I am concerned, I am convinced that in so far as the management of the Canadian National is concerned, there was not any external pressure of any kind.

Now there was a vote taken here on the question of the production of papers and so on. If a vote like that was taken in the House, where the government was involved, for the production of papers, I would support that vote because I think it is the responsibility of the government to give the members of parliament information which they may require to resolve some problem in their own minds. But in committee, I think it is an entirely different proposition.

Had we voted to produce those papers, you would be bringing down the private files of Mr. Pitt, as one of the 125,000 employees of the Canadian National system. Mr. Pitt's private files are his private business and I do not think this committee has any right to ask to have his private business and I do not think this committee has any right to ask to have his private business, the business of management, put on the record here unless he has specifically requested this committee to do so.

As in business, any person in the Canadian National or in any other Crown set-up who has a grievance with management has certain procedures to follow in regard to management. And that was done in the case of Mr. Pitt. A report was made to Mr. Gordon and as far as I am concerned, Mr. Pitt was absolutely satisfied with the arrangement which was made. Moreover, I think that perhaps the resulting publicity given Mr. Pitt is not going to do him very much good. I think all it does is to keep him in a state of anxiety. Therefore, I am against the production of these papers unless Mr. Pitt applies to the chairman of this committee or the secretary with a specific request that his private file should be made the property of the committee at this time.

Now in the matter of demotion, I do not think Mr. Pitt received a demotion at all. He was shifted from a hotel where he had a great deal of responsibility and he was sent to a hotel where his responsibility was not so great. He receives the same remuneration by way of salary at the new hotel which he had at the other one, while his duties have been reduced, and he has taken over a smaller hotel. Therefore I cannot see any demotion there.

On the second vote, my colleague and I split our vote. I voted against calling Mr. Sommerville and Mr. Pitt before this committee for the reason that Mr. Macdonnell and Mr. Fulton argued.

Mr. FULTON: I did not think that we had had a vote on that yet.

Mr. GILLIS: I thought we had voted on it.

The CHAIRMAN: That was a vote on a ruling of the chair.

Mr. GILLIS: The chair ruled on it and I supported the ruling of the chair that these people be not called, and I supported it for this reason: That this committee would then be doing exactly what Mr. Macdonnell and Mr. Fulton accused the government of doing, that is, using political pressure on this committee to defeat a decision of management that has already been made. This committee consists of members of parliament of all political stripes. Management has already made its decision in this particular case. If this committee voted, against the decision of management, to call the two witnesses in here and subject them to political scrutiny and pressure, then management would be denied a decision already made.

This would be the first time, as far as I am concerned, that political pressure would be used on a decision already made by management of the Canadian National Railways, and we would be interfering with the function of management in that respect.

I feel very strongly on that point for this reason: that there is another large organization in this country, the Canadian Pacific Railway. And if the time ever comes when the Canadian Pacific Railway and the officials and management of the Canadian Pacific can be called before a public committee of any kind in this country, and a decision made by the management of the Canadian Pacific can be criticized and scrutinized and witnesses called to go over the business of the Canadian Pacific Railways, then, when that time arrives, I will be prepared to make a decision in this committee in regard to the Canadian National Railways. But until you reach that point, as far as I am concerned, I am against any pressure upon this committee to interfere with a decision already made by the Canadian National Railways.

Now, Mr. Chairman, I would be the last man on this committee to condone an injustice to an employee of any company in this country. I would be the last man to do so for the simple reason that I have gone through that thing a good many times in my life time, when the boss would take a swing at you and there was no appeal available to you in the universe. You simply could walk out and try to find another job. But in this particular instance I think I have pointed out the basis on which I have arrived at a decision. In Mr. Macdonnell's case I think he was carried away by emotion.

Mr. JAMES: He should have been.

Mr. GILLIS: Mr. Macdonnell was carried away by a lot of misleading editorials and pressure from outside. He did not place any facts on the record. It was all something from outside. It was nothing that he had of his own personal knowledge. And for that reason I could not support him.

I believe that Mr. Gordon has acted fairly in this matter. He has defended Mr. Pitt. Management made the decision, and I do not think it is the prerogative of this committee to try to use its weight to change that decision in any way, shape or form. If we did so, we would be assising the very proposition that Mr. Macdonnell and Mr. Fulton are so anxious to avoid.

Mr. MACDONNELL: I was up the last time, Mr. Chairman.

Mr. McCULLOCH: You have been up three or four times.

Mr. MUTCH: There does not seem to be any alternative system. But let it go. If it is a monologue, I can listen.

Mr. MACDONNELL: I would like to repeat one sentence from what I said this morning to confirm what I said to you a few minutes ago. I indicated that Mr. Pitt, through a mutual friend, indicated his willingness to appear before the committee. Mr. Gordon told us last night that Mr. Pitt was ready to come and give his evidence. But as I understand that, it is not going to happen. I assume that from the tenor of this committee. Therefore I ask your permission to read a couple of letters from Mr. Pitt to Mr. Sommerville dated October 25 and November 11 which have a bearing on this.

Hon. Mr. CHEVRIER: Mr. Chairman, on a question of privilege I would like to know, before any further use is made of these letters, and since they are inter-departmental correspondence, I would like to know how Mr. Macdonnell got them. Unquestionably they are contrary to the rules of this committee and to the motion which was approved, and I would like to know how Mr. Macdonnell got them.

Mr. MACDONNELL: I got them from the very gentleman I spoke of and I do not see any need to mention it. I am taking the responsibility for this on myself and I am asking to be allowed to read these letters.

Let me say that if Mr. Pitt were to be called, there would be no need of my reading these letters.

Hon. Mr. CHEVRIER: May I ask a question, the same question which I asked of my hon. friend from Kamloops. I should like to know the same of the gentleman who is the intermediary between the Pitt and yourself.

Mr. MACDONNELL: I do not see that that is any concern of the minister. I have perfect confidence in that man and I am assuming this responsibility for reading these letters. Mr. Chairman, I wish to be allowed. Surely there is some fairness in this business.

Mr. JAMES: You have not shown it yet.

The CHAIRMAN: Mr. Macdonnell, you cannot accuse either the chair or the committee—

Mr. MACDONNELL: The chair has been very fair.

The CHAIRMAN:—of any unfairness. And I would like to have an opportunity of considering this matter. You see, you are attempting to introduce now by the back door—

Mr. MACDONNELL: No, I have asked that Mr. Pitt, Mr. Chairman—that this committee request Mr. Pitt to come before it. I take my seat and say no more.

The CHAIRMAN: No. You see, I want to hold the scales absolutely level, and I hope I have succeeded in doing so. The point that concerns me is this, Mr. Macdonnell, that I sincerely believe that you are now attempting to introduce—I will retract the words “back door”—you are trying to introduce by another method documents which this committee has decided are not producible before it. Now, if I may just carry that on. I am not definitely ruling now, but in the circumstances it is clear what you want, and I am going to ask for time to think that matter over, and I am going to ask to see the letters.

Mr. MACDONNELL: Well, now, Mr. Chairman—

The CHAIRMAN: And I will say in advance if they are strictly inter-departmental correspondence, as far as I am concerned they are out. The committee has already made the decision on that.

Mr. FULTON: May I point out the committee has decided the management cannot be compelled to produce these letters as they are privileged documents in the hands of the management, but I submit if a member of the committee comes forward and says I have letters whose authenticity I vouch for, then unless a member of the committee is able to challenge the authenticity of those letters, the member is perfectly entitled to produce them.

Mr. MACDONNELL: May I point this out. There has been a question raised in which Mr. Gordon says that he has not heard me state any facts. I observe he did not question any of the things I said as to facts, but I am now seeking to repair—I recognize that weakness—and I want to read those letters because I submit that when the committee hears them they will feel that so far as Mr. Pitt is concerned a lot of the things that I have said will be confirmed. These are letters from Mr. Pitt to Mr. Sommerville with regard to his own affairs. I have some responsibility in this. I have taken a great deal of pains in connection with this matter. I have some concern about Mr. Pitt and I have taken great pains that Mr. Pitt knew just what was involved in this. I did not deal with it carelessly, and I have these letters which have come to me and which I had hoped I would not need to use because I hoped that Mr. Pitt would come. I said last night if any question as to these facts was raised I would ask to have Mr. Pitt come here. That is not going to be done, I am afraid, as I sense the committee will not agree to that. Otherwise, I am left in the position that Mr. Gordon has not challenged the facts I said last night, except in a general way he said he did not hear me state any facts. I want now to be able to bring the evidence of one of the two men we are denied. I want the evidence of Mr. Sommerville, and as to the other man, I have here letters which were written to Mr. Sommerville by him. Surely it is fair—

The CHAIRMAN: Yes, but may I point out—are these letters originals or are they copies?

Mr. FULTON: The originals are in the file. You cannot have the original and the copy of your own letter.

The CHAIRMAN: The evidence which you wish to produce is strictly copy evidence. You do not know whether the copies are accurate or not, of your own knowledge. You believe them to be correct, and you are willing to assume responsibility they are. But stop and think for a moment. If I, as chairman of this committee, allowed any member of the committee to produce copies, and then it turned out they were highly inaccurate, would I be performing my duty?

Mr. FULTON: Mr. Macdonnell says he is prepared to show them to Mr. Gordon to see if they are accurate copies or not.

The CHAIRMAN: I asked to see them and I was declined.

Mr. MACDONNELL: I was hesitant about this.

Mr. GORDON: I do not understand that to be the point, Mr. Chairman. I understand that these are letters which were sent between the Fort Garry Hotel manager and the general manager of hotels, having to do with personal affairs of the manager of the hotel. It has to do also with company business. I know the letters, I know the statements that are made in them, and I say that that is not the sort of thing that should be discussed in his committee. It is interdepartmental correspondence.

The CHAIRMAN: I indicated, Mr. Gordon, that I wanted to see the copies because I wanted to reach a decision as to whether they were interdepartmental correspondence, and I indicated at that time that if they were, they were out. The committee has already ruled on that, and that is why I wanted to see them, to see first if they are originals and also if they are interdepartmental correspondence.

Mr. BROWNE: Mr. Chairman, may I ask a few questions. I have no statements to make, just a question to ask the witness.

Mr. MUTCH: Who is the witness?

Mr. BROWNE: I understand Mr. Gordon is here as a witness. Could you tell us, Mr. Gordon, how long Mr. Pitt has been in the C.N.R. hotel business?

Mr. GORDON: He entered the service of the Canadian National Railways on May 22, 1928.

Mr. BROWNE: Where was that, at Ottawa?

Mr. GORDON: At Jasper.

Mr. BROWNE: When did he serve in Ottawa?

Mr. GORDON: He served in Ottawa according to this record from June 6, 1933 to December 7, 1936.

Mr. BROWNE: Where did he go then?

Mr. GORDON: He then went to Halifax December 8, 1936, and he left for enlistment on November 1, 1941.

Mr. BROWNE: When did he come back to the hotel business?

Mr. GORDON: He came back on August 15, 1946. He reported for duty then.

Hon. Mr. CHEVRIER: All these questions of yours, Mr. Browne, were answered in a question for Mr. Macdonnell on December 10, 1952, at page 517, *Hansard*.

Mr. BROWNE: And it has been published?

Hon. Mr. CHEVRIER: Yes.

Mr. GORDON: He returned to the service of the hotels on August 15, 1946.

Mr. BROWNE: And each one of these changes of Mr. Pitt's was an improvement up to the time he went to the Fort Garry?

Some Hon. MEMBERS: Brandon.

Mr. BROWNE: No, Fort Garry.

Mr. GORDON: No, I could not say that. He was transferred from one hotel to another.

Mr. BROWNE: Was it a more responsible position in each case?

Mr. GORDON: It is a matter of balancing. I could not say whether the Halifax hotel is more responsible than the Bessborough. They are about on a par.

Mr. BROWNE: Did the representations about the treatment of the Prime Minister and his party come to you directly or indirectly from Mr. Sommerville?

Mr. GORDON: The reference that I heard of the treatment of the party came to me from several sources and did not reach me through Mr. Sommerville in the first instance.

Mr. BROWNE: Did you not say that you had a recommendation from Mr. Sommerville before September 21, 1952?

Mr. GORDON: No, I do not think I said that.

Mr. BROWNE: I took down your statement and I understand that was what you said.

Mr. GORDON: No, I said that Mr. Metcalf under date of September 22, wrote to Mr. Sommerville asking him to make a review of the hotel operations.

Mr. BROWNE: On your instructions?

Mr. GORDON: Under my instructions, yes.

Mr. BROWNE: Did you tell Mr. Sommerville directly to send for Mr. Pitt's file on the treatment of the Prime Minister and his party?

Mr. GORDON: No, I did not. I left it to Mr. Sommerville to conduct the investigation in his own way.

Mr. BROWNE: Did you examine the file personally or did Mr. Sommerville examine the file and make a recommendation as a result of that examination?

Mr. GORDON: Mr. Sommerville examined the file and reached a conclusion and then made his recommendation.

Mr. BROWNE: Did you ever examine the file?

Mr. GORDON: When he made his recommendation to me I went over the file of the incident and the whole file of Mr. Pitt's service, and after discussing it with Mr. Sommerville and Mr. Metcalf I confirmed the decision of the general manager of hotels.

Mr. BROWNE: It was Mr. Sommerville's first decision?

Mr. GORDON: It was Mr. Sommerville's first recommendation.

Mr. BROWNE: Were there any changes made at that time in the hotels, apart from Brandon and Winnipeg?

Mr. GORDON: Oh yes. There was a shuffle. I would have to check. There was a transfer from the Bessborough to the Fort Garry and from the Fort Garry to Brandon. There was a three-way shuffle.

Mr. BROWNE: Have you given to Mr. Chevrier, the Minister of Transport, the whole story of this thing?

Mr. GORDON: I wrote to Mr. Chevrier after I saw the newspaper reports and the statements which were made in the House. I wrote him a letter in which I said I thought I should give him the general information about this particular shift.

Mr. BROWNE: Is it your opinion that you do not have to give anybody an explanation of what you do? Would you admit that you should give it to Mr. Chevrier if he asked for it?

Mr. GORDON: No, I do not admit that. However, I do keep the minister informed on any matters of interest which I think he should have affecting the management. But I do not look to Mr. Chevrier either to confirm my decisions or to comment on them.

Mr. BROWNE: Is it your opinion that you do not have to give your reasons to him?

Mr. GORDON: I do not have to give my reasons when I make decisions on management.

Mr. BROWNE: It is your opinion?

Mr. GORDON: In respect of the treatment, or in respect to an employee's demotion or discipline I say that the management of the system must be in charge.

The CHAIRMAN: It is now 1.00 o'clock and we shall adjourn until 3.30 p.m.

AFTERNOON SESSION

The committee resumed at 3:30 p.m.

The CHAIRMAN: Gentlemen, when the committee adjourned for the noon recess, I indicated that I would consider the matter and would make a ruling, but during the noon recess Mr. Gordon contacted me and he has asked to have the opportunity of making a statement before I make my ruling.

Mr. FULTON: May I ask one question as to the point with which Mr. Gordon's statement is going to deal?

The CHAIRMAN: Mr. Gordon says, as he feels so strongly on this question of outside interference with the staff of the Canadian National Railways, that in view of what Mr. Macdonnell had indicated the letters were, namely, that they were interdepartmental correspondence, he wanted to have an opportunity of making a statement, and I believe it would be the wish of the committee that he should do so.

Agreed.

Mr. GORDON: Mr. Chairman, the letters in question are on letterheads printed "Interdepartmental Correspondence". Consequently, I telephoned Mr. Pitt during the luncheon period to ask him if he could tell me how copies of these letters could have been released from the files. Mr. Pitt says he showed the letters to a friend in the course of discussing his transfer and to explain his position, because at that time he felt badly although he had accepted my decision in his case. He did not intend, nor does he intend now, that these letters, which are from the files of hotel management, should be produced in the present discussion. He specifically stated he has not been asked for permission to publish them and that he has not authorized anyone to publish the letters or place them on record anywhere, and that he would refuse such permission if it were requested. I asked him if he would care to tell me to whom he showed these letters. Mr. Pitt asked me not to press him, because he did not wish his friend's name brought into this discussion, and said he was tired of the whole business. He has been trying to avoid publicity, he says, but he has been pressed for statements and found difficulty in avoiding discussion of the press reports. I agreed not to press Mr. Pitt. Mr. Pitt also expressed the fervent hope that the whole matter be dropped so that he could get on with his job and his work for the future. He said the whole affair was one of great personal embarrassment to him, although he appreciated the efforts of his friends were well intentioned.

Now, Mr. Chairman, I would like to call the rest of this statement, which I hurriedly prepared, through you, to the personal attention of Mr. Macdonnell. If these letters are tabled, naturally I shall have to deal with the various statements in them by Mr. Pitt, and which were written by him to be brought to my attention giving his version of a number of instances reflecting upon his management. Let us see where that brings us to. I have under my hand a serious complaint about her hotel reservation, for example, from a woman customer of the hotel in November, 1951—and there are others. This woman is a customer of the hotel. Obviously if a customer of the hotel cannot make a complaint about the service given without my having to table it in the record in such fashion that her name is published in sensational terms in the public press then both the reputation of our hotels will be damaged and people will prefer to patronize establishments where they can exercise their healthy desire to gripe about our service to their hearts' content.

I speak for Mr. Pitt, therefore, as the author of these letters, in requesting that they be neither tabled here nor published elsewhere.

Mr. MACDONNELL: I hope and believe, Mr. Chairman, that you will allow me to make a statement.

The CHAIRMAN: Well, Mr. Macdonnell, you have already made a statement, but if you wish to make another one, I will let you.

Mr. MACDONNELL: What I think I should say is this: I have had some experience in human relations and from the very outset I was deeply concerned with Mr. Pitt's part in this. I took the greatest pains. This was brought to my attention by the man to whom I have referred, and who is a man of high standing, with whom I have been in communication throughout. I took the greatest pains to bring to Mr. Pitt's attention the true significance of what was going to happen here, because I realized that he was in an embarrassing position. I realized that he might injure himself if the matter was pressed further and I did my very best to make clear to him what the situation was, and in particular to make clear to him that we were naturally going to be put in a difficult position in this committee, and that we were going to be in a minority. And I said that if we were to champion his case at all, if we were to be able to make good on the suggestion which I originally made, that we would have to have the correspondence and be free to use it.

I have enough intelligence to know that if the situation had been that we had correspondence which we could not use, we would be in a ridiculous position. I received a letter from my friend after this telephone conversation in which I made it very clear. I spoke to another friend of Mr. Pitt's who, I think, was encouraging him to press the matter. I made it very clear what was involved, and it was only after the greatest care was taken to explain the situation that the letters which I have here were sent to me and received yesterday.

They were accompanied by a letter which permitted me to say, as I said last night, that Mr. Pitt would be glad to come if he were called. They also sent this material for use. I made it very clear, naturally, that it would be no good to me if it could not be used.

I believe the committee will believe that I am speaking the truth. I am naturally embarrassed now. There is no use in denying that. Mr. Gordon has spoken to Mr. Pitt. Mr. Gordon is a man of prestige and power and he has told us what the conversation was which took place between him and Mr. Pitt.

This particular matter is being decided certainly in a way which is unexpected to me. But on the other hand, Mr. Chairman, I suggest that it makes it more than ever necessary that this situation should be explained by Mr. Pitt himself, and that he should be asked to come here.

As to my personal embarrassment, I shall swallow that as best I can. I shall not pretend that it is pleasant to go along as I have done, taking every precaution to make sure that I would not put myself in a foolish position, and now to be put in a position where anyone who wishes to be unkind about it, or even those who do not wish to be unkind about it can say "the joke is on you".

I know that I have enough sense to know the position in which I stand at the moment. I have tried to have regard to both Mr. Pitt's interests as well as the public interest, and the outcome is a surprise to me.

I repeat, however, that we have before us the motion for the calling of Mr. Pitt and I hope you will put that motion, Mr. Chairman, and that if the committee wishes to have Mr. Pitt come here, then he may be able to come. I thank the committee for giving me this courteous hearing.

Mr. FULTON: One point, Mr. Chairman, before you make a ruling. I think it is important for the committee to understand particularly in the light of what Mr. Macdonnell has said and in the light of what Mr. Gordon had said that Mr. Macdonnell should be able to read into the record certain copies of letters written by Mr. Pitt. It is now suggested that the committee should not hear them, and that Mr. Macdonnell should not be allowed to read them. I would point out that in connection with both the admissibility or the hearing of these letters and also on the point as to whether or not we should call Mr. Pitt, I would like to make this as a statement of fact: that we have not heard Mr. Pitt.

We have on our part been faced with the objection raised when we seek to put facts into the record, that it is not direct evidence. I suggest that the committee might well consider in connection with this point whether in fairness to itself now we should not accept a further *ex parte* statement concerning Mr. Pitt's attitude. We are bound to call him now and get evidence from him which might indicate that he does not wish to press this matter, but which I am satisfied will establish that Mr. Pitt at one point, by means of an intermediary to which Mr. Macdonnell has referred, indicated his willingness to have these letters read into the record.

Therefore before the motion is proceeded with I raise this point because I want this to be perfectly clear. I think that Mr. Gordon understands me. There is the question as to the best evidence and the admissibility of evidence

and whether we are justified in making statements as to Mr. Pitt's intentions and desires. If there is no opportunity for Mr. Pitt to come, the committee will be making a decision on the basis of an ex parte statement without an opportunity of having the witness himself appear before the committee, so that it can get the best evidence within the strict meaning of that term.

Mr. MUTCH: Question!

The CHAIRMAN: I apologize to the committee for reading my decision.

Mr. BENIDICKSON: Let us say it is a considered opinion.

The CHAIRMAN: Mr. Macdonnell has stated that he has copies of letters written by Mr. Pitt to his superior officer, and copies of replies to these letters, which he intends to read into the record. Mr. Macdonnell has stated that he has received these copies of letters from a reliable source, and that as a member he takes full responsibility that the copies are authentic and are accurate. I indicated at the time of the noon adjournment that I would consider the admissibility of this evidence.

This material is obviously inter-departmental material. The committee has already sustained a ruling of the chair to the effect that the committee should not order production of inter-departmental files dealing with staff matters. The attempt now made is an attempt to introduce as evidence before the committee material which the committee has indicated the Canadian National Railways should not be compelled to produce. The president of the company has declined to produce this material, and has given reasons for his refusal, with which the committee, by recorded vote, has already expressed its approval.

Mr. Gordon has stated that Mr. Pitt has indicated that he has given no authority for the publication of the letters and that he does not want them published.

I therefore rule that Mr. Macdonnell should not read into the record of the committee the copies of letters in question.

Mr. BROWNE: Did you consult Mr. Gordon before you wrote that judgment, Mr. Chairman? If you did not, then why did you say "Mr. Gordon has stated that"?

The CHAIRMAN: I have amended my ruling after hearing Mr. Gordon's evidence and I wrote it while I was sitting here.

We now have a motion before the chair that Mr. Pitt and Mr. Somerville should be called to give evidence. Are you ready to vote on the motion? All those in favour?

Mr. FULTON: Mr. Chairman.

Hon. Mr. CHEVRIER: You have already spoken on that motion, my friend.

Mr. FULTON: I did not think that further intervention would be welcome, but I rise for the purpose of again placing before the committee considerations which I think now more than ever indicate that in order for the full facts and all the facts in this case to be before the committee, Mr. Pitt should be called. In saying that I want to make it perfectly clear that I say "the full facts and all the facts", because I remind the committee that Mr. Gordon has declined for reasons which he regards as sufficient, to give all the facts.

I am not reflecting on any facts which Mr. Gordon may have stated but I emphasize the fact that he has declined to give all the facts. Therefore if we in this committee are to get all the facts, it can only be done by the calling of these witnesses. I suggest to you, and I do not think there is any need to elaborate the point, that the matter is one of sufficient seriousness for this committee to consider very carefully whether it should let the matter stand where it now is, that is, on the basis of certain assertions which have been made. We have a statement of facts made by Mr. Macdonnell in which he

has indicated that he is in a position to substantiate. But now that the documents are not to be produced, it can only be substantiated by the calling of these witnesses. That is the position that we are in.

We are only going to know the facts or prove the accuracy of the statement if we get these witnesses. I am not saying that as to the accuracy of Mr. Gordon's statement, but I am saying that the facts which Mr. Gordon refused to disclose can only be obtained if we call these witnesses. And I would remind the committee that to refuse to call these witnesses, and particularly Mr. Pitt, on the basis of what has taken place here puts us in a very invidious position and places Mr. Pitt in a very invidious position as well.

What happens? Mr. Macdonnell indicated that as a result of very careful—and I submit responsible—consideration of the matter, he communicated with Mr. Pitt, and that he had certain answers communicated to him, which answers were checked and double checked. I know for a fact that this matter was not decided over night.

The CHAIRMAN: Through an intermediary.

Mr. FULTON: Through an intermediary, yes. That has been admitted and there is no reason to conceal it. I admit it readily.

Hon. Mr. CHEVRIER: Who was the intermediary?

Mr. FULTON: The question has been asked.

Hon. Mr. CHEVRIER: Why can we not get an answer?

Mr. FULTON: You will have to ask Mr. Macdonnell that question.

Hon. Mr. CHEVRIER: I have, but he won't answer it.

Mr. FULTON: As Mr. Mutch has said, Mr. Macdonnell's good faith has not been challenged, and so far as I know the accuracy or reliability of the intermediary has not been challenged.

Hon. Mr. CHEVRIER: There has been no opportunity.

Mr. FULTON: If there is any challenge, it should be disposed of by producing the documents in question, and it may still be disposed of by calling Mr. Pitt. There is obviously a question as to the accuracy of Mr. Macdonnell's statement and reliability and responsibility that is, of course, inherent in the interruption just made, and I submit that it only reinforces the argument of the necessity for calling Mr. Pitt.

May I return to the point I was making when the minister asked me his question?

The CHAIRMAN: Yes.

Mr. FULTON: I ask the committee to consider the position in which we are placing ourselves, our own principles, our own members, and Mr. Pitt, if we refuse to call him.

Mr. Macdonnell informed us that as a result of a careful check and cross-check he had authority to give us his statement of facts by reading certain documents into the record. But if these documents should be refused on the part of the management of the railway, nevertheless these statements are made on the responsibility of Mr. Macdonnell as a member. We are now told that as a result of another telephone conversation, without ever having had Mr. Pitt before us—

The CHAIRMAN: And without an intermediary.

Mr. FULTON: And without an intermediary except the telephone line, and with no one else present, there was a conversation between the president of the railway and the manager of one of his hotels, which manager has just been demoted. We are told that the manager of the hotel has changed his mind.

Mr. GORDON: Oh no. I did not say that.

Mr. FULTON: Mr. Gordon did not say that. I wish to be perfectly accurate. I accept his correction. We are told however that the manager does not wish now to proceed further with this matter.

Mr. GORDON: May I re-read my statement?

Mr. FULTON: Please do.

Mr. GORDON: He said that he did not intend, nor does he now intend that these letters which are from the files of hotel management should be produced in the present discussion. He specifically stated that he has not been asked for permission to publish them and that he has not given authority to anyone to publish the letters or to place them on the record anywhere, and that he would refuse such permission if it were requested.

Mr. FULTON: Thank you for re-reading that statement. We are now told that as a result of a telephone conversation between the president of the railway and the manager of the Prince Edward hotel who has recently been demoted. We are saying now if the committee refuses the motion to call Mr. Pitt, and we are saying that this is inescapable, it certainly poses a very grave question on the whole of the previous statement of Mr. Macdonnell to accept that statement and foreclose the rest of Mr. Macdonnell's statement or, in a word, not permit him to prove the accuracy of his previous assertions. Mr. Chairman, I submit to you sir, that that is a position which this committee must not take. This committee of the House of Commons of which all members are members of the House of Commons should urge, and every consideration of the position of this committee and the function which we are called upon to perform here of examining into the activities of the Canadian National Railways system and, if necessary, to examine into the activities of the president of that system, should argue conclusively that the committee cannot foreclose one of its members, who has made certain assertions, the right to call the witness who is going to prove the accuracy of those assertions when the only denial of the accuracy of these assertions and indeed of the accuracy of all the facts surrounding these things—the other facts which the member of the committee has stated on his own responsibility—and the only denial of these facts comes from the president of the railway, and the denial if it does amount to a denial of Mr. Macdonnell's assertions comes from the president as a result of a telephone conversation—ex-party evidence as a result of a telephone conversation—between the president of the railway whose activities are under investigation here, and as a result of a conversation between him and the witness who some members of this committee at any rate desire to call.

I submit to you sir that that is an impossible and an improper position for any responsible committee or any responsible legislative body to place itself in to accept any suggestion that the witness should not be called and that we cannot get at the facts from the mouth of the person who knows the facts and with whom there has been previous communication in a responsible effort made by the member of this committee to determine the grounds upon which he would make the assertions of fact.

I cannot conceive, sir, that this committee could ever maintain to the House or to the country that it is discharging its responsibility of getting at the facts, the facts surrounding the charge not against Mr. Gordon, but facts surrounding the charge of interference with Mr. Gordon without foreclosing itself as it would be if it rejected this motion, from an opportunity of getting the facts which themselves are now controverted, and forecloses itself on the basis of a statement—an indirect statement—by the president of the railway on a telephone conversation which he has had with the man whose case is now under dispute before us.

Hon. Mr. CHEVRIER: Perhaps I may be allowed a word in answer to what the member for Kamloops has stated.

He has just stated in his closing remarks that if Mr. Pitt is not called to give evidence then the committee will be foreclosing one of its members in that it will not allow him to produce the correspondence that he desires to produce.

My humble submission to this committee is that Mr. Macdonnell, and I say this with all deference to him, has foreclosed himself in that he has brought here correspondence and he will not tell us where it has been obtained, and I think this committee has been more than fair to both Mr. Macdonnell and Mr. Fulton and their supporters in listening for almost two sessions now to what, again with deference, is a very small matter in the affairs of the Canadian National Railways dealing with hundreds of millions of dollars. We have now spent almost two sessions dealing with this matter and my point here is that since we have been fair in giving him all that latitude, at least he should be fair to us, and tell us who this intermediary is and how he obtained the correspondence, because I have never heard of this method of getting correspondence, correspondence particularly between departmental officers.

I think if I were the person involved, for instance an employee of the Department of Transport way down in Halifax or at Vancouver and in communication with the marine superintendent in Ottawa and that correspondence was produced here contrary to all the regulations of this House, I would have every reason to be annoyed. But Mr. Macdonnell comes along and says some mysterious individual has given him correspondence and you Mr. Chevrier, you cannot have that information.

I think we should have it, and I am not any further in challenging the personal position of my honourable friend. I will not take advantage of it. I do not think I should, and I do not think it would be fair, and I do not want to show the slightest bit of unfairness towards him or anybody else in this committee. But I want to make another point, and it is this. This committee, Mr. Chairman, is being used as a vehicle to publish letters which have come into the hands of Mr. Macdonnell and which the author himself, after the evidence given by the president of the Canadian National Railways, says he has not authorized publication of, and would refuse to give such information if he were asked.

Now surely that is enough evidence to indicate once and for all that my honourable friends are in a rather difficult position in so far as their case is concerned. I am afraid that the balloon that they have for days and weeks blown up is just on the verge of exploding and, I hope they will not take offence when I use that expression, but I fear that is exactly what is happening.

I regret that the committee is being used as a vehicle for that purpose. The committee on railways and canals has been established for the purpose of considering the accounts of the Canadian National Railways and I submit to the committee that the sooner we get back to a study of the accounts of the Canadian National Railway the better it will be for all concerned.

Mr. MACDONNELL: May I just add a few words. I think Mr. Fulton has set out the argument and I endorse what he has said, and I do not intend to repeat it. I just wish to say, I wish to remind this committee, that in coming here we came, I came, among other reasons, under the strong urging of Mr. Howe and I want to point out, it seems to me, that the difficulty which we now face, and I confess to you I do not feel happy about this, but I am not going to repeat what I said before that I took all the pains a reasonable man could

take in so far as in getting the name of the man in Winnipeg is concerned and I have assumed the responsibility for that. It came from a man of standing and responsibility.

An Hon. MEMBER: In the party.

Mr. FRASER: That is uncalled for.

Mr. MACDONNELL: The final thing I wish to say is this, that this man if he is asked to come here can tell us his own story. I can imagine that the president of the Canadian National Railways is a very persuasive man. I have found him persuasive and no doubt if I was in his employ I would find him still more persuasive. We have an opportunity of having this man come and give his evidence and I suggest that is the natural thing to do.

Mr. CHURCHILL: Before putting the question, Mr. Chairman, there is a point of information. I am not questioning the accuracy of the statement which Mr. Gordon has given us, but I would like to know from curiosity by what means the telephone conversation that he had with Mr. Pitt was recorded, and if that entire conversation has been recorded.

Mr. GORDON: The conversation took place in my own room in the hotel direct with Mr. Pitt over the Bell Telephone line and I jotted down notes and repeated them to him as I took them down and I explained to him as best I could what was involved. I said to him that these letters were in the possession of Mr. Macdonnell and that I wanted to ask him to tell me how these copies had been released from the files. Mr. Pitt at once said he had shown the letters to a friend as he mentioned on the statement, and I then asked him if he intended these letters to be produced for publication, and he definitely assured me he had never intended that. He had not been asked for permission to publish them and he would not give permission if such permission were asked. It was never his intention they be used for that purpose and I can give you my assurance that there was no bullying tactics on my part at all. I simply talked to him and told him what it was I wanted to know.

The CHAIRMAN: Are you ready for the question?

Mr. GORDON: Mr. Chairman, there is just one more part of the question. To the best of my knowledge I have recorded all the conversation.

The CHAIRMAN: I am going to ask for your indulgence. As Chairman I would like to make a few remarks before putting the question as I understand everyone else has spoken who wishes to do so.

Mr. GILLIS: Do not set up a chain action.

The CHAIRMAN: Parliament has charged this committee with responsibility of checking into the activities for the past year of a corporation with a capitalization of nearly 3 billion dollars. We have been asked by certain members of this committee to check into a matter regarding staff. The president of the road has indicated—and I think that Mr. Gordon's word in that regard should be accepted and will be accepted by everyone,—the president of the road has indicated that in his opinion it would be harmful to the organization if this information is given or if this matter is inquired into at all by this parliamentary committee of politicians. The founders of the road—and I will refer to conservatives since it was conservative members of this committee who brought up the point and I hope no offence will be taken because I do that,—I refer them to the word of Sir George Foster, Sir Thomas White, and Right Honourable Arthur Meighen clearly indicating that the reason the government of the day decided to have corporate management for this organization, was in order that incidents similar to the one now before the committee should not be dealt with by politicians but should be the sole responsibility of management.

Now, in the light of that, let us look at what happened. I have every sympathy for Mr. Macdonnell in position he finds himself in, and I have considerable regard for him and if I were in that position I know exactly how I would feel. I want to say at once Mr. Macdonnell that I accept without any reservation at all the statement which you have made that you received the correspondence in question with a covering letter stating that it could be used, but, unfortunately, your hands are tied. You are not in a position where you feel that you can disclose the name of the sender.

Where does that get us? I suggest to the committee that gets up positively nowhere. We are asked to rely upon the good faith of the statement of a gentleman or lady whose identity we do not know. On the other hand, we have the statement of the president of the railway who states that this very day at noon he was in direct contact with and talked with Mr. Pitt. Now, if I have any qualifications at all for weighing evidence, I must say I have no doubt as to which evidence I should believe, but, apart from all of that, and putting the question in the most favourable viewpoint for the gentlemen in this committee who have asked us to go into this matter, if everything which they have said should prove to be true where does that get us. It still gets us to the point where we are asked to deal with a matter which the president of the road says would be harmful to the organisation.

All those in favour of the motion please signify:

Mr. FULTON: Mr. Chairman, may I ask for a recorded vote.

The CHAIRMAN: We will have a recorded vote, and I will put the motion. I will read it. The motion is by Mr. Macdonnell that: "Mr. Pitt and Mr. Sommerville, general manager of the hotels be called before the committee." All those in favour of the motion will say aye and those opposed naye.

(The clerk proceeded to record the vote.)

Hon. Mr. CHEVRIER: Mr. Chairman, I would like to have my vote recorded as "no".

The CHAIRMAN: The motion is lost.

The committee is now on the heading "property investment account".

Mr. CHURCHILL: Mr. Chairman, could we have an explanation of the purpose involved in examining these accounts. Are we here simply to get a more detailed explanation of the information in these reports? Are we entitled to offer suggestions as to how the railway should be operated; as to what type of coal should be purchased, and so on? What are the limitations as to the work of this committee? I take it there is one subject we cannot discuss, namely staff, management and labour. Are we entitled to discuss anything else and make suggestions as to how the railway operates, or what are the limitations of the committee?

The CHAIRMAN: I would refer you, Mr. Churchill, to the order of reference, and the order of reference is: that the annual reports for 1952 of the Canadian National Railways, Canadian National (West Indies) Steamships, Canadian National Railways Securities Trust, and the Auditor's Report to Parliament in respect to the Canadian National Railways and other matters including three votes were referred to this committee. I believe it is established practice that nothing should be done in this committee to interfere with internal management and that no disclosures should be made in the committee which would strike at the competitive position of the railway. Other than that, I believe there are no reservations.

Mr. CHURCHILL: How do you define internal management?

The CHAIRMAN: I cannot do better than to refer you to the three very experienced parliamentarians who discussed that subject at the time the Canadian National Railway system was founded as a corporate entity. I have already read extracts and I would suggest you read the speeches in toto.

Property investment account.

Mr. BROWNE: On section 42 could Mr. Gordon give us an idea how much money was spent on the Newfoundland hotel alterations?

Mr. GORDON: The actual authority for expenditure covers up to \$1,245,000. As at December 31, 1952, \$1,136,000 had been expended, and we estimate that the renovation is about 91 per cent complete.

Mr. BROWNE: Were these alterations carried on by contract?

Mr. GORDON: Yes. Placed with the J. L. E. Price Company, Montreal, who were the successful tenderer.

The CHAIRMAN: Carried?

Carried.

Revision of the capital structure. That was gone into thoroughly last year.

Carried.

Corporate reorganization.

Carried.

Financing in 1952.

Carried.

Now we come to review of operations, operating performance.

Mr. GILLIS: There are a few words I would like to say on this item. Yesterday we touched briefly on this question of dieselization and this is the section under which that switch-over takes place.

Now, I am not quarrelling with the report at all, but while the dieselization, particularly of the eastern end of the C.N.R. from Montreal to Nova Scotia, cures a problem for the Canadian National Railways in that they are getting a more economic operation on their freight runs, particularly with the end in view of putting those diesels on the passenger runs—the C.N.R. is making progress there and I am not quarrelling with that—but, while the Canadian National Railways are solving their problem they are creating an acute economic problem around other sections of the country with particular reference to Nova Scotia.

Now, the minister knows, because he met with a group of small coal operators from Nova Scotia here about a month ago along with the Minister of Mines from the government of Nova Scotia and they made a plea on behalf of some 1,500 employees that are employed by the small coal operators and pointed out to the cabinet that in that group of employees—and you can multiply that by 4½, I think that is the average family in Canada at the present—they have quite an investment in property, in churches, in schools and they have valuable communities around those small operations. That delegation stressed particularly, not the question of not being able to compete with American coal in that area or not marketing our coal in the C.N.R., but their whole argument was the dieselization of that end of the line took from them their market, and they requested the government to suggest or intervene with the C.N.R. to delay that dieselization program particularly. There is one section of it that diesels will be placed on within the near future and that is from Moncton down to Mulgrave, Nova Scotia. It is the program of the C.N.R. to put some ten diesel engines on that run and it was with particular reference to that section that the small coal operators and members of the miners' union were arguing for a delay.

Now, the government must have held out some hope that that might be done because I noticed in a press statement a few days ago issued by the Minister of Mines in Nova Scotia that he made the statement there may be a delay in any further dieselization on the eastern end of the line. Of course what we have heard here on this subject so far does not indicate there is much hope for that. But the Minister of Mines must have got some assurance from the government that that would be done. But, is there any reason why that should be done apart from the humanitarian reason of avoiding the scrapping of communities? I think there is. And I think there was a very good reason why the dieselization of that line from Montreal down should be delayed. For the last two years there has been an experiment going on from McGill University, the plant I think is at St. Annes, Quebec—an experiment on a coal turbine engine. A few weeks ago the Minister of Mines and Resources, Mr. Prudham, took a delegation down to look at that operation. I met with one or two of the delegates—I think there are some of them here—and they told me they received great encouragement there. They expect that experiment with that coal burning turbine engine to be complete within the next year and at the present time they are using Nova Scotia coal. They are using a good grade of coal, but they think they can get the same results from an inferior type of coal. What the cost of that unit they are building at the present time will be has not yet been determined, but they claim that if this great engine burning coal will do the things they expect it will do they can cut the present cost of oil down to about $\frac{1}{3}$ of what it is at the present time. This experiment will be completed within a year.

Now, if that is so, there is a good reason why the dieselization should be delayed until such time as that experiment is brought to fruition. And the reports at the present time are very encouraging. In the light of that I would ask the president of the company to tell us if he is checking that particular experiment carefully and what he thinks of it.

There is another angle that might relieve that problem which is created for the small operators and that is the importation of American coal. I put the figures on the record the other day. My figures represent what the C.N.R. imported itself. Mr. Gordon referred to figures of what was bought from the U.S. in Canada as well as what was imported. The figures were slightly over 5 million for 1952. If the small coal operators had a market in the C.N.R. of a couple of hundred thousand tons of coal, that is a small percentage of 6 million, and surely the management of the C.N.R. can devise means of relieving the small operators' problem by dropping off a small percentage of the import of coal from the U.S. and give that to the small operators for one year pending the outcome of this turbine experiment in Montreal.

Mr. Gordon made the statement that as far as he was concerned he was going to take the coal which was the cheapest because that would be in the best interests of the C.N.R. I am not quarrelling with that, but Mr. Gordon gave the figure as to the cost of Nova Scotia coal at \$9.30 and U.S. coal at \$4.50, and the American coal has a long rail haul; there is quite a high freight charge for putting that in New Brunswick where American coal is stockpiled. It would run up to about \$13.00 a ton I think. If coal can be produced in Springhill, Nova Scotia and at the Drummond in New Glasgow of which Mr. McCulloch spoke, it is only a few miles of haul from Springhill and New Glasgow to Moncton, but that coal is moved by subvention. I think it is in the best interests of the C.N.R. if they would drop off a couple of hundred thousand tons of American coal. And from the hard facts of what the cost would be I think if your purchasing agent at Moncton would sit down and figure the matter out, he would find out, moving coal from Springhill or New Glasgow to Moncton with the subvention there is, that the C.N.R. would be ahead from the dollar standpoint, by purchasing coal in the areas that I have just mentioned,

because in addition to getting it, I think, a little cheaper than what you would get it for from the United States you would also have the advantage of getting \$2 subvention on each ton of coal that you moved or that would accrue in the movement of that coal. Now, I could take a long time on this, but I am just making this short, abrupt appeal to Mr. Gordon to consider the plight of the small coal operators in Nova Scotia, the wiping out of their communities, and what I consider a simple matter of juggling a few hundred thousand tons of imported coal and guaranteeing in that area the purchasing of that amount of coal until this experiment of oil burning turbines is brought to completion.

Mr. GORDON: Mr. Chairman, Mr. Gillis, I can assure you that the general problem that Mr. Gillis has so eloquently put before us has received the most earnest consideration by the management of the Canadian National, and that we have been fully conscious of all the points which he has raised. As I explained yesterday, it is naturally our policy to utilize diesel power in those locations where the greatest economy will be produced. Now, as in every kind of argument, there are two sides to the story, and I must remind Mr. Gillis that if we were to adopt the general policy of leaving the maritime provinces out of our dieselization plan, or any section of the maritime provinces out of our diesel plan, then we would condemn that section of the maritimes to a subnormal condition in respect of transportation. That has a real meaning in respect of service in this section of the maritimes—industries would not be getting the benefit of the most efficient low cost rapid transit. So there are other interests to consider in that respect. However, I do not want you to think at all that the Canadian National management has taken a completely unsympathetic attitude, particularly toward the small mine operators, and I can assure you that our purchasing agents in giving attention to the purchases of coal have no bias whatever against maritime province coal. On the contrary, they sharpen their pencils and do their best to find a price break in favour of Canadian coal, and they will take acceptable Canadian coal in preference to American coal every time. It is only when the differential—allowing fully for all the factors you have called my attention to—it is only when the price differential reaches the point where that differential becomes unreasonable, that we feel we must, in discharging our duty, buy the competitive coal.

Now, I noted what you had to say about the gas turbine. I can again assure you that we have a very intimate knowledge of progress in respect of the development of gas turbines. We have very definitely kept in touch with experiments not only here in Canada but in the United States and Europe, and we know pretty well where the gas turbine locomotive stands in its present stage of development. I must say to you that, in the considered opinion of our technical officers, it does not constitute a serious threat to diesels at the present time, but with further development we believe it will prove superior in selected classes of service. Now again, in regard to gas turbines, the most encouraging experiments have been by the use of low cost residual oil and it is our opinion that the oil burning gas turbine is likely to be the one which will be first successful. We did not at all rule out, however, that the economic factors may then turn in favour of certain types of coal, and a coal burning gas turbine, and we would welcome that if that were found possible. With all these factors in mind, we are not of the opinion that our present program of dieselization should be changed because it is only a very partial program. We are not committed by any means to complete dieselization of our lines. We are only dealing with a five-year program, taking the raisins out of the cake, so to speak, taking out selected runs where we will get maximum utilization of diesels and producing savings over steam power of such magnitude as to pay for those over a relatively short period of years. On the runs over which we now have diesels operating on through freight, we have established savings in operation that show us a return of anywhere from 30 to 40 per

cent on our investment, so it only takes two or three years to get our capital back with this kind of savings. I do not suggest we expect to get savings of that magnitude with all our dieselization. I am simply saying we are directing our first efforts in dieselization towards the runs where we get the maximum degree of saving, so that we are not worried at all if in the next few years the gas turbine locomotive does prove to be superior to the diesel. Our purchases can be turned over to this type of motive power without losing our investment in diesels. We had that situation in mind.

Mr. GILLIS: The unit is interchangeable?

Mr. GORDON: I am not too sure. My technical officers have convinced me that it will be interchangeable to some degree, and I am assured by some of the manufacturers that it can be made interchangeable. But the dieselization we are doing now is producing such a degree of economy that a few years will take care of the capital cost in those runs, and we do not believe that the gas turbine is going to be a successful operating unit within a time limit of that kind. In the meantime, as I say, our technical officers keep a watchful eye on turbine developments and have followed up tests in the United States in respect to that situation.

Now let me return to the situation which Mr. Gillis mentioned in the maritime provinces. I regret more than I can say that I am being constantly driven into a position of appearing to be unsympathetic to people who have investments in such things as coal mines, and made to appear as though we are unsympathetic toward them and to the miners themselves. Certainly we are not. We recognize the full degree of our moral responsibility, but I do point out to you that temporizing year after year with the problem is not going to solve it. The problem is there and they might just as well face up to it. We have already directed our policy in a cautious way to do it as gradually as possible. We are years behind the dieselization program of the United States, for example, and there has been ample warning to all coal operators that the handwriting was on the wall and they better face up to it. The further point is this, and I repeat what I said yesterday, that when we get down to the economic factors, that the Canadian National is still able and willing to take all the coal which the eastern coal mines can produce, of acceptable quality for locomotive use, for quite a number of years to come, ten years at least, maybe more, provided that their price is competitive; therefore, I suggest to you that all these small coal operators and all the coal miners who work in that industry can do under the circumstances is to face the economic facts of life, which everybody has to do, and ask themselves how they can get their production of coal on such a basis that it will be competitive. Now, that may mean they will have to adjust some of their standards. It may be that they will have to review the situation in respect to a shorter work week or a level of wages if they wish to remain in that industry. The coal operators themselves may have to adjust their sights and may have to go into the situation with respect to treating their coal and take further capital risks in that respect. But I do point out to you that this is simply a matter of facing the economic facts of life. If they can produce coal of an acceptable quality at a competitive price—at a reasonable competitive price and I am not weighing the scales against them at all—our purchasing agents will do everything that honest men can do to give them the break, and if they, the coal operators, can do that—namely produce coal at a competitive price—then we can take the coal and use it for quite a number of years to come.

Mr. POULIOT: Mr. Gordon, will you be kind enough to tell the committee how many steam locomotives you had last year and how many this year.

Mr. GORDON: If you will turn to page 38 of the report, you will see a complete inventory of our railway equipment, and you will see there that the steam locomotives on hand at December 31, 1952 were 1,884 road locomotives,

533 switching locomotives—those are steam locomotives—33 electric; 157 diesel electric, road; 45 diesel electric, road switching; 193 diesel electric switching; for a grand total of locomotive equipment of 2,845 units in service.

Mr. CARTER: I wonder if Mr. Gordon can say a word as to the comparative savings in cost of maintenance as between the turbine and the diesel locomotives.

Mr. GORDON: That is a technical operating matter that I would like the privilege of having Mr. Dingle speak to. You are thinking of the relative maintenance savings cost?

Mr. CARTER: Yes.

Mr. DINGLE: I will put it in a little different way, Mr. Carter, with the information I have available here. Take diesel versus steam power, Campbellton to Gaspé for example, where we have 15 units in operation, 1,200 h.p. road switcher type. On basis of 1952 we effected gross annual savings of \$740,600 as against steam operation.

Mr. CARTER: That is all I wanted. Could you go a step further on this new innovation that Mr. Gillis referred to as to turbines. Is that expected to show a comparative savings in maintenance costs as compared with the diesel?

Mr. DINGLE: Roughly the same, as far as we can tell now.

Mr. GORDON: Perhaps the question as asked can be made clearer if I tell you that in three selective runs over which we now have diesel operation, the gross return on the investment shows us a range of from 28 per cent to 39.9 per cent return on our capital investment. Now the relative thermal efficiency of the diesel as compared with the steam locomotive is, roughly—one of the technical terms in thermal efficiency, which I cannot explain to you—is roughly 8 per cent, and the thermal efficiency of the diesel locomotive is roughly 32, so that it is more than three times more efficient in freight operations.

Mr. CARTER: I understood diesels pay for themselves in maintenance, because of their small maintenance costs.

Mr. GORDON: That is a factor but it is not only smaller maintenance however, it is the greater utilization of the diesel which gives us the savings.

Mr. POULIOT: I notice that you have 17 road steam locomotives less than last year, and 6 switching steam locomotives less than last year which means that there is a difference of 23.

Mr. GORDON: Six less?

The CHAIRMAN: Retired.

Mr. POULIOT: You have 38 before January 1, 1952, and on December 31, 1952 — and when I said this year I meant that. So there are only 23 steam locomotives less this year than last year. Is that right?

Mr. GORDON: There are 23 retired.

Mr. POULIOT: Twenty-three retired?

Mr. GORDON: Twenty-three steam locomotives retired.

Mr. POULIOT: Yes. Now, you have 1,884 steam road locomotives, and 533 switching steam locomotives.

Mr. GORDON: Yes.

Mr. POULIOT: Will you please tell me what is the value of that equipment in the total amount of the assets of the railroad?

Mr. GORDON: Well, while I am getting that information perhaps I should explain that the 23 locomotives retired does not represent the whole story. Those are 23 locomotives which are taken out of service. They are finished. They may be wrecks, or all worn out, but they are finished. But in steam

locomotives on hand as at December 31, 1952, there will be a certain proportion which are spares, not in use, which we do not need completely. So there is a stand-by reserve included in there. I shall give you the figure you asked for in a moment.

Mr. POULIOT: There is a figure on page 22 of \$2,367,000.

Mr. GORDON: The total of the two that you mention, 1884 and 533, makes a total of 2,417 steam locomotives which stand on our books as a capital investment of \$118,939,580 or practically \$119 million.

Mr. POULIOT: It varies considerably. Can you answer that, Mr. Dingle?

Mr. DINGLE: I do not have the total figure before me, but the average tractive effort in February was 47,910 pounds drawbar pull.

Mr. GEORGE: What is the horsepower of the 6,000 series steam locomotive?

Mr. DINGLE: We do not rate them on a horse power basis.

Mr. GEORGE: I was comparing it with the 1600 horse power in the road locomotives.

Mr. DINGLE: A means of comparison would be two 1600 H.P. diesels. They would rate about the same as the northern type freight locomotive which is one of our heavier types.

Mr. THOMAS: How many coal burning locomotives have been converted to oil during the past year, and at the same time could we have a breakdown of the various regions such as the western region and the central region and so on?

Mr. GORDON: I think we have that here. We had a total of 246 locomotives converted at the end of 1952, and we have 99 proposed for 1953.

Mr. THOMAS: That is your total number of conversions?

Mr. GORDON: That is the total number of steam locomotives, coal-burning steam locomotives which have been converted into oil burners, and they are pretty largely in the western region.

Mr. DINGLE: Yes, except for Newfoundland.

Mr. POULIOT: According to what you said a moment ago it is possible to change a coal-burning locomotive into an oil-burning one.

Mr. DINGLE: Yes.

Mr. POULIOT: And it is also possible to change a steam locomotive into a steam turbine locomotive, is it not?

Mr. GORDON: No, that would not be so. If the gas turbine locomotive is found to be a practical possibility it will be a completely different type of animal, so to speak, as compared with the present steam locomotive. It may be, however, that the manufacturers will find a way to make a gas turbine locomotive convertible out of present diesel equipment, but we are not sure of that. However, some of the manufacturers believe that it can be done.

Mr. POULIOT: Your dieselization is not final?

Mr. GORDON: It is not final, no. It is final only in respect to the program which we have embarked upon over the five year period which I announced to this committee last year. We have started that program and when we finish with that part of the program we will have about—what is the per cent again? This will vary, Mr. Pouliot; but when we finish with our 5 year program we will have about 66 per cent of our through freight and about 59 per cent of our total freight ton-mileage diesel hauled.

Mr. POULIOT: That does not mean that you will cease to use steam locomotives in four years?

Mr. GORDON: Oh no, not by any means. You are quite right. We will still have quite a number of steam locomotives.

Mr. POULIOT: But you told us last year that steam locomotives are no longer built.

Mr. GORDON: That is correct. We will not buy any new steam locomotives for the simple reason that none is being built. So that the steam locomotives to which I refer will be the same locomotives which we now own and which will gradually be worn out over the years as we buy new diesels.

Mr. POULIOT: Are there repair parts still being made?

Mr. GORDON: Yes, indeed. A steam locomotive can be kept operating almost indefinitely provided you are willing to put the service units into it.

Mr. POULIOT: Just like an automobile?

Mr. GORDON: Pretty much the same, I suppose. So when we proceed with a diesel program as we are doing, we have to take decisions concurrently to determine how much maintenance and how much renewal to build into steam locomotives. Some of those steam locomotives we will decide deliberately just to run until they are of no more use, then we will retire them.

Mr. POULIOT: In the plans now, and from what you have just said about dieselization, it is that in four years from now you will have about one-third of diesel locomotives in freight as well as in passengers?

Mr. GORDON: I do not know about the passenger percentage. That is rather indefinite. We have not started on passengers yet, and that will depend on just how we co-ordinate it with the other traffic.

Mr. POULIOT: 66 per cent was for freight.

Mr. GORDON: Yes. But you see, this diesel program is not absolutely a fixed program. We are experimenting as we go along and if we find, as we are now finding, that we get major economies out of the use of through freight and switching and so forth, and that these economies offer better results than in passenger trains, we will enlarge the freight part of the program and hold back the passenger program. So we are experimenting as we go along to ensure that we get the maximum return on our investment. We have not any passenger diesels at the moment.

Mr. DINGLE: Just some road switcher type on the Gaspé, P.E.I. and southern counties.

Mr. GORDON: There is none on our long runs.

Mr. POULIOT: Can you tell us what amount of economy have we made in 1952 by using more diesel locomotives?

Mr. GORDON: Well, this is our estimate and I must stress that we are still in the throes of the program, which is an experimental program and we cannot be absolutely definite, but this is as near as we have been able to figure it. We have just covered all the runs here.

Mr. POULIOT: It does not include the figures you are about to give. It does not include the capital expenditures besides that?

Mr. GORDON: No. We figure that our economies by the use of diesels at the moment on a few selected runs total about \$2,685,000 for the year 1952. Is that correct?

Mr. DINGLE: \$2,685,000 is correct.

Mr. POULIOT: Most of those locomotives are new, are they not?

Mr. GORDON: No. Some of them went into service before. They are in certain selected runs, and we have not got here figures covering all the diesels. It is only on the selected runs that I have the figures available at the moment.

Mr. FRASER: The saving is mostly due to the fact that the diesel engine, at the end of the run or when it is stopped at a switch, is not using fuel. Isn't that part of the reason for the saving?

Mr. GORDON: In part, yes, but the diesel can be used in a much more flexible way, and the operating cost of the diesel in respect to fuel consumption is less per ton of freight hauled. But certainly one of the major factors is the reduction in maintenance costs, and that the diesel engines do not have to go into the round house for servicing with the same frequency that the steam locomotives do.

Mr. FRASER: And on long runs for passengers you use steam because of the fact that you have to keep them in operation all the time anyway?

Mr. GORDON: There are two reasons. In the first place, the matter of passenger runs involves the problem of heating. The steam locomotive produces heat for the passengers as a by-product. The diesel does not, and we have to put in special equipment to produce heat for the train. That reduces the economy we obtain.

The other reason is found in the saying that the diesel is a work horse. The bigger the load the better the result we get by using a diesel; whereas the passenger operation is based on speed more than on lift power so to speak.

Mr. FRASER: But still at the present time you are warming the oil and you have added larger water tanks.

Mr. GORDON: For passengers.

Mr. FRASER: No, for freight.

Mr. GORDON: In the maintenance of the diesel we have had to do quite a number of things in the program. We have had to provide diesel shops for regular repair and maintenance, and we have had to provide storage capacity for diesel oil. We have also had to enter into a program of lengthening the passing tracks in order to take advantage of the fact that the diesel can haul 100 cars and the fact that a great number of our passing tracks had only a capacity of 60 to 70 cars. And when we talk about a diesel program we do not only figure the capital cost of the diesel, but we include in it all the additional costs which are necessary for the diesel program including such items as those I have mentioned.

Mr. POULIOT: How much was spent last year for the purchase of diesel locomotives?

Mr. GORDON: It is in the report, I think. No, I am sorry, you have not got it. But if you will turn to page 38 you will see the equipment placed in service during 1952, and the total cost of the diesel electric locomotives shown under the heading there is roughly about \$20,500,000.

Mr. POULIOT: Now I understand that the operating performance is the preamble to the review of operations, and I ask you if you would be able to tell us how much was paid or spent up till now for the repair of the track or the right of way or whatever it is between Edmundston and Riviere du Loup, or if you have not got that figure at the moment, I would appreciate having it tomorrow morning.

Mr. GORDON: I think I can give you the figure. The rehabilitation cost of the Temiscouata line—that I think is the one you are looking for.

Mr. POULIOT: That is right.

Mr. GORDON: In 1952—

Mr. POULIOT: I mean from the start, but I can get it tomorrow morning.

Mr. GORDON: I will have to get that for you. I can give it to you for 1951, and we will get the figure bringing it up to date from the beginning.

Mr. POULIOT: How much was spent last year?

Mr. GORDON: I beg your pardon, I have the figure here. The charge to capital account to date from the beginning of the program is — the total to date is \$423,325.

Mr. POULIOT: That is for all the work on the tracks.

Mr. GORDON: That is up to the end of 1952, and in the capital budget for 1952 an amount was re-voted to the Temiscouata line of \$428,000. Mr. Pouliot, I am sorry, I am not certain about the figures. I will get them for you tomorrow morning.

Mr. McLURE: Now that you have been speaking on dieselization, I would like to ask a question. There is no steam power used at all on Prince Edward Island.

Mr. GORDON: That is right.

Mr. McLURE: And you will be able then to take from that experiment there your exact figures of how much of a saving you are making on the operation of that route. Last year they hauled more freight there than in 1951, but I would like to know if you have the figures as to just what operating saving you have made over and above if you were operating with steam as in 1950.

Mr. GORDON: You want figures showing steam versus diesel based on 1952 traffic?

Mr. McLURE: Yes.

Mr. GORDON: That figure would be an analysis in terms of traffic and I do not have that available now, but I could get it for you. In order to make a fair figure we would have to have it analyzed in terms of traffic levels at a given base year. But I can get it for you by the morning.

Mr. McLURE: Another question. In your opinion is it not very satisfactory?

Mr. GORDON: It is very satisfactory, subject to the fact that we have not been permitted to get the maximum amount of saving we intended to get when we embarked on the program in view of the fact that we have been refused permission to co-ordinate the services with bus operations which we intend to do when we embarked on the whole scheme. One of the factors in going into dieselization was the belief that we could provide a better service with bus co-ordination with certain passenger runs which we then intended to abandon completely but that co-ordination has not been made possible by reason of the refusal of the Prince Edward Island authorities to give us a licence.

Mr. McLURE: I am afraid you will not be able to get it. But, apart from that, I would like to know with reference to the Hillsborough project over the Hillsborough River from Charlottetown to Southport — you have no more connection with Hillsborough bridge.

Mr. GORDON: No, we have not.

Mr. McLURE: Either in ownership or otherwise.

Mr. GORDON: The railway contract has been changed, and I am just trying to determine who owns the bridge. It is certainly not owned by the railway.

Hon. Mr. CHEVRIER: The title is very obscure.

Mr. McLURE: The province has paid for it.

Mr. GORDON: I understand the disposition of the bridge and the purchase thereof are matters for agreement between the Federal and Provincial governments and that is under discussion.

Hon. Mr. CHEVRIER: Yes, I have written a letter to the premier of the province outlining a suggestion — I would have to draw on my memory to recall exactly the arrangements — but by virtue of an early agreement made between the Federal government and the province, the province agreed, I think, to contribute a certain amount towards the maintenance of the bridge,

and since the project is no longer in operation and has been abandoned by order of the Board of Transport Commissioners it was felt that the bridge should be turned over to the provincial authorities, and my letter to the premier of the province indicated that consideration might well be given to the suggestion which I made. The matter is under consideration.

Mr. McLURE: There is no more rental being paid to the Canadian National Railways.

Hon. Mr. CHEVRIER: No.

Mr. GORDON: The bridge was condemned for railway operations.

Mr. McLURE: Was it condemned for heavy trucks.

Mr. GORDON: That I do not know, but I know it was condemned for railway operations.

Mr. McLURE: There is another question.

Mr. GORDON: Incidentally I might add that the condemning of it for truck operations would be a provincial matter whereas the railway matter is a matter for the Board of Transport Commissioners.

Mr. McLURE: That is what I was going to ask you. One more question. When you bring your passengers up from Murray Harbour to Southport, how are you going to transfer them to the station.

Mr. DINGLE: By taxi.

Mr. McLURE: If you are going to transport them by taxi, I think it would be a good thing for you to consider instead of landing them at the station to land them uptown. I know passengers would appreciate that instead of having to pay a taxi to get up town.

Mr. GORDON: I think the question there is whether or not we have the authority to do that. Our obligations are to deliver the passengers at the station and I would be afraid if we tried to deliver them elsewhere we would be running afoul of the bus license and we cannot operate at intermediate points. We have the right to drive into our own stations but not elsewhere. If we get a bus license we will consider your suggestion.

Mr. GILLIS: Before we leave diesels, could you give us an idea of the tonnage purchased by the Canadian National Railways from the small operators in Nova Scotia laid down at Moncton for 1951 and 1952 that will give us an idea of how fast that market is dropping off.

Mr. GORDON: You mean laid down at Moncton?

Mr. GILLIS: Yes.

Mr. GORDON: I would have to get that. What particularly do you have in mind by small operators.

Mr. GILLIS: Like Inter-Colonial.

Mr. GORDON: Would you be satisfied if I gave you a list of the names and then if they were not the operators you wanted, you could let me know.

Mr. GILLIS: All right.

Mr. CARTER: I wonder if I may be permitted to ask one question. On page 19 Mr. Gordon, you say that consideration is being given to a better service for Placentia Bay?

Mr. GORDON: When we get delivery of these two new boats mentioned in paragraph 37 we will re-arrange the service we have of existing boats and provide an improved service to the point you mentioned, but it will not be new boats, but the re-arrangements of the service.

Mr. CARTER: The reason why I asked is because I do not see how it is possible for boats on the present run to be relieved.

Mr. GORDON: The Bar Haven will be placed in the Placentia Bay service, releasing the motor vessel M.V. Burin. That is, the steamship Bar Haven will be placed in the Placentia Bay service releasing the motor vessel now in operation there.

Mr. CARTER: You are getting two new boats on order.

Mr. GORDON: That is right.

Mr. CARTER: Which boats are to be replaced.

Mr. GORDON: One vessel will relieve the S.S. Glencoe and then she will carry on a similar service. Then the other boat is going to replace one of the boats on the other route.

Mr. CARTER: That still leaves nothing for Placentia Bay.

Mr. GORDON: Well it does because when we put a new boat into the service mentioned it releases the existing boat. One of the existing boats is the Bar Haven, and that will go into Placentia Bay.

Mr. CARTER: The Bar Haven is on a separate run.

Mr. GORDON: It will be switched. Here is our position:

The new ferry will release the S.S. Cabot Strait and S.S. Burgeo.

The S.S. Burgeo will go back into the south coast service, relieving the Bar Haven.

The S.S. Cabot Strait will be assigned to the Labrador service, relieving S.S. Kyle.

The S.S. Bar Haven will be placed in Placentia Bay service, releasing M. V. Burin.

One new vessel will relieve the S.S. Glencoe.

One new vessel will relieve the M. V. Codroy and M. V. Clarenville in the Notre Dame Bay and Green Bay services.

The motor vessels Burin, Codroy and Clarenville will then be available for use in freight service from the mainland to Newfoundland or in the Newfoundland coastal service.

Mr. CARTER: The point I want to make there was that the Bar Haven which you intend to put back on the Placentia Bay service was originally on that service and was too big for that port and had to be taken off so it is not suitable to be put back on again.

Mr. GORDON: I am glad to have your comments, and we will look into that suggestion and see what is involved.

Mr. FULTON: Can I ask a question in regard to paragraph 2. Mr. Gordon makes the statement: "freight car utilization was better than in any year since 1945 when wartime carloading regulations were in effect and the longer average haul permitted better mileage per car to be obtained." I did not know before that there was a substantial difference in the carloading regulations. I was wondering, is there any safety consideration there or any considerations of that sort with respect to freight trains which militate against the continuation of such regulations now if they enable you to produce better results.

Mr. GORDON: I think I must answer that in this way. The wartime regulations were regulations which forced the railways in the light of the shortage of equipment to load cars to the minimum level. In other words the car could only move if it had in fact "X" amount of freight. That regulation was removed because it handicapped the speed of moving traffic and so forth, and it was not nearly so flexible as far as railways were concerned.

Mr. FULTON: I think I see the answer now. I thought perhaps wartime carloading regulations might have removed the maximum.

Mr. GORDON: No, it was the other way around. There was a minimum.

Mr. McLURE: I would like to ask one question more with reference to dieselization. I am very strongly in favour of dieselization of our middle system over there, and we had a rather definite promise at that time that no man would lose his employment and they have not all been taken care of and it is rather a discouraging thing for some men who have fairly good positions in the Canadian National Railways and dieselization has taken this away from them.

Mr. GORDON: Definitely it was before my time but I can hardly credit that any assurance was given that there would be no reduction in employment. Certainly that would be contrary to anything that has occurred in my time. We, of course, give the assurance we would look after the existing employees as far as possible and protect their seniority rights and so forth so that the men with the most seniority would be the ones retained, and we would do everything possible to replace these men by training them for diesels or other work. But I am almost certain there could not have been any blanket assurance there would be no alteration of employment. I do not see how management could give such an assurance.

Mr. McLURE: I would not like to say the management did give a really definite promise to that effect, but it was rather held out to them.

Mr. GORDON: There is this to be said. We have made it perfectly clear if we had been able to secure the maximum utilization of our diesel program among other things we would have had jobs for railway employees in running the buses we wanted to run. So it comes back to the buses.

Mr. McLURE: But, there is one question there. The men that are running them today would be still out of employment if you put in some other men. They have a pretty good system of buses, and they would have to be taken care of some other way before you can get a monopoly of that traffic. I had a letter — I do not know how true it is — about three men who have come over from the Maritime Provinces within the last month or so who have taken up positions that we have men qualified to hold and who are out of jobs right there in that territory. Now, I have not got the facts and I am not giving that as a fact, but I had a letter written to me by one of the men.

Mr. GORDON: I can say all these arrangements are strictly in accordance with seniority provisions provided in our wage agreements. Every man is entitled to exercise his seniority rights. If you check the facts we will look into them and give a detailed answer. But at the moment I cannot give you more than a general statement that in these adjustments of employment we are strictly bound by our labour agreements on the question of seniority.

Mr. DINGLE: There may be a question of supervisors, which is in a different category.

Mr. BROWNE: Referring to paragraph 3, Newfoundland District is excluded from the figures above.

Have you any figures of the performance of the railway in Newfoundland such as freight, passengers and comparative figures, 1951-52, and revenue and expenditure?

Mr. GORDON: If you look at page 39 you will find the same figure there including the Newfoundland operation. Under the table freight traffic you will see the same figure given as gross ton miles per freight train hour 29,309 and that compares with the figure I mentioned in the text of the report which excludes Newfoundland and shows 30,002 gross ton miles per freight train hour.

Mr. BROWNE: Can you tell me how much freight and passengers were hauled last year in Newfoundland?

Mr. GORDON: That question has been raised on a number of occasions and we do not keep the accounts so that they will break down in sectional figures.

Mr. BROWNE: I would like to get the comparative statement of the freight hauled in 1951-52 and passenger traffic for the same period, and revenue and expenses of operating over the road.

Mr. GORDON: Would you mind giving to me at the end of the meeting a heading of what you would like to get and with the permission of the chairman I will table it.

The CHAIRMAN: Yes.

Mr. BROWNE: One further question. Is there going to be an oil burner on the north Sydney and Port aux Basque line?

Mr. GORDON: Diesel.

Mr. BROWNE: With regard to the St. John's dockyard, is there going to be any effort made to build it up to a better standard? Last year there were 72 men laid off and it looked as though it was going to be shut down and there were rumours that the dockyard was going to be sold to private interests.

Mr. GORDON: At the present time there are 276 men on the payroll of the dockyard at St. John's. This time last year there were 362 men employed there. The decrease of 86 employees this year is made up of the following labour classifications: 60 common labourers, 12 machinists, 7 boilermakers, 7 carpenters. The decrease in staff is attributed to the fact that last year the dockyard was engaged in conversion of S.S. Northern Ranger to an oil burning vessel. It is also a fact that at this particular period there is less outside work available. In regard to your question of any rehabilitation of the dockyard, we have no such intention at the present time.

Mr. BROWNE: Have you considered the question of selling or leasing to private interests?

Mr. GORDON: We have.

Mr. BROWNE: Is it under consideration at the present time?

Mr. GORDON: It is under discussion at the present time. Whether it will reach a conclusion or not I do not know.

Mr. GEORGE: Mr. Chairman, I asked this question last year. What progress, if any, has been made in shortening the running time of the Ocean Limited from Halifax to Montreal?

Mr. GORDON: That question has been reviewed again and again and it is our opinion that the present running schedule is the most efficient having in mind the intermediate communities that must be served.

Mr. FULTON: I have three questions on page 15. The first is under paragraph 8 where you refer to roller bearings and you say: "Policy with respect of a wider application to freight equipment will depend on the results of analytical studies". Have you got any figures which you can give us which will throw light on the matter as to recent results. Have you found the service is acceptable and traffic increasing?

Mr. GORDON: I cannot give you specific figures, but we have found acceptance among larger shippers and we believe the experiment to be threatened with success, but it is too early yet to get a true picture because of the time lag in getting the figures. The traffic department advised me the other day they have had quite a high degree of interest expressed.

Mr. FULTON: It would be anticipated that will help you in your problem of competition with road traffic.

Mr. GORDON: The real benefit of the service is we get a full load on the motor vehicle trailer. We run that up on the flat car especially designed for the purpose and what we do is we save the handling of that merchandise load

from the truck on to the car and back on the truck. We get a faster and more efficient service as far as the shipper is concerned.

Mr. MACDONNELL: Can you say something about the comparative cost of that operation and the bus that takes it all the way?

Mr. GORDON: Our own figures at the moment are not far enough advanced for me to be precise. It has only been in force for a matter of two or three months. We have not had a long enough period to get precise figures. We have great difficulty in getting the cost figures of our trucking competitors. There is no published record we can go by and when we go to our competitors they are not very free about giving us figures. We are much handicapped. They know pretty well what our costs are, but we do not know theirs.

Mr. MACDONNELL: Would you have difficulty in getting those cars to the proper ramp where you can unload them?

Mr. GORDON: We have had to build special ramps for them. If you were in Montreal I could show you a special ramp where these trailers come in. The tractor pulls the trailer and backs into the ramp and pushes the trailer up the ramp on to the flat car and when it is on the flat car we have especially designed devices whereby the trailer is anchored on the flat car. If you turn to page 20 of the Annual Report you will see a picture. It serves as one more demonstration of why it is necessary to have pictures in an annual report. There is a good example of the actual operation. Here is the trailer. The tractor has backed it up the ramp on to the flat car. Now, the locomotive comes in from this direction and couples up and away it goes. At the other end that car is spotted in position, and the trailer delivered to the actual warehouse of the person receiving the shipment.

Mr. FULTON: Then the next question. I would to ask you a question about the signal track equipment program, paragraph 15, where you outline the program in the west, "for providing automatic block signals on the 512 miles of main line from Jasper to Port Mann, the operating terminal for Vancouver. Installation was well advanced on the 26 miles between Ashcroft and Spence's Bridge and brought to completion in February, 1953, at which time there was a total of 185 miles of automatic signals in service in this mountain territory." I know that will be a matter of great satisfaction to the operating men there. Do you have information as to what is the next stretch of line you are going to work on?

Mr. GORDON: I think I should say this as a general comment of our signalling program, that I am personally very dissatisfied with it, that in the distant past it was done pretty much on a hit or miss basis and we have not yet developed a system-wide program to the extent that I think should be developed. Instructions are now issued, and the operations department and the research department of our company are collaborating on a system-wide study to ensure that we do get a long range program, picking out the most advantageous places to proceed with the signalling operation and to mesh it in with our present system. I would say, as a generalization, that on the C.N.R. system we are below standard in signalling equipment. We are below the standard of the Canadian Pacific, and we are below the standard of Class I railways. That is a matter we have definitely to catch up on and, as I say, I have given instructions to prepare a program to that effect. One of the reasons for slowness has been that over recent years it has been most difficult to get enough equipment. It is highly specialized equipment and has not become available. Another reason in regard to this program is that we are making careful investigation of the qualities of signalling equipment from the United Kingdom. There has been a tendency to concentrate more or less on United States signalling equipment, which is highly satisfactory, but we

want to investigate the possibility of the British made equipment to make sure that we are giving them an equal opportunity in this market. But that, again, raises a lot of technical problems because of the interchangeability of parts of the signalling system, and if we were to go into British types of signalling equipment, I think we would have to take selected areas and standardize on that. It all calls for a very careful technical study and, as I said, that is in hand and I will have a more complete explanation for you next year.

Mr. FULTON: I remember we had an annual discussion on this and at one time I was very interested in your experiments on the slide detector fences in the mountains, and I think you indicated pretty clearly that you decided, as a result of your tests, that that was not the answer and that you were going to try to provide the answer to safety requirements in the mountain territory by the installation of an automatic block signal system throughout that territory, and I understood that your program, at least with respect to the mountain territory, roughly, from Jasper to Port Mann, referred to here, that you were working eventually towards the installation of a block signal system in the whole of that territory. Is that correct?

Mr. DINGLE: I can give those figures, Mr. Gordon.

Mr. FULTON: Just so I am getting the answer to this on the record—last year, I think it was, as a result of the discussion, although, as you told us now, your whole program for the country is under review, you had pretty well decided in favour of the installation of a block signal system throughout the mountain territories, roughly, from Jasper to Port Mann. That program is not going to be disturbed now?

Mr. GORDON: No, the program laid out for the Rocky Mountains, and which is scheduled now, is as follows: In 1952, from Ashcroft to Spence's Bridge, a distance of 25.0 miles, an estimated cost of \$220,000; in 1953, Kamloops Junction to Ashcroft, a distance of 48.9 miles, at an estimated cost of \$440,000; in 1954, Jackman to Blue River, a distance of 65.8 miles, at an estimated cost of \$608,000; in 1955, Blue River to Birch Island, a distance of 61.6 miles, at an estimated cost of \$585,000; in 1956, Birch Island to Kamloops Junction, a distance of 77.8 miles, at an estimated cost of \$760,000; in 1957, Hope to Port Mann, a distance of 74.4 miles, at an estimated cost of \$750,000—for a total program of 353.5 miles at a gross estimated cost of \$3,363,000. That is the program which is now in hand, and I would say to you that when we have done this short job that program may be amended, but if it is amended it will be enlarged and not reduced.

Mr. FULTON: From what you have said, it is apparent that it is a very expensive program.

Mr. GORDON: It is indeed.

Mr. FULTON: Do I take it you are still dissatisfied with the slide detector fences? Is not the answer to that subject to modifications as a result of the investigations referred to in connection with slide detector fences, and that the automatic block signal system does give the best answer to the requirements of safety in mountain territory?

Mr. GORDON: That is our opinion, but Mr. Dingle better speak to it; it is a technical matter.

Mr. DINGLE: It is our experience, Mr. Fulton, that these fences are not the answer to our problem. As an example of our difficulties with this type of protection I would like to give you certain figures. In 1951: No. of times signal at stop, 145; No. of times rock on track, 5; No. of days fence out of service, 92. That is on an experimental section of fencing located between mileage 93.7 and 94.0 on the Ashcroft subdivision.

Mr. FULTON: Is that slide detector fence?

Mr. DINGLE: Yes. Now, in 1952 on the same section: No. of times signal at stop, 35; No. of times rock on track, 3; No. of days fence out of service, 136. A short section of 200 feet was installed at mileage 55.6 of the Albreda Subdivision, and here are the operating results for 1952 in connection with that: No. of times signal at stop, 3; No. of times rock on track, 3; No. of days fence out of service, nil.

Another short section of 200 feet was installed at mileage 7.3 on the Yale Subdivision, and here are the 1952 results: No. of times signal at stop, 15; No. of times rock on track, 3; and the No. of days fence out of service, 3.

Our main difficulty is in the maintenance of the fence. Quite often fence is thrown by rocks coming down, but they land in ditch rather than on the track, thus giving a false signal. Therefore, while there is no blockage of the track, the enginemen get a false signal, and this creates, in time carelessness or uncertainty on part of men in that they do not know when there is a true or false signal.

Mr. GORDON: In regard to that, Mr. Fulton, it is just like the old story of crying "wolf". When the rocks come down that are not big enough to have any effect on the passage of trains, or bounce over the track and into the ditches, nevertheless they set off signal and the train engineers come to a stop, get out and find that there is no blockage, and the next time that signal goes on they may think it is only another of those things. We think it better not to depend on them and to concentrate our money expenditure on the larger program of the automatic block signals.

Mr. FULTON: Do you remember that the Board of Transport Commissioners delivered itself of an opinion on this matter as a result of a survey made on one occasion? Have you since submitted your program to them, and are they satisfied with the program which you have outlined?

Mr. GORDON: Our program?

Mr. FULTON: I mean the program of the installation in connection with the block signal system.

Mr. GORDON: Will you answer the question, Mr. Dingle. I am not familiar with it.

Mr. DINGLE: My answer to your question, Mr. Fulton, would be yes. The program has been approved, and as each section is completed, the installation is passed by the Board of Transport Commissioners. You will understand that this program takes in the whole mileage on the main line between Jasper and Port Mann.

Mr. FULTON: Have they expressed any opinion as to the speed with which you are carrying out the program?

Mr. DINGLE: They have made no particular comment.

Mr. FULTON: If they were not satisfied with it, they would say no?

Mr. DINGLE: I would expect that to be the case.

Mr. CHURCHILL: Can you tell us what prejudices the use of radio communication with respect to trains? Has it been tried and rejected?

Mr. GORDON: I have a statement on that here. Perhaps you had better deal with it, Mr. Dingle.

Mr. Dingle:

Test at Longue Pointe—Montreal

A test of radio in yard service was carried out in Longue Pointe yard from the fall of 1945 to the spring of 1947—a period of some fifteen months. This test was carried out primarily to determine whether radio

was technically feasible, what problems might be met with in the installation and whether this type of communication was of material benefit in yard operation.

Longue Pointe yard consisted at that time of 11·56 miles of main line and 62·02 miles of sidings, making a total of 73·58 miles.

During this test it was clearly demonstrated that by the use of radio communication many moves could be speeded up, time could be saved in many cases and better service could be rendered to the industries in the area. Customer goodwill was increased and the yard crews themselves found many advantages which helped them in their own moves.

A controlled test was conducted by the Department of Research and Development during the latter part of 1946, and as a result of their investigation it appeared that a sufficient return on the investment was not apparent to justify the installation. Accordingly, early in 1947, the radio equipment was entirely removed and returned to the manufacturers, Canadian Marconi Company, who furnished all equipment and maintenance during the entire test. The railway installed the equipment and maintained the generators, batteries and other auxiliaries.

Present Plans

Plans are now under way for a full-scale test of the use of radio in Turcot yard in conjunction with one of the manufacturers of this equipment, and it is expected that conclusive results will be reached by the fall of 1953. If considered warranted, tests may be made later in the year on head-end to rear-end communication on main line freight trains.

A limited application of radio whereby it will be used to facilitate the checking of cars at Turcot yard is expected to be made this year.

General

There is very great doubt whether radio in its present stage of development would give results sufficiently reliable and consistent to warrant its use in mountain territory. This is confirmed by the National Research Council and by various manufacturers of radio equipment. It is still felt that the established practice of using written orders is safer.

Mr. GORDON: As you see, it is still in the experimental stage, and we are making experiments to establish in one way or another the particular places where its installation would be beneficial.

Mr. CHURCHILL: I was thinking more of the general running of trains than of its use in marshalling yards. It is in the general running of trains where you run into trouble.

Mr. GORDON: It has not advanced to the point yet where reliability in operation would enable us really to change over. But as you say, we are watching that very closely. There are certain points in Canada that we know right now are unsafe, particularly in the mountain areas.

Another factor which is raised is that we have not sorted out yet just where we stand in respect to labour implications in using the device. I might say that in the United States it came out that the installation of a radiotelephone raised the question of an extra day's pay for the engineer for answering the phone.

Mr. MACDONNELL: You spoke of purchases in Britain. Have you had delivery conditions that satisfied you?

Mr. GORDON: We have had difficulty with deliveries. Some cases were all right but we have had some very extraordinary difficulties in particular cases. I might say, although I am sorry to have to do so, that my experience has been disheartening. We have talked to our British friends again and again about it. In some cases deliveries are excellent, but the percentage of difficulties we have are rather, as I say, disheartening.

The CHAIRMAN: Carried. Shall we now turn to "Other Research"?

Mr. FRASER: May I ask a couple of questions? On page 15 in regard to these six new lightweight electric cars. Are they used for commuting service?

Mr. GORDON: Are you talking about item 12?

Mr. FRASER: Yes.

Mr. GORDON: We only operate them through the Mount Royal tunnel.

Mr. FRASER: I noticed that, but are they used for commuting?

Mr. GORDON: It is a streetcar service really; it is an electric car running on the railway through the tunnel. But it is to all intents and purposes a streetcar service.

Mr. FRASER: In item 10 you say:

In addition, wherever practicable, specifications call for single instead of double vestibule cars, . . .

Mr. GORDON: Yes.

Mr. FRASER: In connection with those cars, what do you do for safety? The vestibule at the end of the car has a certain amount of safety element.

Mr. GORDON: This is a design of car which has been brought out by the manufacturers and has been used quite successfully in the United States. It is a more or less new idea in Canada, but the safety factors have been examined by the Board of Transport Commissioners and we have their approval.

Mr. FRASER: What do you do with your washroom? Do you put them at the end?

Mr. GORDON: We use the extra space for seating, as I mentioned in the report.

Mr. FRASER: I noticed that, but I thought that was in the car itself?

Mr. GORDON: There is one instead of two vestibules for the passengers, but we have examined it and found that it does not cause much trouble.

The CHAIRMAN: Pages 14 and 15?

Carried.

We now have "Other Research", on page 18?

Carried.

"Condition of the Property"?

Carried.

"Terminal Facilities"?

Carried.

Mr. McLURE: Under "Conditions of Property", item No. 26, you have placed a lot of orders for cars, and about half of them have been placed in the United States.

Mr. GORDON: Roughly speaking, that is about right for new passenger equipment. I will tell you what we did with our passenger equipment. We called for competitive tenders from Canadian manufacturers and from United States manufacturers. On the basis of bids received we found that we could get much better prices from the United States manufacturers in regard to the more complicated type of equipment, dining cars, and specialized cars of that type.

But in regard to the ordinary straight line coaches, they were practically all placed with Canadian manufacturers which put them in a preferred position to get a straight production run, which gave them the best part of the order in that respect.

You must remember that there have been no passenger cars built in Canada by Canadian manufacturers for a number of years; and it was much better economy for them to get the coach end of the order. They have expressed their complete satisfaction with our division of the business on that basis.

Mr. GEORGE: What are they doing in the Moncton shops? Are they repairing rolling stock there, or do you intend to build a certain type of rolling stock?

Mr. GORDON: We only convert certain types and carry on repairs. We have no place where we build completely all our own rolling stock.

Mr. GEORGE: Has that been considered?

Mr. GORDON: As a matter of fact in connection with the very matter which Mr. McLure spoke about, when we decided that we had to pick up a time lag in respect to our passenger equipment and realized that we had a very large order of passenger equipment ahead of us which would run into \$50 to \$60 million, we gave careful consideration to the wisdom of extending our own shops in order to build that equipment. But we came to the conclusion that the wise policy was to use the facilities of existing manufacturers and not to become dependent entirely upon our own facilities because if we did not place that order, it would have meant that there were no passenger car builders left in Canada.

That policy I understand is not the same policy that is followed by the Canadian Pacific Railway. Nevertheless it is our considered opinion that we are better advised to have Canadian manufacturers who are able to build passenger cars.

Mr. FRASER: In regard to item 27, on the road between here and Toronto, have you welded much of that line?

Mr. DINGLE: Yes. We have welded and built up the joints.

Mr. GORDON: That is a continuing program.

Mr. FRASER: When do you expect to get it finished between here and Toronto?

Mr. DINGLE: Well, we are continually changing the rail.

Mr. FRASER: I know you are.

Mr. DINGLE: It is a continuing program. I could not tell you when it will be finished.

The CHAIRMAN: Carried.

Mr. FRASER: I take it they are at it all the time, levelling it off and welding it?

Mr. DINGLE: Yes.

Mr. THOMAS: According to an answer given to a question there are 425 units—passenger car units—to be built in Canada at the cost of \$32,700,000. I wonder if we can get a breakdown of the different types of cars.

The CHAIRMAN: Would you be content to have that in the morning?

Mr. GORDON: I want to make this reservation. I do not think we should be asked to give the car unit prices.

Mr. THOMAS: No, the types of cars.

Mr. GORDON: We will get that in the morning.

The CHAIRMAN: Terminal facilities carried?

Carried.

The CHAIRMAN: Coastal steamship services carried?

Carried.

The CHAIRMAN: Participation in economic development.

Mr. GILLIS: Just a minute. Mr. Gordon I notice you give a comprehensive survey of your participation in the economic development. There is one you missed. What is your program for the Canso bridge?

Mr. GORDON: The Canso crossing?

Mr. GILLIS: That is right.

Mr. GORDON: I cannot understand what you mean by program. We are well up in the planning for taking care of the project, and we will be working to synchronize with the building of the crossing. We will be ready to give a service just as fast as the causeway is built. Part of the survey is completed and most of the physical work as far as it can be wisely proceeded with at this time is up to date.

Mr. GILLIS: I wish you had included it in the report.

Mr. GORDON: I thought I had.

Mr. GILLIS: It is a big economic development.

Mr. GORDON: We mentioned it last year, but we did not put it in this year because we thought the report was long enough.

The CHAIRMAN: New branch lines.

Mr. BROWNE: How much do you estimate it will cost for the Lynn Lake line.

Mr. GORDON: The estimated cost is shown in the Act as \$14,725,000 plus 15 per cent. We have not the final figures at the present time, but it will cost us something over \$17 million.

Mr. MACDONNELL: 15 per cent?

Mr. GORDON: That was the margin given in the final authorization of the Act.

Mr. BROWNE: Terrace to Kitimat.

Mr. GORDON: The total estimated cost is about \$11½ to \$12 million.

Mr. BROWNE: It is much cheaper, is it?

Mr. GORDON: It is cheaper per mile, yes. No, I am sorry, it is more expensive, but the distance is shorter.

Mr. BROWNE: It is much dearer. \$200,000 a mile.

Mr. GORDON: That is right. 46 miles in this and Lynn Lake is 155.

Mr. BROWNE: It is more rugged territory.

Mr. GORDON: Yes, and there is a very difficult crossing over the Skeena River.

Mr. MACDONNELL: You spoke about a 15 per cent cushion in connection with Lynn Lake. Does that mean there has been a 15 per cent increase in the cost since that time?

Mr. GORDON: No, it was only that we found it very difficult to make a practical estimate of the cost of the line because of the unknown qualities in the territories through which we went, so in estimating the cost we took a guess at it. As it turned out the total estimated cost comes close to \$17 million.

Hon. Mr. CHEVRIER: There is provision in the Act which includes a cushion of 15 per cent and it allows the Canadian National Railway to go beyond the amount approved by 15 per cent.

The CHAIRMAN: The St. Lawrence seaway project carried?

Carried.

The CHAIRMAN: Highway competition.

Mr. McLURE: What do you mean by highway competition.

The CHAIRMAN: Carried?

Mr. MACDONNELL: Mr. Chairman maybe there are some things that one does not discuss but highway competition seems so important. Is it your judgment we should not discuss it? I have not a particular question but I wonder if Mr. Gordon would make a few general observations. He has already made some about the difficulties of highway competition which takes the more lucrative kinds of freight, and even if there is nothing to say it seems to me to be one of the great problems facing the railways.

The CHAIRMAN: The new type of flatcar shows they are quite wide awake to truck competition.

Mr. GORDON: There is no doubt about the importance of the question of highway competition and its difficulties in relation to railway business. It is a major subject and we could write a treatise on it. It is a fact that truck competition is breaking down the historic pattern of railway rates and we have been forced to lower rates ourselves.

We have been forced to lower our rates on high value commodities with the inevitable result that the rates on low value commodities must be raised if we are going to survive. I do not suggest it would be economically wise to restrict the operation of trucks but there should be a general appreciation of the ultimate impact of truck competition on the general economy of this country. But, our position has always been that we do not fear truck competition so long as it is subjected to the same type of controls as we are and have to meet the same kind of conditions. The effect of competition is a very big question and something that I am quite sure will be open for discussion before the Board of Transport Commissioners in the equalization of rates.

The CHAIRMAN: Employee relations.

Mr. FULTON: Mr. Chairman, I would like to ask a question here. The opening paragraph, number 15, is a masterpiece of understatement.

Mr. GORDON: I thought you would have noticed that before in me.

Mr. FULTON: Sometimes when you are not being pressed.

In connection with paragraph 16 may I ask whether you had any labour representatives on this survey that you say you made?

Mr. GORDON: Not labour representatives, but we intend in due course if we get on with this to ask for and try to encourage discussions on both sides. I jotted down one or two notes in thinking of what I referred to as "a condition of recurring crises". What we are trying to do here is to have a long and hard look at the situation as it has developed over the years to make perfectly certain we have nothing on our conscience to see if the position has not changed; to see if we can foster a feeling of mutual trust in the other man's motives and develop what may be called a code of ethics and fair play in day-to-day relations. I think both sides might very well sit down and try to find common ground as to what might be called criteria for wage agreements—what I might call "Queensbury rules"—which would be a framework for negotiations, rather than leave it always to the crisis period to enter into these discussions. It may be that a dispassionate survey might show management may need some orientation to recognize that unions are both necessary and desirable as an inter communication link between employer and employee, and it may be labour leaders should take stock of their position. By and large what I am trying to say is that with the lessons of the last two or three years, which have been years of acute difficulty with wage matters, that we take stock of our position and try to arrive at a situation where we can work out a means with labour leaders of discussing our problems and arriving at what might be called criteria that will help at a time of wage adjustment

to avoid getting into an impasse. It is an ambitious program. Whether I can get anywhere with it I do not know. But it will not be for lack of trying and I have an idea our more enlightened labour leaders are in the frame of mind that they would welcome an opportunity to sit down with management and have discussions of that kind.

Mr. FULTON: I wanted to ask one other question on page 19.

The CHAIRMAN: Shall we adjourn until tomorrow morning?

Mr. MACDONNELL: I thought Wednesday morning was sacrosanct.

Hon. Mr. CHEVRIER: It is on votes and proceedings.

The CHAIRMAN: The T.C.A. has expressed a very firm wish that we should take them on on Thursday. Now, I think we can do so. If we sit tomorrow morning and afternoon, and without sitting tomorrow night, we can clear up the C.N. report and the budget items, and then have the T.C.A. with us on Thursday.

Hon. Mr. CHEVRIER: Could we not complete the report tonight?

The CHAIRMAN: We are on the last paragraph of the report. If members think it won't rush you too much we could meet and finish tomorrow afternoon?

Mr. MACDONNELL: I do not know anyone who would agree with me, but I would rather sit tonight than an hour tomorrow morning.

Mr. FRASER: That is the way I look at it, Mr. Chairman.

The CHAIRMAN: What about you, Mr. Gordon?

Mr. GORDON: I can take it.

The CHAIRMAN: Then we will meet at 8.30 tonight.

Mr. FULTON: There is one short question, Mr. Chairman. Mr. Gordon, it is a serious matter, and in fairness, so that nobody will misunderstand you, I thought there might be one phrase which might be misinterpreted, and that was when you referred to management's attitude and thinking on the subject. I wonder if you would like to make it clear that your remarks were confined or based exclusively on your own field, because otherwise I think somebody might take it that Mr. Gordon is taking a knock at management generally.

Mr. GORDON: Thank you very much. My intention was only to refer to the attitude of the Canadian National Railways management towards this question.

Mr. FULTON: I thought so. In paragraph 19 you refer to the difficulties you are having in obtaining experienced staff with a broad background of experience eligible for promotion to senior positions. What I am going to ask you, have you any reason to believe that you should perhaps take another look at your own hard and fast retirement age? I understand in your company, as in many others, and I am not singling you out, that there is a hard and fast ruling of retirement at 65?

Mr. GORDON: That is right.

Mr. FULTON: Is there anything there which makes you think you should perhaps take a look at it again?

Mr. GORDON: We have certainly thought about it. It is a very difficult problem and it sets up ripples in unexpected quarters. My general understanding is that labour feels that the retirement age should be strictly imposed because obviously, from their point of view—I do not speak critically in this respect—they feel that if we extend the service of people after the age of 65, it does not give the younger men the kind of opportunity to reach the top that they would otherwise have.

The problem of the retiring age is one of the largest economic problems on our North American continent. It is one which affects very materially the cost of pension funds and it is one which must be approached very

cautiously from that point of view. I do believe myself, and I am expressing this view personally that there are some cases where perhaps we ought to be more lenient in respect to the retiring age. But it would require an amendment to the pension fund rules, and it would have to be considered in the light of a great many points of view. A man at 40 has a very different point of view about retiring age from a man at 65 or even 64. Moreover, there is a staff morale question involved in it, and also there is the physical problem. It is unfortunate that there has to be a hard and fast rule in that respect. Many men at age 65 are very young and have young ideas. On the other hand, there are men at age 65 who are very old and are all through.

The CHAIRMAN: Shall the report carry?

Carried.

We shall adjourn now until 8.30 o'clock.

EVENING SESSION

The committee resumed at 8:30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. As you know, the House is adjourned. I do not think it would be in disrespect for us to carry on with our work, since we are not so formal as the House of Commons, but I would like an expression of opinion from the committee—if there is any objection.

Mr. McCULLOCH: I think we should have one minute's silence.

The CHAIRMAN: One minute's silence, gentlemen.

Agreed.

(At this point the committee stood in reverent silence for one minute in respect to the late Queen Mary.)

Mr. MACDONNELL: On a question of privilege. I hope this is the last request I shall have to make. I wish to read a telegram to the committee which I have received, and which is signed by J. E. Woods, who is president of the Monarch Life Insurance Company in Winnipeg, and chairman of the Canadian Committee, I think you call it, of the Hudson's Bay Company. The telegram is addressed to myself:

Winnipeg, Manitoba,
March 24, 5.36 p.m., 1953.

J. M. Macdonnell M.P.
House of Commons Ottawa Ont.

Pitt authorized me on Sunday the twenty second to send correspondence to you for use before parliamentary committee stop After having talked to President Gordon today Pitt now states that he did not authorize correspondence to be read to committee but wanted you to have same so as to disclose all the facts.

J. E. Woods

The CHAIRMAN: Thank you, Mr. Macdonnell.

Mr. FULTON: This, Mr. Chairman, of course raises a very serious question of privilege which I regret I think I have to bring before the committee, and it is this. Ever since last night, and certainly since this morning, the opening of our proceedings this morning, the committee had before it—I think a final

decision was taken on it—a motion to call Mr. Pitt as a witness. In other words, all during the time of that discussion this committee was considering whether or not it would call Mr. Pitt to appear before it, and to answer any questions that he might be called upon to answer. Mr. Macdonnell has indicated pretty clearly the accuracy of his statements and the foundation upon which they were made in such a way that his position is no longer open to question, but I want to point out to you on the question of privilege, which affects the rights not only of every member of this committee but of the committee itself, the fact that during the time when we had before us and under consideration a motion that Mr. Pitt should be called as a witness, another witness before this committee, the president of the Canadian National Railways, was twice in communication with Mr. Pitt and discussing with him the propriety, or otherwise, of his appearing before us as a witness.

Mr. BENEDICKSON: Do you think that is improper?

Hon. Mr. CHEVRIER: Why shouldn't he?

Mr. GORDON: That is not true. I never at any time discussed with Mr. Pitt the propriety of his appearing as a witness. I asked him two questions only, and he answered them.

Mr. FULTON: I must ask you to maintain order in this committee, Mr. Chairman. I am raising this as a very serious question of privilege.

Hon. Mr. CHEVRIER: You are raising it as a political question.

The CHAIRMAN: I do not consider that you have indicated any question of privilege. I think that Mr. Macdonnell definitely was quite proper in his question of privilege but I fail to see any question of privilege at all in the remarks you have made, Mr. Fulton.

Mr. FULTON: May I outline my question of privilege to you. It is this: I do not know how I could state it more clearly. This committee itself was considering whether or not it would call Mr. Pitt as a witness. Now, sir, if you as chairman of this committee had seen fit to communicate with Mr. Pitt, I would have had no objection of course. But I would point out to you that with your consent—because you permitted Mr. Gordon to make a statement, yes, two statements which he did make,—at no time did you take any objection, so it was with your consent that Mr. Gordon communicated to the committee the substance of a telephone conversation which he had had with Mr. Pitt, which conversation, as reported by Mr. Gordon, indicated in the view of Mr. Gordon at any rate a view which was acceptable to some of the members of the committee, that Mr. Pitt should not be called, and that it would be improper and unwise to call Mr. Pitt.

Hon. Mr. CHEVRIER: I rise to a point of order.

Mr. FULTON: I do not think you can rise to a point of order in a question of privilege.

Hon. Mr. CHEVRIER: This is entirely out of order. Have I the floor?

Mr. FULTON: The minister is not entitled to raise a point of order in the course of a question of privilege.

The CHAIRMAN: I have already indicated that I have not heard anything from your lips, Mr. Fulton, from the time you got up until the present moment which I consider to be a question of privilege. I so indicated it when I allowed you to continue. I hope that you will state your question of privilege briefly. But you have not done so. I have no option, if you continue this way, but to rule that you are entirely out of order. If you think you have a question of privilege, would you please be good enough to state it.

Mr. FULTON: I certainly thought that I had indicated that the matter was one of substance and of privilege, an important question of privilege. But perhaps I can state it in language which will make it more obvious.

Mr. BENIDICKSON: The privilege is what you are getting from the committee.

Mr. FULTON: I will state it in a form which I think will bring it clearly before the committee. I think the point goes to the question of the right of a member who claims the introduction of certain evidence in justification of what he said.

The CHAIRMAN: No, no.

Mr. FULTON: That is a question of privilege.

The CHAIRMAN: Just a minute, please. I have been a member of this House for some 18 years and I have heard many questions of personal privilege raised in the House. They are usually directed to two points, one, a member has been misquoted in the press or something of that nature; and the member wishes to put himself right with the public in that regard. The other is that some member feels that one of his privileges as a Member of the House has been encroached upon. I have not heard out of your lips tonight a question of privilege. If you have one, please state it, but state it briefly.

Mr. FULTON: That was not your opinion when you said you had not heard a word of privilege. My question of privilege is very definite. It is that my rights as a member of this committee have been encroached upon by the conduct, or by the course of action taken this afternoon with your consent as chairman. I am bringing it up at this time because Mr. Macdonnell, another member of the committee, has placed before the committee information indicating clearly—

The CHAIRMAN: But that is his privilege, not yours.

Mr. FULTON: No, because the result of the course of action followed this afternoon has been that I, a member of the committee, was influenced in my decision as to whether or not this witness should be called, by the statement of another witness reporting a conversation with the witness. But at that time we were considering whether or not we should call a witness. That is my question of privilege.

Mr. MUTCH: How silly can you get?

Mr. FULTON: I can not get quite as silly as my hon. friend who has just interrupted. My question of privilege is this. The committee was placed in such a position this afternoon, and I, as a member of the committee was placed in such a position at the very time when I, with my colleagues, was considering the question of whether or not we should call Mr. Pitt. I was informed by another witness who had been in communication with the witness, the propriety of whose calling this committee was then considering. Therefore, was influenced by a statement coming from the witness, Mr. Gordon, which statement at that time there was no opportunity of controverting. The statement of Mr. Gordon, or the implications of that statement have certainly been controverted by the statement just made by Mr. Macdonnell.

The CHAIRMAN: I do not think so.

Mr. FULTON: I repeat that the implications on which in part this committee based its judgment have been controverted by the statement made by Mr. Macdonnell. I summarize my question of privilege by saying that it is entirely improper for this committee to be bound by that decision this afternoon and entirely improper for this committee to allow its proceedings to be run by a statement made by another witness with respect to the propriety of calling a witness who alone is able to give us the facts.

Hon. Mr. CHEVRIER: Mr. Chairman, if I may be allowed, I am glad that this telegram has been put on the record.

Mr. GEORGE: I wonder if the minister would read that telegram.

Hon. Mr. CHEVRIER: Yes, I will do so in a moment. Now I commend my friend Mr. Macdonnell. It confirms the judgment I have of him. It is a high opinion and I am very happy that he has seen fit to put this telegram on the record. I was trying for at least two sessions to find out from him the name of his informant. Well, now we know who it is and perhaps I can read the telegram which already has been read by Mr. Macdonnell. It is addressed to him and it says this:

Winnipeg, Manitoba
March 24, 1953, 5.36 p.m.

J. M. Macdonnell, M.P.
House of Commons, Ottawa, Ont.

Pitt authorized me on Sunday the twenty second to send correspondence to you for use before parliamentary committee stop. After having talked to President Gordon today Pitt now states that he did not authorize correspondence to be read to committee but wanted you to have same so as to disclose all the facts.

J. E. Woods

That telegram confirms every word that Mr. Gordon has said here and the only point at issue is that Mr. Fulton is decidedly displeased and angry at the manner in which this thing has turned out. In other words, he is displeased at the attitude of his own colleagues. There is no doubt about that in my mind.

Mr. FULTON: Not in the slightest.

Hon. Mr. CHEVRIER: Because he is bringing it back and going over the whole thing when it has already been thrashed out. If there was a question of privilege to be raised, it seems to me that the time to raise it was when my friend stated that the witness did something which was unparliamentary. I say here with all deference to my friend that surely the president of the Canadian National Railways has the right to communicate with his employees, and has the right to communicate with the members of his staff as he did, to inquire what the position was, and he has. And the telegram which was read simply confirms that. I do not see that there is any question of privilege at all.

Mr. MACDONNELL: It does seem to me that it is fair, as Mr. Fulton has said, that what has happened really means that one of the witnesses here, namely Mr. Gordon, to a very considerable extent has been leading this committee around by the nose today, and I am satisfied that it is perfectly clear from this telegram which I read that the talk which Mr. Gordon had with Mr. Pitt did, as I suggested earlier in the day, have a very considerable effect on his mind. And I do think that Mr. Fulton is warranted in saying that if that is the situation, knowing that this committee is deliberating whether a certain man should be brought here to give evidence—may I say a force majeure—Mr. Gordon will not think I am using it in any derogatory sense—however, at any rate a very strong force was brought to bear on him at a time that this committee was going to consider whether they should bring him or not, and of course that fact, as Mr. Gordon reported to us this afternoon, very naturally had a very considerable affect on the attitude of the committee. So for that reason it seems to me that Mr. Fulton was fully justified in taking the position that he did take.

Mr. DICKSON: Who is trying to lead Mr. Woods around by the nose?

The CHAIRMAN: Mr. Fulton has indicated to the committee that the witness, Mr. Donald Gordon, did influence his vote this afternoon.

Mr. FULTON: No, I did not.

The CHAIRMAN: I heard you say that. It is very difficult for me to believe such a statement. Mr. Fulton voted in favour of the motion.

Mr. FULTON: I said it influenced the committee in its decision.

The CHAIRMAN: Well, the record will speak and I suggest that you read the record. I certainly heard you say it influenced your vote. You voted in favour of the motion.

Mr. FULTON: I intended to say that it influenced the vote of the committee.

The CHAIRMAN: And that it did not influence your vote? So there is no question of privilege involved so far as Mr. Fulton is concerned.

Mr. McCULLOCH: Let us carry on.

Mr. POULIOT: Well said!

The CHAIRMAN: "Income and Capital Budget, 193".

Mr. McLURE: Have we finished "Employee Relations"? There is one question I have on No. 18. This is on page 24.

The CHAIRMAN: The report was carried. Will you ask your question on the budget? You will have an opportunity to ask it on the budget.

Mr. McLURE: It is only a short question and I would like to mention it. We are in the unfortunate position that we lost all our railway shop employees. There was consideration given as to whether we could get apprentices to learn the trade in Moncton and there was a quoto adopted of 4 per annum. Then that was disrupted on account of war conditions, but we got two last year—no three years ago—and they have been very very successful and I would like to know if the president can look into this matter to see if we can get an opportunity—the island division of the railway can get an opportunity—to train a few apprentices.

The CHAIRMAN: I believe Mr. Gordon understands the question and he will give the answer later.

Mr. GORDON: If I understand your question it has to do with the rate at which apprentices are trained. Now I want to tell you in a general way that a matter of that kind again is covered by the labour wage agreement. The management has no discretion in regard to the rate at which apprentices are allowed because this matter has been worked out as part of an agreement with the individual trades. You will correct me if I am wrong Mr. Dingle.

In other words we have not got discretion to either decrease or increase the number of apprentices under the circumstances you mention. We have agreements worked out as part of our labour negotiations and all these matters, as I say, have been built up over the years by representation from union members and agreed to by management, and they form part of our working agreement now, and we have no discretion except to carry out the agreement entered into.

The CHAIRMAN: Now if you will turn to the budget.

Mr. MACDONNELL: Just one second. This is employee relation. Mr. Gordon you have spoken about cooperation with labour and I want to ask this question. Labour has now very skilled economists working in its own right and the question I want to ask is whether in your study and appreciation of economic conditions and of the position of the whole railway industry it is part of your co-operation with labour to have these labour economists discuss and assess from their point of view and from the point of view of the whole industry the position of the industry and what are the opportunities and dangers that confront it.

Mr. GORDON: Are you referring Mr. Macdonnell to labour economists employed by union organizations?

Mr. MACDONNELL: I understand there are very skilled economists employed.

Mr. GORDON: I must say this that our meeting with such labour economists so far has only been at the time when some dispute has been taken before the board of conciliation, and the labour economist at that time is usually called by the union as an expert witness to provide or support statistics or facts and figures which may be part of the brief which the unions are presenting in connection with their case.

On the side of management, we have been endeavouring to build up personnel staff that will be able to match the facilities which have been developed by union leadership over the years and at this time I have not seen much evidence that the economists or experts on one side really sit down and talk these things over with the other side. That is one of the elements of cooperation that I would like to see developed but so far I have not seen much evidence of it because the only time we see them or know them is when they appear as expert witnesses before a board of conciliation.

Mr. MACDONNELL: In other words you really only see them when there is a dispute?

Mr. GORDON: We only see them when there is trouble; when the efforts, voluntary efforts, of collective bargaining have broken down and application has been made both by labour and management for the employment of a board of conciliation under the provisions of labour legislation to deal with the case presented by both sides to the dispute, and it is during a hearing of that dispute that we see and hear from the expert economists or whatever you want to call them. That is the only time we see or work with them and they vary from time to time and from case to case.

Mr. MACDONNELL: Would you think it is desirable if it could be brought about to have that economic discussion continue?

Mr. GORDON: I do. It is part of the thing I have in mind. I hope for opportunities for meetings of that type where there can be a meeting between management and labour to try and discuss these issues between us in a more or less objective way, particularly for the purposes of establishing and determining a code of ethics, a means whereby yardsticks might be established in respect of statistical data which appear in the course of negotiations. In the course of negotiations between labour and management there always is, and always has been a difference of opinion in regard to the criteria that might be used as to whether or not railway labour has kept pace with similar types of labour in other industries, and so forth. I think it would be very useful if it were possible to find a common ground in that respect by discussion between the experts.

The CHAIRMAN: Employees relations?

Carried.

The budget.

CANADIAN NATIONAL RAILWAYS
Summary Forecast of Financial Requirements—Year 1953

	1953	1952
	Estimated	Actual:
	\$	\$
<i>Income Account—</i>		
Operating Revenues.....	720,000,000	675,219,415
Operating Expenses.....	676,600,000	634,852,915
Net Operating Revenues.....	43,400,000	40,366,500
Net Income Charges (excluding Interest).....	14,700,000	16,061,052
Available for payment of Interest.....	28,700,000	24,305,448
Interest on Funded Debt—Public.....	21,600,000	21,848,906
Interest on Government Loans.....	6,700,000	2,314,215
Income Surplus.....	(xx) 400,000	142,327

Capital Budget—1953

	1953 Estimated	1952 Budget:	Page No.
<i>Additions and Betterments—</i>			
General (excluding new equipment).....	12,323,366	27,363,257	3
<i>New Equipment—</i>			
1953 (Additional) Orders—\$13,724,000, of which \$9,959,000 will be delivered in 1953.....	9,959,000	2,413,092	8
<i>Acquisition of Securities.....</i>	293,000	516,900	10
<i>Additional Working Capital.....</i>	15,000,000	15,000,000	—
	37,575,366	45,293,249	

(xx) Preliminary estimate only. Account has not been taken of that portion of the cost of settlement of wage awards to firemen and trainmen which is referable to the 1952 dates to which the settlements are retroactive, nor has account been taken of any increase which may flow from the freight rate increase application presently under reservation by the Board of Transport Commissioners for Canada.

CANADIAN NATIONAL RAILWAYS

Summary of 1953 Financial Authorization Required with 1952 Comparison.

	1953 Estimated	1952 Budget:	Page No.
	\$	\$	
<i>Capital Expenditures—</i>			
1953 Budget Program—as detailed hereinbefore.....	37,575,366	45,293,249	1
<i>Branch Lines—</i>			
Sherridon-Lynn Lake—authorized C.44 Statutes of Canada 1951.....	2,758,513	7,800,000	11
Terrace-Kitimat—authorized C.20 Statutes of Canada 1952.....	6,580,000		12
<i>Revotes, and to complete projects previously authorized.....</i>	35,561,634	23,014,271	6
<i>New Equipment:—</i>			
Authorized by Financing and Guarantee Act 1952, the cost of which equipment exceeded the originally estimated cost by.....	2,366,985	8,325,822	7 (D)
Financing previously authorized by Financing and Guarantee Acts as follows:			
1951, 1952.....	199,000		7 (A)
1951 (No. 2), 1952.....	3,055,700		7 (B)
1952.....	5,333,000		7 (C)
Ordered pursuant to Financing and Guarantee Act 1952.....	36,630,000	20,389,043	8 (E)
	130,060,198	104,822,385	
<i>Less:</i>			
Available from Depreciation Reserves.....	19,900,000	17,350,000	
Proceeds of Sale of Preferred Stock.....	21,600,000		
	88,560,198	87,472,385	

- (1) The Financing and Guarantee Act, 1952 will be utilized as the authority for the financing of \$31,707,000 (estimated) being in respect of capital expenditures on equipment ordered prior to 1953 but delivered between January 1st and June 30th, 1953, as contemplated in Section 3 (1) (c) of said Act. See page 9(H).
- (2) Authority is requested to place orders for new equipment contained in the 1953 budget program in the amount of \$3,765,000 (see page 8(F)) and for new equipment to be included in the 1954 budget program in the amount of \$54,534,000 (see page 9(G)) none of which equipment will be delivered in 1953.
- (3) Authority is also requested to enter into contractual obligations amounting to \$16,406,625 respecting general additions and betterments excluding new equipment, which amount will not become due and payable in the current calendar year. See page 3.
- (4) Authority is also requested to the Minister of Finance to make advances in 1954, prior to the enactment of the Financing and Guarantee Act, 1954, to the extent of \$80,000,000 against capital expenditures made respecting new equipment ordered pursuant to the authority requested in (2) above or to similar authority contained in previous Financing and Guarantee Acts and respecting contractual obligations for general additions and betterments incurred pursuant to the authority requested in (3) above.

CANADIAN NATIONAL RAILWAYS

Additions and Betterments—General
(Excluding New Equipment)

	1953	1952	1953	1952
	\$	\$	\$	\$
<i>Road</i>			62,523,718	41,769,231
Less—Revotes.....	22,363,281	15,068,736		
Commitments (Revotes).....	4,558,915	—		
Commitments (New Funds).....	3,599,026	—	30,521,222	15,068,736
			<u>32,002,496</u>	<u>26,700,495</u>
<i>Subsidiary Companies</i>			5,309,236	373,163
Less—Revotes.....	490,646	Cr. 6,598		
Commitments (Revotes).....	—	—		
Commitments (New Funds).....	4,000,000	—	4,490,646	Cr. 6,598
			<u>818,590</u>	<u>379,761</u>
<i>Departments</i>			20,792,831	23,241,856
Less—Revotes.....	9,768,015	5,743,647		
Commitments (Revotes).....	3,595,000	—		
Commitments (New Funds).....	653,684	—	14,016,699	5,743,647
			<u>6,776,132</u>	<u>17,498,209</u>
<i>Equipment—Additions and Betterments and Conversions</i>			6,085,882	8,101,278
Less—Revotes.....	2,939,692	2,208,486		
Commitments (Revotes).....	—	—		
Commitments (New Funds).....	—	—	2,939,692	2,208,486
			<u>3,146,190</u>	<u>5,892,792</u>
<i>Equipment Retirements</i>			Cr. 7,420,042	Cr. 8,108,000

SUMMARY

<i>Gross</i>			87,291,625	65,377,528
Less—Revotes.....	35,561,634	23,014,271		
Commitments (Revotes).....	8,153,915	—		
Commitments (New Funds).....	8,252,710	—	51,968,259	23,014,271
			<u>35,323,366</u>	<u>42,363,257</u>
Less—Projects Uncompleted.....			23,000,000	15,000,000
Net—Additions and Betterments—General.....			<u>12,323,366</u>	<u>27,363,257</u>

CANADIAN NATIONAL RAILWAYS

1952 Financial Requirements compared with the Budget

	1952 BUDGET	1952 Actual Requirements
	\$	\$
General Additions and Betterments.....	27,363,257	} 37,091,213
Revotes, and to complete projects authorized in previous years.....	23,014,271	
Sherridon-Lynn Lake Branch Line.....	7,800,000	6,034,614
New Equipment.....	(x) 31,127,957	(x) 16,532,231
Acquisition of Securities.....	516,900	Cr. 1,869,664
	89,822,385	57,788,394
Available from Reserves for Depreciation and Debt Discount Amortization.....	Cr. 17,350,000	Cr. 16,297,815
	72,472,385	41,490,579
Additional Working Capital.....	15,000,000	15,000,000
	87,472,385	56,490,579
Less amount received in respect of the year 1952 by C. N. Ry. Co. from sale of 4% Preferred Stock, used to meet Capital Expenditures included above.....	—	20,256,582
	87,472,385	36,233,997
(x) New Equipment—additional to the above—financing authorized by Financing and Guarantee Acts Nos. 1 and 2, 1951, to the extent of \$64,932,895. As this authority was available at the time of preparation of the 1952 Budget, financing re-authorization was not requested thereby, but the Financing and Guarantee Act 1952 when enacted, did re-authorize the expenditure.....	64,932,895	60,488,541
Total.....	152,405,280	96,722,538

CANADIAN NATIONAL RAILWAYS

1952 Capital Expenditures compared with 1952 Budget
By Regions, Departments, etc.

	1952 Budget	1952 Capital Expenditures
	\$	\$
<i>Additions and Betterments—</i>		
Atlantic Region, incl. Newfoundland District.....	6,716,233	3,588,326
Central Region, incl. Montreal Terminals Dev.....	18,084,800	12,400,630
Western Region, incl. D.W. & P. Ry.....	12,485,816	10,071,535
Grand Trunk Western Railroad.....	4,156,332	1,721,826
Central Vermont Railway.....	326,050	115,634
Subsidiary Companies.....	373,163	149,015
Express, Communications and Other Departments.....	23,241,856	10,313,129
Additions and Betterments—Equipment—Canada.....	8,101,278	5,859,480
Equipment Retirements.....	Cr. 8,108,000	Cr. 7,128,668
	<hr/> 65,377,528	<hr/> 37,091,213
Less: Portion of projects included in above requirements not physically completed by the end of the year.....	15,000,001	—
Sherridon-Lynn Lake Branch Line.....	7,800,000	6,034,614
	<hr/> 58,177,528	<hr/> 43,125,827
	<hr/> <hr/>	<hr/> <hr/>
<i>New Equipment</i>	*31,127,957	*16,532,231
	<hr/> 89,305,485	<hr/> 59,658,058
	<hr/> <hr/>	<hr/> <hr/>
* New Equipment—additional to the above—financing authorized by Financing and Guarantee Acts Nos. 1 and 2, 1951, to the extent of \$64,932,895. As this authority was available at the time of pre- paration of the 1952 Budget, financing re-authorization was not requested thereby, but the Financing and Guarantee Act 1952 when enacted, did re-authorize the expenditure.....	64,932,895	60,488,541
	<hr/> 154,238,380	<hr/> 120,146,599
	<hr/> <hr/>	<hr/> <hr/>
<i>New Equipment—</i>		
Financed through Equipment Trusts—		
Series "U".....		439,152
Series "V".....		4,565,738
		<hr/> 5,004,890
		<hr/> <hr/>
Total Expenditures in 1952.....		125,151,489
		<hr/> <hr/>

CANADIAN NATIONAL RAILWAYS

Financial authorizations—1953 Requirements by Regions, Departments, etc.

	Atlantic Region	Newfound- land District	Central Region	Western Region	Grand Western Trunk	Central Vermont Railway	Other	Total	Revotes
Road	\$	\$	\$	\$	\$	\$	\$	\$	\$
Abandoned Lines—Main and Branch Lines.....			Cr. 291,847					Cr. 291,847	
New Lines.....				1,165,000				1,165,000	
Rails and fastenings, tieplates and rail anchors.....	1,278,111	217,140	3,522,193	2,538,980	364,700	109,771		8,030,895	
Ballast.....	626,869	62,815	69,498	27,000	208,600	54,008		1,048,790	
Roadway Betterments.....	15,103	54,241	26,625	179,935	10,200	4,000		290,104	
Large Terminals.....			2,620,269					2,620,269	
Yard tracks and sidings.....	1,034,763	162,723	1,931,883	2,162,397	48,300			5,339,566	
Roadway Machines.....	148,120	24,793	1,034,940	647,700	53,950	4,368		1,913,871	
Bridges, Trestles and Culverts.....	91,285	37,384	345,026	1,320,770	118,000	30,896		1,943,361	
Tunnels.....				53,000				53,000	
Highway and Crossing Protection.....	112,500		203,259	1,880	180,500			498,139	
Stations and Station Facilities.....	635,752	210,284	1,673,821	858,805	99,075	Cr. 35,797		3,441,940	
Water supplies.....	21,897	2,500	120,859	54,941	Cr. 5,100	Cr. 12,509		182,588	
Fuel Stations.....	50,147	7,700	40,960	731,070	3,400	76,450		909,727	
Shops, Enginehouses and Machinery.....	490,353	50,547	1,374,890	667,157	349,465	40,112		2,972,524	
Docks and Wharves.....				429,780	22,400			452,180	
Grain Elevators.....			24,000					24,000	
Signals and Interlockers.....			249,651	1,633,745				1,883,396	
Electrifying Lines.....			46,100					46,100	
Land.....				3,350				3,350	
General Additions and Betterments and Contingencies.....	1,376,163	699,463	15,939,748	10,138,323	1,112,208	39,679	1,932,115	31,237,699	27,607,422
Subsidiary Companies.....							5,309,236	4,309,236	
Miscellaneous Equipment.....	6,269	39,772	120,729			4,411	688,137	859,318	
Communications—Commercial.....							14,614,569	14,614,569	9,651,626
Communications—Railway.....							1,017,681	1,017,681	708,212
Hotels.....							3,060,329	3,060,329	2,808,597
Equipment—Additions and Better- ments and Conversions.....							6,085,882	6,085,882	2,939,692
Equipment—Retirements.....							Cr. 7,420,042	Cr. 7,420,042	
	5,887,332	1,569,362	29,052,104	22,613,833	2,565,698	315,389	25,287,907	87,291,625	43,715,549
Commitments—Not payable in 1953...	Cr. 510,760		Cr. 2,652,766	Cr. 4,265,415	Cr. 209,000		Cr. 8,768,684	Cr. 16,406,625	Cr. 8,153,915
	5,376,572	1,569,362	26,399,338	18,348,418	2,356,698	315,389	16,519,223	70,885,000	35,561,634

Less portion of projects not to be completed during year.....	23,000,000	.....
New Equipment.....	47,885,000	35,561,634
Sherridon-Lynn Lake Branch Line.....	57,543,685	.....
Terrace-Kitimat Branch Line.....	2,758,513	.....
	6,580,000	.....
Net Additions and Betterments.....	114,767,198	35,561,634
Additional Working Capital.....	15,000,000	
Acquisition of Securities.....	293,000	
Less: Available from Depreciation Reserves and Debt Discount Amortization.....	19,900,000	
Available from Sale of Preferred Stock.....	21,600,000	
TOTAL REQUIREMENTS.....	88,560,198	

CANADIAN NATIONAL RAILWAYS

New Equipment

CANADIAN NATIONAL RAILWAYS—NEW EQUIPMENT

Estimated Cost

- (A) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering and financing of which was authorized originally by the Financing and Guarantee Act 1951 (No. 1), the financing being re-authorized by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

500 Box cars (G.T.W.)

Passenger Equipment

28 Baggage cars

Work Equipment

1 Browning crane (C.V.R.)

Estimated Cost..... \$ 5,754,000

Estimated amount to be financed pursuant to Financing and
Guarantee Act, 1952, Section 3(1) C..... 5,555,000

Financing requested, 1953..... \$ 199,000

\$ 199,000

- (B) Authority is requested for the financing of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Act, 1951, and the financing of which was authorized originally by the No. 2 Act of that year, and re-authorized by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

300 Gondolas (G.T.W.).....

125 Hoppers—Covered (G.T.W.).....

\$ 3,055,700

- (C) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Acts 1951 and 1952, and the financing of which was authorized originally by the Financing and Guarantee Act, 1952, but which equipment will not be delivered until 1953:

Freight Equipment

350 Box cars (G.T.W.)

125 Hoppers—Covered

Passenger Equipment

60 Baggage cars

Work Equipment

8 Snow plows

30 Air dump cars

Tank cars — secondhand (G.T.W.)

1 Industrial Hoist (G.T.W.)

1 Locomotive crane

2 Locomotive cranes—40 ton

1 Burro crane (G.T.W.)

Estimated Cost..... \$ 10,340,000

Estimated amount to be financed pursuant to Financing and
Guarantee Act, 1952, Section 3(1) C..... 5,007,000

Financing requested 1953..... \$ 5,333,000

\$ 5,333,000

- (D) Authority is requested for the financing of an additional amount of \$2,366,985, by which the cost of New Equipment, ordered in 1951 and delivered in 1952, exceeded the estimated cost of such equipment authorized by the Financing and Guarantee Act, 1952.....

\$ 2,366,985

CANADIAN NATIONAL RAILWAYS

New Equipment

(E) Authority is requested for the financing, to the extent indicated, of the undernoted New Equipment, the ordering of which was authorized by the Financing and Guarantee Act, 1952, and which equipment will be delivered in 1953:

Estimated Cost

Diesel Electric Locomotives

22	600-660 HP Switchers
1	1000-1200 HP Switcher (C.V.R.)
3	1000-1200 HP Switchers (G.T.W.)
6	1200 HP Road Switchers (Newfoundland)
70	1500-1600 HP Road

Freight Equipment

1200	Box cars
100	Box cars (Newfoundland)
150	Flat cars (Newfoundland)
5	Flat cars—Depressed
75	General Service (Newfoundland)
500	Gondolas
100	Gondolas (G.T.W.)
50	Gondolas—Ore Type—80 Ton
300	Hoppers—Triple—70 ton
150	Hoppers—Covered
50	Hoppers—Covered (G.T.W.)
200	Refrigerators
50	Refrigerators (Newfoundland)

Passenger Equipment

30	Baggage cars
10	Coaches
5	Coaches (G.T.W.)
25	Sleepers

Work Equipment

12	Snow plows (Newfoundland)
100	Ballast cars
1	Wrecking crane
	Traction motors—Multiple unit cars (2)

Estimated Cost.....	\$ 57,775,000
Estimated amount to be financed pursuant to Financing and Guarantee Act, 1952, Section 3(1) C.....	21,145,000
Financing requested 1953.....	\$ 36,630,000

\$ 36,630,000

(F) Authority is requested for the ordering, and to the extent indicated, for the financing in 1953, of the undernoted New Equipment:

Diesel Electric Locomotives

8	1200 HP Road Switchers
42	1600 HP Road Switchers

Work Equipment

4	Snow plows
1	Snow Melter
3	Jordan Spreaders
330	Ballast cars
15	Air dump cars
5	Air dump cars (G.T.W.)
2	Locomotive cranes
1	Burro crane
1	Industrial hoist
	Spare Traction Motors for Diesel Locomotives (2)
	Spare Diesel Engines, Trucks and Traction Motors

Total estimated cost \$13,724,000, of which \$9,959,000 will be required to cover deliveries anticipated during 1953..... \$ 9,959,000

Some portion of the balance of this equipment (estimated cost \$3,765,000) will be delivered prior to the enactment of the Financing and Guarantee Act of 1954.

CANADIAN NATIONAL RAILWAYS

New Equipment

Estimated Cost

(G) Authority is requested for the ordering in 1953 of the undernoted New Equipment, to be included in the 1954 Budget program and which equipment will not be delivered until 1954:

Diesel Electric Locomotives

26 600 HP Switchers
20 1000 HP Switchers

Freight Equipment

2850 Box cars
100 Box cars (G.T.W.)
100 Box cars (Newfoundland)
100 Flat cars (G.T.W.)
100 Flat cars (Newfoundland)
10 Flat cars—Heavy Duty
500 Gondola cars
200 Gondola cars (G.T.W.)
300 Hoppers
200 Hoppers—Covered
100 Refrigerators (G.T.W.)
15 Stock cars (Newfoundland)

Passenger Equipment

30 Baggage cars
57 Coaches
5 Coaches (Newfoundland)
1 Sleeper (Newfoundland)

Total Estimated Cost \$54,534,000

It is anticipated that some portion of this equipment will be delivered prior to the enactment of the Financing and Guarantee Act of 1954.

(H) The estimated amounts, as indicated hereinbefore, required for the purposes of Section 3 (1) C of the Financing and Guarantee Act 1952, are as follows:

A	\$ 5,555,000
C	5,007,000
E	21,145,000
	<hr/>
	\$ 31,707,000

Total	<hr/> <hr/>
	\$ 57,543,685

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities

	1952 Budget	1952 Actual	1953 Budget
	\$	\$	\$
<i>Toronto Terminals Railway</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	62,500	—	Cr. 530,000
<i>Northern Alberta Railways</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	250,000	425,000	550,000
<i>Trans-Canada Air Lines</i> Temporary deposits made with Canadian National Railways.....	—	Cr. 2,500,000	—
<i>Chicago and Western Indiana Railroad</i> Advances under agreements of March 1/36 and May 1/52	202,900	202,936	270,500
<i>Atlantic and St. Lawrence Railroad</i> Purchase of Capital Stock.....	1,500	2,400	1,500
<i>The Shawinigan Falls Terminal Railway Co.</i> (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Pro- portion 50%.....	—	—	1,000
	516,900	Cr. 1,869,664	293,000

CANADIAN NATIONAL RAILWAYS

Construction of new branch line from Sherridon to Lynn Lake, Province of Manitoba

Authorized by Chapter 44, Statutes of Canada 1951

Total Estimated Mileage.....	155
Total Estimated Expenditures.....	\$ 14,725,000

Location Surveys—100% complete.

Right of way clearing is through to Lynn Lake—98% complete.

Temporary telephone line erected and in operation from Sherridon to the Churchill River, mileage 53.5.

Culverts placed from Sherridon to mileage 83.

Timber trestles constructed to mileage 72.

Grading completed sufficiently to permit track laying from Sherridon to the southerly crossing of the Churchill River, mileage 53.5, by the end of 1952, and is in progress from there to mileage 84.

Crossing of the Churchill River involved bridging 3 channels. These are steel bridges 201'4", 155'10" and 201'4" respectively, and are completed.

Track is laid from Sherridon to the north bank of the Churchill River, being a distance of 54.2 miles.

Siding, wye and material yard trackage for advanced railhead on the south bank of the Churchill have been constructed.

First ballast lift has been placed from Sherridon to Mileage 40, and to Mileage 53.5 sufficient material has been placed, at the end of ties, to hold the track in line until it is possible to resume ballasting in the spring.

Materials required for culverts and bridges, yet to be constructed, are to be carried by train from Sherridon to the Churchill River and hauled ahead by tractor prior to spring "break-up".

The total expenditure on this project to December 31st, 1952, amounted to \$7,241,487. It is estimated that the total expenditure for the year 1953 will be \$7,483,513, of which \$2,758,513 will be borne by the Canadian National.

CANADIAN NATIONAL RAILWAYS

Construction of new branch line from Terrace to Kitimat, Province of British Columbia

Authorized by Chapter 20, Statutes of Canada 1952

Total Estimated Mileage.....	46
Total Estimated Expenditures.....	\$ 10,000,000

Location surveys have been completed and construction engineer's headquarters have been established near Terrace and three resident engineers, with parties, have been set up in camps on the line at miles 2, 9 and 15 respectively.

Contract for clearing, grading, installation of culverts, construction of timber trestles and concrete sub-structures for four steel bridges to cross the Lakelse, Coldwater, Wedeene and Little Wedeene Rivers, has been awarded to Campbell-Bennett Limited, Vancouver, the lowest bidders, who commenced clearing right of way on November 7, 1952, but have suspended work on account of snow until Spring of 1953.

Contract for concrete sub-structure for the steel bridge to cross the Skeena River near Terrace has been awarded to Dawson and Hall Limited, Vancouver, and this work will commence early in 1953, with completion estimated during March 1954.

Contract for the steel superstructure will be awarded early in 1953.

Culvert and bridge materials for the north end of the line are being delivered at Terrace and stock-piled there pending movement to sites on the line.

It is estimated that the total expenditure on this project for the year 1953 will be \$6,580,000.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1952 Budget	1952 Actual	1953 Budget
	\$	\$	\$
<i>Income Account—</i>			
Operating Revenues.....	6,261,024	7,449,247	5,100,000
Operating Expenses.....	6,580,062	7,122,971	4,685,750
Net Operating Deficit.....	319,038		
Net Operating Profit.....		326,276	414,250
Vessel Replacement fund earnings.....	145,500	145,065	162,000
Interest requirements on 5%—25 year Bonds due 1955, principal amount \$9,400,000.....	470,000	470,000	470,000
Interest on Government Notes and Advances.....	90,462	5,250	5,250
Income Deficiency.....	734,000	3,909	
Income Profit.....			101,000
Provision for Income Tax.....			38,000
Income Profit after Income Tax.....			63,000

Note:—Additional Income Tax provision from surplus of Insurance Fund..... 70,000 144,000

<i>Capital Budget—</i>			
General Betterments.....	58,000	39,500	
Vessels sold—Net sale price.....			Cr. 705,000

NOTE:—Funds for Capital Expenditures have been provided from Vessel Replacement Fund; net proceeds from the sale of vessels will be paid to that fund.

The CHAIRMAN: If you will turn to page 2 and 3 of the budget you will find a summary of the 1953 finance authorization required.

Mr. MACDONNELL: Do you not think we might ask Mr. Gordon to take us through this. It is a matter of great importance.

The CHAIRMAN: I think that would be helpful.

Mr. GORDON: If members of the committee will look at the papers in front of them, I shall try to explain these particulars in such a way that it will be readily understandable. I must, however, warn you that this budget is of increasing complexity because it covers not only the new requirements pertaining to the present year, but it also deals with past requirements which are in a transitional stage and also projects into the future, so it is necessary to remember that when looking at any individual figure as I take you through it. I shall try to explain which figure applies to this year, which figure applies to past years but which are still going on, and figures which are contemplated in programmes which may not be completed over a period of two, three, or four years. Now, on page number one, we have summarized the usual forecast of our requirements for 1953. You will see shown the estimated income account, operating revenues \$720 million, operating expenses \$676 million, coming down to a figure of income surplus estimated at \$400,000. I want it to be clear to the committee that this is a preliminary estimate made up before we had taken into account that portion of the wage cost to firemen and trainmen which was retroactive to April 1952; nor does it take into account the freight rate increase of 7 per cent effective as from March 16th this year under ruling of the Board of Transport. I have not taken these into account, nor suggested an amendment, because there are too many uncertainties in the picture. Therefore, this can only be considered as an educated guess and I can say to the committee I would hope that with good luck and good judgment and maintenance of economic conditions at the present level that the surplus there shown would be substantially increased as it should be.

Mr. MACDONNELL: You have told us the figures you have not taken into account. Could you indicate on what basis you have arrived at the \$720 million; in other words just why you have estimated \$45 million improvement? Is it higher rates or more business or both?

Mr. GORDON: We are estimating that with the current activity that we should expect about a 2 per cent increase in our traffic over last year. Now, I emphasize that is an estimate. And with a 2 per cent increase over 1952 of traffic translated into freight rates with the awards authorized by the Board up to the end of December 31st, 1952, we figure we ought to come out at \$720 million. I do want to point out that in figures of \$720 million a very small percentage one way or the other can affect the estimate by \$20 or \$30 million. It is hard to speak precisely in regard to a forecast of that magnitude. But it is the best guess we have.

Mr. MACDONNELL: You estimate an increase over 1952 traffic?

Mr. GORDON: Yes.

Mr. MACDONNELL: My recollection is the estimate of total activity for G.N.P. is for a larger increase, that it is four or five per cent.

Mr. GORDON: There are no figures out as far as I know giving a revised estimate of 1953 G.N.P., but generally speaking G.N.P. has been increasing from 4 to 6 per cent. G.N.P. includes a great number of export figures which would not necessarily produce traffic for the railway. The estimate we have made is based on a factual examination of the kind of traffic we expect to see carried by rail assuming a level of economic activity which is likely to carry forward from 1952.

Mr. MACDONNELL: In other words this is not just a figure applied over-all, it is built up from your assessment of expectation of traffic of various kinds?

Mr. GORDON: That is right. It comes to us from estimates from our traffic offices in all regions and represents what I called before an educated guess.

Mr. MACDONNELL: Would you say something about the operating expenses?

Mr. GORDON: They are perhaps a little firmer guess because we know reasonably well what our labour force is likely to be and what our additional costs are, subject to anything that might develop later in the year. At the moment this estimate was made we had not settled with the firemen or trainmen, nor had we received the 7 per cent judgment of the Transport Board; but if we can assume we will have no more labour demands, then I think those figures can be amended to the extent of about \$4½ million extra expense due to the retroactive wage awards to firemen and trainmen. It will cost us about \$4½ million more wages in that sector and maybe some consequential adjustments which may be half a million dollars. Let us say roughly \$5 million additional expense on the debit side, and if our expectations are realized as to what we might get out of the freight increase which became effective on March 16th, we hope that might give us \$10 to \$12 million. So that with good luck, with good management, and with no unexpected additional increases in our expenses by reason of labour, and assuming freight rates will yield what we hope they will, I would say we ought to have a few million dollars surplus instead of the \$400,000. But I have not asked to have that figure amended because there are so many uncertainties. I should say our actual results for the months of January and February have been quite disappointing. Estimates of traffic for those months have shown a considerable decline.

Mr. MACDONNELL: Could you indicate why or where it has been felt?

Mr. GORDON: It has been a pretty general decline. For example if I take the February results, we budgeted for a figure of revenue which failed of accomplishment actually by about \$2 million. In other words, we thought we would have about \$55 million actual revenue by the end of February, and in point of fact we came up with \$53 million actually. I can give you the detailed tonnage of the decrease. I have not yet been able to analyze them, but we have shown decreases in tonnage during January of pulp wood of about 43 per cent and bituminous coal by about 20 per cent. Bituminous coal and anthracite coal are down, due we think to mild weather conditions. Ores and concentrates are down. The two main items are pulpwood and coal on the decrease side. But, we have had some increases, grain in particular. It is carried at a lower rate and does not give as much benefit as the others do. I have a table here showing the different tonnage decreases and, as I say, the main decreases are represented in pulpwood and coal.

Mr. MACDONNELL: It seems to me your operation is one of the very best barometers of the whole Canadian economic activity, and that is my excuse for asking these questions. Why do you figure that ores and concentrates are down?

Mr. GORDON: Well, the danger of any analysis of this kind, Mr. Macdonnell, is in taking it in too short a range, and if we look at January and February I do not think you can get an intelligent examination because it might be a very temporary withholding of shipments; it might be a technical difficulty with regard to some particular mine, and we might very easily get that traffic in the course of the next period, and then I am reminded, too, of an obvious fact that February, as compared with last year, has one day less. Even one day makes a difference in the monthly results in tonnage, but we cannot analyze these in such a brief period; we need a few more months to really form an opinion as to whether or not that trend is going to continue, because we often find that one month might show a sharp decline, and then we pick it up the next month. Reasons of weather might be an example. There might be a shutdown of a plant for reasons of rehabilitation, or any one of a number of

things, so that while I agree with you that rail carloadings and rail movements represent one of the best barometers of economic conditions, nevertheless the examination should be made over a fairly decent range, and not too short a range; not week to week.

Mr. MACDONNELL: Would you give us the figures for January, if convenient?

Mr. GORDON: The month of January—operating revenues of \$51,657,000 as against \$51,470,000 for January, 1952, which is practically the same, you see, but as against that our operating expenses in January, 1953, were \$57,573,000 as against \$51,261,000. Now, one of the reasons for that is that included in the month of January we had to take into account the \$4½ million retroactive wage factor which I mentioned in the annual report, which we had to pay back.

Mr. MACDONNELL: It fell all in the one month?

Mr. GORDON: Yes, it might as well; it does not make any difference. We report our final results by the year, but of course it does distort the figures for that one month.

Mr. MACDONNELL: Net income charges, I observe, are down. Why is that? Net income excluding interest.

Mr. GORDON: Included in that figure we have what we call hire of equipment. That is to say, we use equipment belonging to other lines on a per diem basis, and we have to pay the hire. Now, the figure last year, you will notice, was \$16 million. We estimate it will be less than that this year for the reason that we are gradually catching up on our own equipment. We do not have to depend on foreign equipment as much and we can return equipment which comes into our hands more rapidly. Per diem charges are saved and we use our own equipment to better advantage.

Mr. MACDONNELL: What is the point when it says interest—I am not quite sure—interest on what?

Mr. GORDON: Available for interest.

Mr. MACDONNELL: No, net income charges excluding interest. I am not sure I understand that.

Mr. GORDON: Because this is a net income charge, it is simply a bracketing together of quite a number of accounts and we do not include interest because underneath there we show the interest separately, interest on public debt, interest on government loans. Some railways bracket it together in one heading, but we show our interest charges separately.

Mr. MACDONNELL: I am sorry, I have not quite got it yet. The income charges, I think you said, were on such things as equipment and so on.

Mr. GORDON: The heading under income charges is a summary or a consolidation of quite a number of miscellaneous accounts. If you look at the heading "Income Account" at page 24 of the annual report, you will see those figures under taxes and rents, other income, deductions from income, all those are definitely bracketed together and they are all lumped under that heading, and the main difference is that we expect to pay less for hire of equipment this year than we did last year. Now, then, in setting up this heading we show net income charges, but for convenience we do not include interest because we are showing the interest separately underneath there. We think that is an item that should be brought especially to the attention of the committee.

Mr. MACDONNELL: But interest on those matters you have just described would be—

Mr. GORDON: No, the interest has nothing to do with the accounts in that heading. This is the interest that we owe on our outstanding debt in the hands of the public or on loans from the government.

Mr. MACDONNELL: Those are two items further down?

Mr. GORDON: Yes, sir, that is correct. I am afraid it is confusing, but we are just sort of emphasizing we are not including the interest account.

Mr. MACDONNELL: I find it rather confusing myself, because actually you have some income bonds now, have you not?

Mr. GORDON: We have no income bonds. We have preferred stock. There was a suggestion one time that there might be income bonds issued in connection with the recapitalization, but, thank goodness, we mowed that one down.

Mr. MACDONNELL: Now, this interest on government loans, I see, was \$3½ million.

Mr. GORDON: That represents additional borrowing from government over the year and if we decide this year to float a bond issue in the market, then we will fund that particular borrowing by issuing bonds and our interest charge will be reduced to government and increased to the public.

Mr. MACDONNELL: Could you say a word on the various new lines that are being built? Could you say a word as to when they will become revenue producing? There are several, are there not?

Mr. GORDON: Well, the new lines at the moment are Lynn Lake and Kitimat. And in both of those cases we have entered into an agreement with the industry we are serving which will ensure that we will obtain sufficient traffic to carry the capital cost of that line over an amortization period, failing which, the companies in question have guaranteed us enough money to do so. In other words, in the case of a single industry such as at Lynn Lake, or at Kitimat, we have established the principle that when we build a branch line into there, that they will undertake to guarantee us sufficient traffic over a period of time to justify that capital expenditure. Quite a number of factors enter into it. But when the formula is boiled down, it comes to this: that the industry says: "We know that there will be enough traffic on the figures you have produced to carry the capital cost of this line. There will be enough freight revenue. But if it does not materialize, we undertake to pay you—on the formula which was worked out for them.

And if new industries go into that area, we credit against that agreement the amount of the traffic which we get from those new industries. It is a completely fair agreement to all concerned. It means that the railway is not solely taking the capital risk in respect to the new branch lines.

Mr. BENEDICKSON: The Department of Defence Production are taking some of the risk, are they not?

Mr. GORDON: In the case of Lynn Lake, there is an agreement with the Department of Defence Production that because of the urgent necessity of getting production into operation as quickly as possible, by reason of the contract entered into with the United States government, they have agreed, under the capital assistance program, to pay the cost of that line over and above \$10 million. That is the agreement that has been entered into. It rather represents a premium for speed, and it has been justified in terms of the Canadian defence effort.

Mr. MACDONNELL: May I ask if in a contract of that kind you extend it in the case of a line built to serve a company? Do you really get a contract whereby that company undertakes to be responsible for it? You said something about amortized capital costs.

Mr. GORDON: What I mean by that is this: We would say to the company, in looking over the general proposition, that we might build a line, let us say, from here to there. We would say to them, in discussing it, that if we could build that line so that we could be assured of freight revenue of X amount

over a period of 10 or 15 or 20 years, at the regular freight traffic rates, it would be a good risk for us to spend the capital in building that line. We would say to them: We do not know if you are going to be successful in your enterprise, and it may well be that you will not produce enough freight traffic for us over that period. Or alternatively, it may fail, and instead of a 20-year life you may get only a 10- or 15-year life. It is not reasonable that we should take that risk on our own, so we say: If you will guarantee to us a certain volume of freight traffic over that period of years of not less than so and so, then we will build the line. But if that freight traffic does not eventuate, then you will reimburse us under the formula. They underwrite the traffic, and if it does not materialize, then they reimburse us under a formula.

The CHAIRMAN: To an amount which will be equal to the amount required to retire the principal.

Mr. GORDON: That is the general aim, yes. But in working out the formula it becomes quite complicated, because we give them every fair advantage. It is purely straight forward business deal. We say for instance, in the formula, that if a result of building that line new traffic develops which we have not foreseen—

The CHAIRMAN: You credit them with it.

Mr. GORDON: We credit them with it and we say: all right, it is all considered as traffic. For instance, we built the line going into Lynn Lake, primarily to bring out nickel. But in addition to that, in this particular area we might develop the fish industry; we are not sure. However, if it should develop, we would give them a credit for that.

Mr. MACDONNELL: Provided that they are paying you more than the ordinary freight rates?

Mr. GORDON: No, no. They start in the first instance and they only pay us the ordinary freight rates. But there will be sufficient volume over a period of years.

Mr. MACDONNELL: But suppose it is found that there is not sufficient volume actually. Will they pay you enough to make up for the amortized capital costs?

Mr. GORDON: That is right.

Mr. MACDONNELL: How long is the period of amortization, how many years?

Mr. GORDON: At Lynn Lake I think we put it at a period of 20 years.

Mr. MACDONNELL: Now let us assume at the outset they have to pay you something in excess of ordinary freight rates. Let us assume that a new industry comes in and that you are earning that much more from the new industry. Would you give them a credit beyond the point where they would be paying less than the ordinary freight rates?

Mr. GORDON: Oh no.

Mr. MACDONNELL: In other words they get credit to the point where it comes down to a place where they are paying ordinary rates?

Mr. GORDON: That is right, and we also have a carryover provision that if in one year they had a peak load, nevertheless we would give them that adjustment by putting it forward over a period of years, according to whatever the formula may call for.

The CHAIRMAN: Am I correct in understanding that the end result of such an agreement as that is that the Canadian National Railways incurs no financial risk of loss? What you are doing is financing the project?

Mr. GORDON: Yes, well, we take a risk on the projects, that is right, but we only enter into this kind of traffic arrangement with very responsible companies. In the first instance it was with the Sherritt-Gordon people; and in Kitimat it was with the aluminum people.

Hon. Mr. CHEVRIER: And in the Barraute line it was with Canada Paper.

Mr. GORDON: Yes, it was with Canada Paper which is a responsible industry. I want to say that this has not been a popular matter with the people with whom we have done business. It has been resisted and it has been claimed that we are being too hard-boiled. But nevertheless we have made it stick as being a business deal. And the more it gets understood, the more people will come to accept it as being a sensible arrangement.

Mr. BENEDICKSON: Would that be your policy with the Steep Rock Iron Mines?

Mr. GORDON: That would be our policy with Steep Rock Iron Mines although they are not very pleased about it.

The CHAIRMAN: Carried.

Mr. MACDONNELL: Supposing that freight rates changed during the course of your agreement, would you be entitled to "up" them, or do you commit yourself to a certain rate over the period of amortization?

Mr. GORDON: The formula takes care of that. It is really a dollar formula starting off with the dollar capital expenditure and the contribution of the freight traffic on that line, the degree to which it makes contributions to the overhead of the system. It is a formula figure. If the freight rate is increased, they get recognition for that, subject to the discount factor representing the need for the increase, so to speak, but it is worked out in the formula.

Mr. MACDONNELL: Would you mind saying a word about a phrase which you just used which I find difficult to understand. You used the phrase "proportionate to the amount which they contribute to the general overhead."

Mr. GORDON: That is right.

Mr. MACDONNELL: How does that enter into it?

Mr. GORDON: I do not know if I can explain it. It would take time. Cost accounting of a railroad is one of the most baffling subjects that I ever struck. But we have a bureau of economics and statistics which works out these formulae on a basis of statistics for all types of traffic, and they can analyze what that does in the way of what we call "earning its keep". The particular traffic in any given consideration must earn its keep. It may be that particular traffic is being superimposed on the system where there is already heavy traffic. It may be with or against the stream of other traffic, with or without return loading. It may be that we have to provide empty cars which run all the way up to this mine, for instance. They would have no load going up but they would come back with a full load. That would place it in a different state or condition from circumstances where we would have a full load each way. All those factors are taken into account and analyzed, and when it is all through, it deals with such things as the overhead contribution of the traffic. All these things are broken down by analysis and, when it is all through, the end factor is: What does this traffic contribute over and above the cost of carrying it?

Mr. MACDONNELL: My recollection is that in the case of the Barraute line,—perhaps the minister will remember this—I found it difficult to understand just how it was reckoned that that line was going to be profitable from the outset, and my recollection is that that line had attributed to it a considerable amount of the proportion of the payment for the traffic that originated on it after it had gone around to the mainland. I am not sure if I have that right.

Mr. GORDON: You started off on the original movement of say pulpwood then we say to ourselves—

Mr. MACDONNELL: What I am getting at is, I want to know what is the true picture from the point of view of each of the actual individual transactions, what we are getting out of it, or whether it is being assisted by the general revenue.

Mr. GORDON: In any of that traffic we start off with traffic at the point of origin. From the railway point of view we have definitely in mind the feeder value. In other words you might start off with pulpwood which at a given point is the raw material and we move that pulpwood from here to there and that pulpwood goes into a processing plant and comes out as newsprint. We follow the traffic through in order to determine everything we get out of it by reason of the fact that we have originated the traffic at a specific point.

Mr. MACDONNELL: Does that mean that the line gets not only revenue from the pulpwood, but gets a kind of tip from the fact that you have—

Mr. GORDON: The point is that we give credit to that line. Here is traffic that starts in the wilderness on the branch line and it runs down to the point of manufacture which may be far along the main line. At that point of manufacture the raw material which originates in the wilderness is processed and with processing we get a certain traffic which goes on to the United States and across Canada and so forth. Then we say to ourselves if we had not had that wilderness line we would not have had that traffic, and we follow the traffic through and credit that line not only with the raw material but with a proportion of the subsidiary product which we can trace as feeder value for the rest of the system.

Mr. MACDONNELL: You have made it clear.

The CHAIRMAN: Any further questions on income accounts?
Carried.

The CHAIRMAN: On capital budget additions and betterments.

Mr. GORDON: On the same page, page one, if you will look at the second half of the page, members of the committee will find here our effort to disclose to you that part of our capital budget. . . .

The CHAIRMAN: Order, order gentlemen.

Mr. GORDON: In this part of the presentation we endeavour to disclose to you that part of the capital budget which represents newly initiated projects this year and which will cost us money this year. This represents expenditures to be made this year for new projects just out. Under that heading you will find—additions and betterments—a figure of \$12,328,000 which we will have to finance this year.

If you will turn to page 3 you will see a breakdown.

I would suggest, if you agree, that you allow me to take you through this part, then I can skip back to page 3. Otherwise you might get mixed up in what seems to be a lot of figures.

This represents newly initiated projects for this year which will cost us money this year. The proportion of our additions and betterments of that character total \$12,323,000. New equipment, which we will order this year, will total \$13,724,000 of which only \$9,959,000 will be delivered and paid for as shown under the heading "new equipment". Then we assume we need \$15 million of additional working capital. That I will deal with first.

We are asking for \$15 million additional working capital by reason of the fact that under present day conditions and the increasing rise in dollar values we need more money to finance our business. We have of course a great number of credit accounts represented in accounts in transit, conductors payments in transit and so forth, and the sheer dollar weight of these particular

factors, including inventories, means that we need more dollars to finance it, and we are asking \$15 million additional working capital to meet that condition. Going back to the figure of \$12,323,000.

Mr. MACDONNELL: May I ask a further question. Your order for equipment for 1952 strikes me as being so small—\$2 million.

Mr. GORDON: That represents only a portion of the equipment which was newly ordered in 1952.

Mr. MACDONNELL: You are talking about the 1952 figure?

Mr. GORDON: Yes. That shows you only a portion of the figure for new equipment newly ordered in 1952 and delivered the same year. Most of the equipment which we ordered in 1952 will not be delivered until 1953, and you will pick that up as we go through.

Mr. MACDONNELL: But I inferred from what you said that a considerable amount of the equipment delivered in 1952 was additional to what you ordered previously.

Mr. GORDON: That is quite right.

Mr. MACDONNELL: Where is that?

Mr. GORDON: You will pick that up as we go through. This is an attempt to confine to the one year the new projects and newly initiated purchases for that year which required expenditure in that year. The thing to grasp about our capital budget is that it is in three sections. We have projects, and I included in expenditures for "additions and betterments" equipment which may have been started in a previous year and which had not come to completion until the present year and will be paid for in the present year. There will be purchases which we start this year and on which we can get delivery this year either in the form of work completed or equipment completed and that would be included in the budget for the current year. We will also have purchases again included in betterments and new equipment which we have commenced or ordered in this year and which may not be delivered until next year or the year after, or the year after that, and what we do is to show you in this section only that small, relatively small portion which we commence this year. The next stage will show you the cash implication, the money we need to pay under both headings for previous purchases delivered this year, and new purchases completed this year, and then we will ask you for authority under the Financing Act — which will come up in this budget — to commit ourselves for future deliveries and expenditures which the Minister of Finance will need in due course to recognize that we have entered into these commitments. We have undertaken commitments and we have to commit ourselves, for instance, to the purchase of equipment which may not be delivered for several years, hence no cash is needed this year, but the Minister of Finance is in a position and the Canadian National is in a position that we have committed ourselves for that particular project and we are asking in the next page for authority from you to recognize that commitment so that in a future financial budget in the next year, or the year after, the government of the day, whichever government it may be, will recognize that commitment because it is being authorized now.

Mr. CARTER: Is expenditure on ferries included in this budget.

Hon. Mr. CHEVRIER: No, they are in the estimates of the Department of Transport.

Mr. MACDONNELL: One question. If I have understood you correctly this figure in the capital budget for 1953 is in no sense a statement of the capital budget. It does not include capital amounts which you have to pay in 1953, but let us say equipment contracts which you made in 1952.

Mr. GORDON: That is shown on the next page.

Mr. MACDONNELL: I am going to make this suggestion. I think a person reading this would find it rather difficult without your explanations.

Mr. GORDON: You see there is this point about it. I fully sympathize with you. We have thought it very advisable to set forth clearly the difference between the new items which we are asking for authority for this year.

Mr. MACDOUGALL: Could you give an explanation for the capital budget for 1953 not including items contracted for in previous years which are to be paid for in 1953?

Mr. GORDON: I have attempted to do that on the next page which covers the financial authorizations required this year.

The CHAIRMAN: Capital budget, 1953?

Carried.

Mr. FULTON: Just before we leave this page. I am puzzled by this thing too. Do I understand that this budget is in the nature of a budget where as you show here you have a figure of approximately \$10 million for new equipment that you expect to have to pay this year for new equipment?

Mr. GORDON: Yes.

Mr. FULTON: And that it is in the nature of a budget, and if in fact you should be over estimating the deliveries you will get and you only get delivery of \$8 million, does that leave you with a surplus in your capital budget of \$2 million.

Mr. GORDON: No. We will have to come back next year and ask for a revote.

Mr. FULTON: Perhaps I misapprehended the nature of this budget. Will parliament be asked to vote the sum of approximately \$10 million for that item?

Mr. GORDON: It is included in the other financial authorities which will cover our cash expenditures in 1953. What I am trying to set up here is to show you in 1953 the new thoughts which are summarized in that table. I will show you in the next page the cost of all items which have been previously authorized but which have now got to be paid for in 1953, and I will also show you what portion of that represents revotes and so forth and they are all spelled out with the intention that the financial authorization we will ask parliament to approve following the recommendations, I hope, of this committee will cover the actual payments to be paid this year, but will also authorize us to make commitments for things to be paid in later years.

Mr. FULTON: Now I understand the picture. One final question with regard to your additional working capital figure of \$15 million. Does the same principle apply that if by chance you should not need the whole of that working capital but have, let us say, a surplus of \$2 million? What happens if by any chance you should not need that but have a surplus?

Mr. GORDON: This authorizes the minister to let us draw down from him \$15 million over the year. If we find we do not need it we will not ask for it and it will lapse until next year.

The CHAIRMAN: Carried?

Carried.

Mr. GORDON: Turning to page 2, which is the operating heart of our budget, you will find a total which I took you through of \$37 million which is now the first item you see in this table to be authorized. Then we show branch lines, Sherridon-Lynn Lake on which we estimate we will expend \$2,758,513 this year, then Terrace-Kitimat line on which we estimate we will spend \$6,580,000 and then under that are the revotes, \$35,561,634, previously authorized to be paid for. Under the heading of new equipment you will find there

we expect to spend \$2,366,985 which was authorized in the Financing and Guarantee Act 1952. That is an over-run on our original cost. When we present to you the cost of our equipment we are obliged to deal in basic figures subject to escalator clauses and this is an authorization covering the escalator clause of 1952 authorization.

Mr. MACDONNELL: Does that mean the total expenditure for new equipment is \$9,900,000 for the current year?

Mr. GORDON: No. I will deal with that in a moment. Previously authorized by the Financing and Guarantee Act, 1951, 1952, are those three figures there. This is a financing statement of \$130 million. We show you there that we expect to finance ourselves so to speak to a total of \$19,900,000 out of our depreciation reserves and we will get from the government from sale of preferred stock \$21,600,000, so there is a net figure of \$88 million. Note number one tells you that the Financing and Guarantee Act, 1952; which has already been authorized, will now call for an expenditure of \$31,707,000 for equipment ordered prior to 1953 but which will be delivered in the first half of 1953. Now, the payment authority must be recognized. The equipment will be delivered.

Note number 2 means we are asking for authority to place orders for new equipment in 1953 in the amounts of \$3,765,000 and \$54,534,000 to be included in the 1954 budget, none of which equipment will be delivered in 1953. And if you turn to page 9(g) you will see the details of the equipment there. That is a commitment authority, not a financing authority. The detail there just shows you the different kinds of equipment and to the best of our belief the total of the estimated cost of that equipment, and I say this will come before you again in later years for the cash authority. At the moment we are only asking authority to commit ourselves to place these orders.

Mr. MACDONNELL: Could you at this point just give us the over-all figure spent on equipment, let us say, over the last three years, year by year, if that is convenient.

Mr. GORDON: In 1951 our total new equipment cost us \$56,554,000; in 1952 our new equipment cost us \$82,025,000—that covers, of course, locomotives, freight cars, passenger cars, etc.; the 1950 figure—I think you said three years—was \$22,868,000.

Mr. FOURNIER: Would you mind repeating the figure for 1951?

Mr. GORDON: In 1951 the total figure was \$56,554,000.

Mr. MACDONNELL: Is it possible for an answer to be given to this question? In the state of your equipment I suppose that there was a lag during the war. Is it possible to ask you to forecast over a period of years what is something of the normal growth? Here we have an average figure of about \$50 million a year for three years. Now, is there any reason to believe that will continue to be the requirement? Are we piling up equipment, are we repairing deficiencies to the extent that we can look forward to less expenditure, or is it the opposite, or are we about even?

Mr. GORDON: We are picking up in the course of about two years a very serious lag in connection with our passenger equipment. That total passenger equipment program is—

Mr. MACDONNELL: What is the value of passenger equipment against freight, roughly?

Mr. GORDON: —is about \$57 million, maybe \$60 million, in the air, so to speak, in the form of passenger equipment ordered, and now in process of being delivered, the first of which will start about the end of this year. We hope that \$60 million will pick up what I will call the backlog to bring our passenger equipment up to a reasonable basis, and it is the plan from year to year to try to keep that on a more regular basis instead of having what was

in the past, a sort of feast or famine. There have been no passenger equipment orders of any consequence placed by the Canadian National Railways since as far back as 1935. That is what I call the backlog, \$60 million which represents an effort to meet the backlog. From 1940, for instance, up to 1950 there was a total expenditure for passenger cars of \$25 million. That represents an average of about \$2½ million a year. Now that only covered a sort of replacement for wrecks and things of that kind. It did not take into account any effort to meet modernization or increased traffic.

Mr. MACDONNELL: That is passenger?

Mr. GORDON: Yes.

Mr. MACDONNELL: Could you give a similar figure for freight equipment?

Mr. GORDON: Yes, in the eleven year period 1940-1950 our freight car equipment expenditures totalled \$148 million.

Mr. MACDONNELL: You mean the value or the purchase price?

Mr. GORDON: That is what we spent, \$148 million. Our grand total in those years covering steam locomotives, freight cars, passenger cars, and other motive power totalled \$223,400,000.

Mr. MACDONNELL: In other words, less than \$25 million a year.

Mr. GORDON: That is right. Less than that—about \$20 million a year.

Mr. MACDONNELL: In the last few years we spent about \$50 million a year?

Mr. GORDON: No, we have got more than that; it would be nearer \$80 million a year.

Mr. MACDONNELL: All right, then. I accept that figure. I think the figures you gave me were, 1951, \$56,554,000; 1952, \$82,025,000; 1950, \$22,868,000. That looks to me like about \$50 million a year.

Mr. GORDON: I see what I have done. I have included 1953 in it. You are quite right, yes. I was really thinking in terms of 1951 because I am thinking of my years, so to speak, 1951, 1952, 1953.

Mr. MACDONNELL: Have you 1953 there?

Mr. GORDON: 1953—that is what we are now discussing. We expect to have to spend on delivered equipment,—no matter when it arose in the matter of years—we expect to have to pay for it about \$89 million this year.

Mr. MACDONNELL: Is it reasonable to expect that within measurable time, two, three or four years, that your purchase of equipment will drop, or will there be all kinds of these new things you will have to have?

Mr. GORDON: I will put it this way. This year will take care of what I have been calling the backlog of equipment—

Mr. FRASER: Which should have been ordered?

Mr. GORDON: —which should have been ordered, if you want to put it that way, and from here on we will try to keep up to date in terms of equipment required for increased traffic or current facilities. It will be a current program. That program will depend on the rate of the economic growth of Canada, increase in the traffic, a new program such as dieselization, or other new requirements which might arise.

Mr. FRASER: Would you include modernizing, in order to get traffic?

Mr. GORDON: Modernizing would be included in that, but what I am trying to say is it would be a current program.

Mr. FOURNIER: Do you have any figures as far as the Canadian Pacific is concerned?

Mr. GORDON: No, I have no Canadian Pacific figures before me. I have quite enough trouble in dealing with my own.

Mr. MACDONNELL: It would be a natural thing for us to want to know.

Mr. GORDON: I think I can get the figures for you. I examined them when I was thinking about it. I can say in a general way that the Canadian Pacific have announced a program which will possibly result in a capital expenditure of \$500 million over the next five year period.

Mr. FOURNIER: What is the figure for the Canadian National?

Mr. GORDON: Whatever this committee, in the goodness of its heart, is prepared to recommend.

Mr. MACDONNELL: You know that we recommend what you recommend in the goodness of our hearts.

Mr. GORDON: I would like to believe that.

Mr. MACDONNELL: Can we ask you to give us a few figures for comparison? It is very natural to compare them with the Canadian Pacific. Do not bother now, but I would suggest tomorrow it would be very interesting.

Mr. GORDON: I was hoping we could pass the budget.

Mr. FOURNIER: If we could get them tonight, it would be better.

Mr. GORDON: I will be prepared to speak to that tomorrow morning, yes.

The CHAIRMAN: The arrangement was that we were not to meet until tomorrow afternoon.

Mr. GORDON: Perhaps I might make this general comment. We are in a different position from the Canadian Pacific. It is a fact that the Canadian National is the development railway of Canada today. We are in the areas of Canada which are expanding rapidly, and because of that fact the provision of services is likely to be much greater, I would think, than in the more settled areas in which the Canadian Pacific Railway runs.

Mr. MACDONNELL: When you give us the figures tomorrow would you give us the figures on development lines of the Canadian National as compared with the Canadian Pacific?

Mr. GORDON: I shall try to do that.

The CHAIRMAN: We are adjourned until 3.30 o'clock tomorrow afternoon.

EVIDENCE

MARCH 25, 1953.

The CHAIRMAN: Gentlemen, we have a quorum. Shall we carry on with the budget?

Mr. MACDONNELL: Mr. Chairman, I have a general question. I believe it is not a controversial one, but I should like to bring it to your attention if you think it is proper to have it discussed? It was discussed in the House of Commons. It is the matter of the personnel of the Board of Directors. If you tell me that I am out of order, I shall stop right here, but I think it is a matter of great importance.

The CHAIRMAN: I do not consider it is out of order.

Mr. MACDONNELL: I would like to make one or two observations. I have two observations to make about the Board of Directors. I do not take directors too seriously. I was once a director myself in a small way and I know that, while directors do not count very much in the operation of a company, they do count a bit. I suggest that in a vast enterprise of this kind there is a special reason. I suggest in particular—although one must not press this too far—that there should be more regard paid to geographical representation than is paid now. I may be wrong, but I think there should be more regard than there is to the factor of geography. That raises the question first of all with respect to the residence of these gentlemen. And there is another question.

I do not happen to know all the directors. I wish to make it clear that I have not a single word of criticism to offer, but the only one of the directors whom I know is Mr. Symington, and he is a man of the widest business experience.

Mr. McLURE: He is the man who made the TCA what it is.

Mr. MACDONNELL: I think that directors are important. First of all consider the Canadian Pacific Railway. In that company you will find a large board of directors. There are two main reasons. First of all, directors are expected to help in getting business. Secondly, there is the fact that in the directors the president can have a sort of reserve experience and judgment to draw upon. I think that is all I need to say. That is my own feeling. I would like Mr. Gordon to say a word about the geographic aspects of the matter and their bearing upon this huge effort which is the biggest railroad in Canada.

The CHAIRMAN: It is certainly the biggest railway in the world.

Mr. MACDONNELL: I am underestimating, Mr. Chairman. I nearly always do.

Hon. Mr. CHEVRIER: I presume what you have in mind, Mr. Macdonnell, is the enlargement of the board of directors because of the enlarged operations of the Canadian National Railways?

Mr. MACDONNELL: That is right.

Hon. Mr. CHEVRIER: Mr. Gordon can speak concerning the qualifications of these gentlemen better than I can because he is in constant consultation with them and meets them each day. I think there is now a pretty good geographical representation. For instance, Mr. Gagnon represents the province of Quebec. Mr. Northey represents the province of Ontario. Mr. Symington was originally from western Canada. Mr. Brennan is from Saint John, New Brunswick, Mr. Parker is from Winnipeg, and Mr. Daly I think is an easterner.

Mr. MACDONNELL: I think you have answered one of my questions which was on distribution. I come back to the question of size.

Hon. Mr. CHEVRIER: That has been considered from time to time. It may be that the time has arrived to enlarge the board of directors, but that is a matter for government policy. That could not be done without an amendment to the present legislation. Any consideration that has been given to it, of course, has been given to it in the light of the matters which were under consideration at the time this came up for discussion along with many other matters concerning the affairs of the Canadian National Railways. I have reference now to the matters touched upon by the Royal Commission on Transportation.

Because of the large number of amendments which had to be brought down to railway matters and particularly to the Railway Act, it has not been deemed advisable to increase the board of directors of the Canadian National Railways. I am not intimating that that is going to be done. What I say is that it is being given consideration and I think at the next or at some subsequent session of parliament it will be necessary to amend some of the Acts, or several of the Acts having to do with the operation of the Canadian National Railways. And it may well be that at that time consideration will be given to the matter of enlarging the board of directors.

Mr. POULIOT: Will you please tell us, Mr. Minister, what the remuneration is of the board of directors?

Hon. Mr. CHEVRIER: It is \$5,000.

Mr. POULIOT: Just that, and travelling expenses when they go on railway business.

Hon. Mr. CHEVRIER: That is right.

Mr. POULIOT: According to the law those gentlemen are the official representatives of the Canadian Government and they form the Canadian National Railways Company.

Hon. Mr. CHEVRIER: They are the official representatives of the people of Canada.

Mr. POULIOT: They are the representatives of the people of Canada and they are appointed by the government, and they are the Canadian National Railway Company.

Hon. Mr. CHEVRIER: That is right.

Mr. POULIOT: And when the company is sued, it is they who are sued in their official capacity, or the corporation of which they are directors?

Hon. Mr. CHEVRIER: They are sued as a corporate entity.

Mr. POULIOT: It is in their capacity that the company is sued, as formed by them?

Hon. Mr. CHEVRIER: They are not sued individually. They are sued corporatively.

Mr. POULIOT: I do not know what is their practical use, but I presume they are very useful. I find they are the link between the government and the Canadian National Railways. Is it not so?

Hon. Mr. CHEVRIER: Yes.

Mr. POULIOT: And if a Member of Parliament writes to a director, let us say, on behalf of a railway employee, or to ask something, is it politically interpreted?

Hon. Mr. CHEVRIER: I think if you are writing to the minister, that is a different thing of course. But if you write to the directors of the Canadian National Railways, it depends a great deal upon the tenor of the contents of your letter. When you ask me a general question like that it is rather difficult for me to answer. But if you were to put a specific question to me, perhaps I could answer it yes or no.

Mr. POULIOT: I will tell you why I ask that. The day before yesterday I listened to Mr. Gordon and he said that sometimes he received letters from parish priests, from mayors, and from citizens of a locality on behalf of this or that person. But he did not mention a member of parliament. I do not see why, because I am a member of parliament, that I should be precluded to write to Mr. Gordon.

Mr. GORDON: No, I did not intend to suggest any such thing. As a matter of fact, we welcome any representations from members of parliament respecting matters affecting their constituencies. We recognize the fact that they represent the people in their constituencies. In fact, we receive a great number of letters from members of parliament which are quite appropriate. If a member of parliament wishes to write me at any time about conditions in his district, or to make a suggestion about what he thinks might be an improvement, or wishes to criticize the services we have to offer, or asks for information about any proper thing in regard to the railway operations, it would be perfectly all right, and I would not construe it as political interference at all.

Mr. BROWNE: Including staff?

Mr. GORDON: Including staff. I receive many letters making representations on behalf of employees and it is perfectly all right. Let us say a clergyman or a member of parliament writes to me and says: "I know that Mr. Jones, one of your employees, has had some bad luck. I find that he has been disciplined, and I would like to intercede and say a word for him".

Mr. POULIOT: He has a large family?

Mr. GORDON: Yes, he has a large family. He always does. You must be thinking of your own constituency. We are only too happy to reply to those letters and give such information as we feel we can, in order to show, with respect to the representations coming from a person, from any person who is taking it up with the management, that we are attempting to be fair. I do not construe that as interference at all.

Mr. BROWNE: Even though it is turned down by the district management?

Mr. GORDON: Quite so. We have many cases where a ruling has been given by the district manager or superintendent. Then some local person, frequently and obviously a member of parliament—because after all he is the representative of public opinion in that district—will write to me or to some other official in the railway and make inquiries about it. I think that is perfectly proper. No criticism can be offered of that at all. It is only when there is an attempt to put pressure upon management improperly that it could be called interference.

Mr. POULIOT: I find your answer very satisfactory and I will tell you why. With all due respect, the other day the chairman quoted things that some important gentleman such as Mr. Arthur Meighen, or Sir Thomas White or Sir George Foster had said. I remember that Mr. Meighen did not exist at the time of my father but my father spoke very contemptuously of Sir George Foster and of Sir Thomas White. I did not find it a doctrine according to my taste. I went to the back history and I found the doctrine of Laurier, and what he said was exactly in accordance with the doctrine of Laurier, that members of parliament should not put out considerations of any type in matters such as that.

Mr. GORDON: Quite so. I can say that in my experience in the railway I have had no example that I could properly quote of there being improper political interference with the railway. The sort of thing that would be improper interference would be for a member of parliament to write to me, let us say, about a staff matter, or about the management of the railway. I would reply explaining what our attitude was. And then if that member said:

"Mr. Gordon, I am going to go over your head and try to get your ruling reversed. I will go to a member of parliament or to the Minister of Transport", or if a member of parliament should come to me and threaten me or try to influence my judgment by threats or activities which would put pressure upon me, that would be improper. But nothing of that sort has ever happened.

Mr. POULIOT: We can speak to you without threatening you.

Mr. GORDON: Absolutely. In fact, you could even threaten me in proper circumstances and I would not regard it as improper.

Mr. POULIOT: Well, I never threaten anybody.

Mr. GORDON: That is quite right.

Mr. GEORGE: Yesterday Mr. Gordon made two statements with regard to labour relations. Now, I have not read the verbatim reports containing those statements, but it seems to me that the substance of it was, firstly, that they were going to assess—that is, the railways were going to assess their labour relations and have a look at the whole scheme again. I believe Mr. Gordon also pointed out that his officials, as well as himself, did not see the labour experts or representatives of unions too often in regard to labour pay, and what have you, except in the case of emergency.

Mr. GORDON: I think there is a misunderstanding and I may save time if I comment on it right now. I was replying to a question by Mr. Macdonnell which had to do with a specific type of expert who calls himself an economist giving evidence before a board of inquiry or board of arbitration. We are in constant touch with representatives of the unions, the chairmen of the various groups in the unions, the regular representatives of the men. We are in touch with them every day of the week. There is a close practical working cooperation with them in which the representatives of labour may be making representations on behalf of the men all the time. We also have a very useful labour-management cooperative committee which meets regularly to discuss such things as working conditions or suggestions for improvements in regard to ordinary facilities and amenities of life.

Mr. GEORGE: That is a day to day affair?

Mr. GORDON: Yes, that is a day to day affair. The person I was referring to yesterday was in the nature of some expert witness or somebody who may have been used by the labour unions to present a particular brief which dealt with highly technical analyses of statistics for presentation to the board as reasons for wage increases, and that man, that sort of individual, we rarely see.

Mr. GEORGE: That is the point I am trying to get at. I am not an expert in labour relations, but in view of what you just said, and what you said yesterday, I was wondering if you considered getting the two groups together, that is, labour and management, under an independent head, such as a labour expert from some of the universities, to have a constant study continually under way of labour relations in regard to increases of pay and the cost of running railways, and so on, so that these sudden emergencies do not come upon us.

Mr. GORDON: That is something along the lines we are trying to study and find a way of achieving. As I said yesterday, when we have properly assessed the whole field and sort of analyzed the reasons for what may be called the deterioration in relations between management and labour, then we might be able to arrange for meetings on a more detailed basis in between these crisis periods. We might develop something of a code of ethics—I referred to it yesterday as a set of Queensbury rules, if you like—with a sort of agreement on both sides of the picture that certain methods of procedure would be agreed upon as being correct. We might discuss some of our

problems before the expiry date of a wage agreement, so that when the expiry date arrives it is not a crisis date, it is simply that we then meet with a fairly clear idea on both sides of the ideas we have between us. We do not know, and neither do they—I am not speaking critically at all,—but under the present procedure neither side knows what the other side wants, thinking only of the time that is specified in the agreement whereby we can notify each other that we are not satisfied or we are satisfied.

Mr. GEORGE: The other point I made, and on which you did not comment—maybe you should not comment on it, but it is my suggestion that if these two groups met, perhaps an independent party, like a labour man from one of the universities, could be chairman.

Mr. GORDON: I would not like to comment on that. I do not know whether it would be practical, but it is something worthy of consideration.

Mr. GILLIS: Mr. Chairman, I would like to ask you if Mr. Gordon got the answer to a couple of questions I asked.

The CHAIRMAN: If I may, just a minute, Mr. Gillis—we have a very heavy agenda for this afternoon and I do not want Mr. George to think I am scolding him, because it is far from it, but I do wish to ask the members of the committee to extend the same cooperation as you always have in the past. Mr. Gordon and his officials are very anxious that we should complete our work today, and as to the part of our work that has already been done, the record will be printed and you will have an opportunity of reading it. Any of you who could not be in attendance when the different items were up in which you are interested can read the record. Please do not bring up now anything that has already been covered unless it is extremely urgent. Now, as to the different questions which have been asked and on which material has been promised, I have discussed with Mr. Gordon and he assures me he has all the answers ready. I think perhaps it would be more convenient to the members and would make a better record if we would deal with those when we have completed our regular work. We are now on page 2 of the budget, and at the second last item. That is the re-financing or financing previously authorized expenditures, and if you do not mind, Mr. Gillis, I would very much—

Mr. GILLIS: I don't mind at all, Mr. Chairman, but I wonder why you have allowed this last half-hour's discussion.

The CHAIRMAN: I should not have allowed it.

Mr. GILLIS: I know that.

The CHAIRMAN: We are now on page 2, the second to the last item. Are there any questions?

Mr. MACDONNELL: I want to understand better the question of re-votes. I have been looking back to the Canadian National Railways' Financing and Guarantee Act, 1952, and I notice in *Hansard*, at page 3356, a statement by Mr. Sinclair, then Parliamentary Assistant to the Minister of Finance, to this effect:

...the law officers of the Crown have ruled that the authority contained in the annual financing and guarantee acts does not expire at the end of the calendar year.

Now, I had understood yesterday that the view taken by the railways is that they did expire and that there has to be a re-vote, or am I confused?

Mr. GORDON: Well, I am not sure that I quite grasp your remarks. I also am guided by the lawyers in respect to the financial authorizations which have to be set up to take care of the figures we are now discussing, and they inform me for the purpose of our financing that in the financing and guarantee act which will go before the House this year it is necessary to include the figures which are shown on page 2 of this budget, and that includes the re-votes—you are speaking of the re-vote figure shown here, of \$35 million?

Mr. MACDONNELL: Yes.

Mr. GORDON: The Budget includes that figure to complete projects previously authorized and which now have to be re-voted in respect to that portion of them which is not complete. There is a distinction between the authorization and the authority to the Minister of Finance, the authority, rather, in the Financing and Guarantee Act for the Canadian National Railways to finance it. What we are discussing here is the Financing and Guarantee Act, which will enable the Canadian National Railways, if it is decided that way, to go to the market and raise money or to go to the Minister of Finance and say to him, "Would you rather lend us the money than have us go to the market at this time?" There are two ways open to us: we have to have authority to borrow—and this is really the authority to borrow—either by way of bonds or advances by the Minister of Finance.

Hon. Mr. CHEVRIER: This year's Act, as I understand it, will carry the same re-votes as last year's Act, which carried re-votes for the previous year of \$93,647,760. It was re-voted in the Canadian National Railways' Financing and Guarantee Act of 1952.

Mr. FULTON: Then the re-votes Mr. Gordon was discussing, that Mr. Gordon gave us an answer about yesterday in answer to my question last night, would be a different type of re-vote. I asked you if you—supposing in your capital item for new equipment here, the capital budget item for new equipment gave you authority to spend \$10 million, but you spend only \$8 million—I asked you if it would be necessary to re-vote \$2 million and you said yes. That would be a different expenditure than the type we are discussing on page 2?

Mr. GORDON: If you look at sheet 2 of the budget, I have an item shown there of \$35,561,634, re-votes under the general heading of capital expenditures.

Mr. MACDONNELL: Perhaps this will help me. Is that figure taken up by the Financing and Guarantee Act which comes along later?

Mr. GORDON: That is it. Then the next figure, this is capital re-votes. The last figure down there is really the re-vote figure for equipment. You see that is authorized pursuant to the Financing and Guarantee Act of 1952, \$36 million. That is the re-vote for equipment which had been previously authorized. We have been authorized to commit ourselves for that, and now we have to finance it this year and that is included in the financial authorization we are now asking.

Mr. MACDONNELL: Then you are not going on the statement that the law officers of the Crown have ruled it does not expire, you are acting on the understanding that it does expire and requires a re-vote?

Mr. GORDON: That is my understanding.

The CHAIRMAN: I think perhaps before you leave that there is a little confusion. Authorization of the commitment does not expire. There is a difference between the authorization of the commitment and the authorization for the spending of the money.

Mr. GORDON: That is the point, Mr. Chairman.

Mr. MACDONNELL: I just want to come back to these figures of the Act of a year ago, because the figure \$202 million—I am just examining that to see whether the commitments are separate. They are commitments as you say?

Mr. GORDON: This upper portion here is to show the figures on which we need authority to spend money this year. Then underneath, the commitments that we are asking for this year are shown in notes Nos. 2 and 3 at the bottom of the page, maybe for next year or the year after.

Mr. MACDONNELL: That is right, there is a paragraph in this section which does authorize commitment. Perhaps I had better show you that. Can you follow through this figure of \$202 million? Those are not commitments, those

are actual. It is the follow through I am after. Will you see if I am right, that those are not commitments?

Mr. GORDON: I can take this statement here and trace it right on the statement here if that will help you.

Mr. MACDONNELL: Yes.

Mr. GORDON: All right. The \$27 million shown here—I am talking about Hansard at page 3356 of June 17, 1952. You will see the \$23,014,271 figure there is shown on your table there. Now, that is last year's figure and there is the comparative figure for this year. If you take this figure here of \$27 million, you will find that on page 1 of the budget, which shows there, and the comparative figure this year is \$12 million. Now, then, we have established that. This branch line construction of \$7,800,000 you will find that there and the comparable figure \$2,758,000 for this year. This \$2,413,000 ordered and paid for in 1952 should be shown right there and that brings you down here. Acquisition securities you will find also on page one, \$516,000 shown last year, this year \$293,000, a small item. Then, additional working capital \$15 million again on page one you will see \$15 million last year and \$15 million this year.

Mr. MACDONNELL: This is working capital?

Mr. GORDON: That is right. It is shown here. That takes care of all the figures here with the exception of the bottom one, except the \$50 million item. There is the foot-note item shown at the bottom of page 2, and this year we are making it \$80 million. I will give you a word of explanation. That \$80 million does not give us any authority that is not contained up above here. It is merely a means to give the Minister of Finance the authority to make us an advance between the period of January 1st, 1954 and June 30, 1954 in connection with items which may have been previously authorized as a commitment but which have to be paid for in that portion of the year before we are able to get our 1954 Financing and Guarantee Act approved.

Mr. MACDONNELL: Would it only effect the orders you have given before. Could it not be used for expenses originating in 1954 itself.

Mr. GORDON: No, it could only be used in regard to commitments. It is a temporary authority to give the Minister of Finance legal power to finance us temporarily, because at this time we only bring the budget here now, and it will come before the House of Commons next month. In the meantime he has not the technical authority. Last year you gave us that authority for \$50 million which we are now working on this year. I am now asking authorization on that figure of \$80,000,000 but it does not add to the overall authority. It is merely a technical means of regularizing the action in regard to authority.

Mr. BROWNE: You said for 1953.

Mr. GORDON: No, 1954. The figure as given in Hansard was last year \$50 million and that covered January 1st to June 30th this year, 1953. Now this year we talk about \$80 million which would cover the same, a similar kind of thing, up to June 30th, 1954.

Mr. BROWNE: That Act was passed in 1953.

Mr. GORDON: No it was not. This one is being passed this year.

Mr. BROWNE: That has based on last year.

Mr. GORDON: That is right.

Mr. BROWNE: Now you are going to pass another this year.

Mr. GORDON: Yes, we are now going to pass another this year which will become effective next year, and that will cover the \$80 million that is covered on the figures shown in that table.

The CHAIRMAN: Now gentlemen—

Mr. MACDONNELL: Footnote 2 says:

"Authority is requested to place order for new equipment contained in the 1953 budget program in the amount of \$3,765,000 (see page 8 (F))."
What is that?

Mr. GORDON: Just turn over the page and you will see page 8(F) which sets out the detail. Note (F) at the bottom. That shows you the portion—you will see that on page 8(F) \$9,959,000. A portion of that is covered in page one and that is the portion we think we will deliver this year, but our total orders would be \$13,724,000 so the difference between a \$9,900,000 and the \$13,724,000 is now being authorized as a commitment because we will not be paying for it until a later year. That covers one portion. The next portion on note 2 is \$54,534,000 which you will find on page 9(G) and specified there is the authorized commitments we are proposing to buy, and which will not be delivered until, we think, 1954. So, I am asking you now to give us authority to commit ourselves to the purchase of the items detailed therein.

Mr. FULTON: That is in 1954.

Mr. GORDON: Yes and next you will find this item of \$54 million, that will be shown in the financial authority for next year. The same thing applies in regard to note 3. This covers general additions and betterments and that is the only difference and you will find that on page 3. That is the commitment portion of that.

Mr. MACDONNELL: The only question I have here is, there is a figure I have noted down, and I do not know where it occurs, saying that the increase in your borrowed capital in the year 1952 was \$97,164,000 and the increase in assets was about \$135 million.

Mr. GORDON: Yes.

Mr. MACDONNELL: Now, would part of that come from the purchase of preferred stock.

Mr. GORDON: Yes, and the rest from depreciation.

The CHAIRMAN: Any further questions on page 2. If there are no further questions on page 2 we have completed the budget. The underlying pages simply deal with details. Pages one and two are the heart of the budget.

Mr. FULTON: I think there is an explanation for page 3, and there is not for additions and betterments.

The CHAIRMAN: All the subsequent pages are simply details and one and two are—

Mr. FULTON: I do not see the additions and betterments.

Mr. GORDON: I see your point Mr. Chairman. You will notice that in the note we have placed here for additions and betterments.

Mr. MACDONNELL: What page is that.

Mr. GORDON: Turn to page 2. That is the one Mr. Fulton was asking about I understand. In the note on page 2 we referred to general additions and betterments and page 3 shows you the detail as to how we arrive at that.

Mr. MACDONNELL: Where do we get that commitment figure.

Mr. GORDON: These two items you see in the summary there, commitments re-voted \$8,153,000 and commitments new funds \$8,252,000 jointly makes the \$16 million and you will notice the next figure there of \$12 million is our present year's figure as shown on page one.

Mr. MACDONNELL: You will tell the Department of Justice they are wrong about this, will you not?

Mr. GORDON: I am beginning to realize it is much wiser not to tell anybody that they are wrong. Life is much more comfortable.

The CHAIRMAN: Shall the budget carry?

Carried.

Mr. GILLIS: Just a minute. You mean this whole thing?

The CHAIRMAN: All the rest is underlying material. Pages one and two are the heart of the budget.

Mr. GILLIS: There are items on here that I want to question.

The CHAIRMAN: Well then, that is all right. Would you please ask your questions.

Mr. GILLIS: It is on page 8. The answers that Mr. Gordon was to give me on the questions I asked yesterday would be relevant to what I am going to say now. But I notice that on page 8 the C.N.R. has quite a program for new diesel equipment in 1953 and 1954. Now, that question of putting diesels on the eastern end of that run from Montreal to Nova Scotia has created quite a controversy. The people in Nova Scotia, the small operators and the provincial government are of the opinion that it is the dieselization program that is taking the market from the small operators. Mr. Gordon yesterday in his analysis of the situation definitely pinned the matter down to cost. He said he would take all the coal from Nova Scotia that could compete within reason with American coal in that area.

The CHAIRMAN: For a substantial number of years.

Mr. GILLIS: That is right, and the figure that he gave was in regard to the cost of American coal versus Nova Scotia coal laid down in Moncton.

Mr. GORDON: These are only two examples.

Mr. GILLIS: That is right. I have a telegram here from the Minister of Mines of the province of Nova Scotia which was sent to Mr. McCulloch and he passed it over to me. The member for Inverness-Richmond, Mr. Carroll, who is not a member of this committee had the same telegram. The minister of mines in Nova Scotia questions your figures and I would like to read the telegram for your benefit. It congratulates Mr. McCulloch on his stand before the committee and states:

Re Gordon's statement relative cost American Sydney coal laid down Moncton at \$12.33 and \$13.04 respectively suggest he can arrive these figures only by using different basis for freight cost. Cost screened coal Sydney \$9.30 freight rate to Moncton \$2.80 total \$12.10. To arrive at \$13.04 he must use an O.C.S. rate of eleven mills. American coal cost at mine \$3.90 freight to border \$4.65 plus duty fifty cents less exchange 20 cents leaves freight rate from border to Moncton \$3.48 for 314.7 miles gives an O.C.S. rate of 5.6 mills as against 11 mills used against Sydney coal. An agreement now exists whereby railway will charge no more than 5 mills which should make freight cost to Moncton \$1.71 added to cost at Sydney \$9.30 should leave laid down cost at Moncton \$11.01 instead of \$13.04 quoted by Gordon. Understand decision to be reached Wednesday on Drummond order.

A. H. McKinnon, Minister of Mines.

Now, if Mr. McKinnon is correct in his figures in this telegram Sydney coal can be laid down—that is from any point in Nova Scotia, and I think he gives right down to Sydney, would make quite a difference in the figures in the area that we were discussing for the small operators.

Even shipping Nova Scotia coal from Sydney to Moncton under the arrangement Mr. McKinnon sets out here could beat your American price by more than \$2 in Moncton. I do not know whether it is correct or not. I would like Mr. Gordon to take a look at that proposition because if he is right in that cost is the only factor than there is not any problem and of course—

Mr. GORDON: You mean no problem on the basis of these figures.

Mr. GILLIS: That is right, and of course if it is the installation of diesels which I think it is—I pressed that yesterday, and Mr. Gordon was going to take a look at it. The answer that Mr. Gordon was to give me today would have some relation to that. I would like to know how fast that market is dropping off.

Mr. GORDON: Perhaps I can deal with the question first. The question you asked yesterday was the tonnage purchased by the Canadian National Railways from the small operators in Nova Scotia laid down at Moncton for 1951 and 1952 that will give you an idea of how fast that market is dropping off.

I have not got the figures yet, so I am not able to answer the question as regarding the coal coming out of specific coal mines laid down in Moncton, but we will get these figures for you, although not for this meeting. I can get in touch with you later.

One of the difficulties arising out of trying to compare any of our costs is that disagreement exists in connection with a five mill per ton mile rate in respect to O.C.S. haul—

Mr. GILLIS: Five mills?

Mr. GORDON: That 5 mills is only the basis for the subvention application. We do not take that. We take our actual O.C.S. cost of haul and the O.C.S. cost of haul varies as you can plainly see from point to point and from mine to mine, and it will also vary on traffic. What our purchasing agents do is that they use the total of our O.C.S. costs as worked out and when they get a quotation on coal from a given mine at the minehead, they apply the O.C.S. cost figure and that gives the laid down cost at the consuming point. That figure is not publicly known and we do not think we can make it publicly known because it confuses other aspects of cost in regard to general freight rates because we do not weight that figure with overhead administrative costs. It is our purpose, and our purchasing agents are under such instructions, to apply that O.C.S. cost figure to the advantage of the Canadian mines wherever possible. We give them all the advantages we can with respect to traffic. What I intended to say yesterday was that when you start off with a minehead cost of \$9.30 in Canada and a minehead cost in the United States of an average of \$4.14 per ton, then they start off with a terrific advantage enabling them to absorb the costs of haulage which ought to be against American coal.

Let me put it this way. If the minehead cost of American coal was anywhere near Canadian coal we would not buy American coal at all, that is providing we could get it from Canada. The only reason American coal becomes competitive at all is because their minehead cost is so low that they start off with a terrific advantage to overcome their natural handicap.

The CHAIRMAN: May I ask a question on a subject I do not know too much about. If the Canadian National Railways accepted the arbitrary O.C.S. rate set down by the coal board would the maritime coal then be used?

Mr. GORDON: It would depend on the circumstances. In some cases the 5 mill rate is higher and in other cases the 5 mill rate is lower than our actual cost. I am getting into a controversial subject, Mr. Minister, perhaps you will guide me.

Hon. Mr. CHEVRIER: I would like to say something on this when the opportunity arises.

Mr. GORDON: I am not sure whether I should get involved in this controversy of O.C.S. rate and subvention rate. The point is it is not a controversy—I was going to say it is a difference of opinion, but perhaps that is the same thing. Our view is that when we buy coal we should deal with our actual cost figures. The Dominion Coal Board is the board I understand charged with trying to help the Canadian coal industry and they take the view that in the interests of simplicity and as the best way to order a subvention formula they have ruled when we apply for a subvention we must use the fixed figure

of 5 mills per ton mile. Now, that has some very peculiar results because in some cases our cost may be below that figure, but we still get the 5 mills per ton. But when our costs tend to run above that figure then you can see the subvention is of no particular advantage to us.

Hon. Mr. CHEVRIER: At this point perhaps in fairness to those members who joined the delegation with the Minister of Mines and myself and to which Mr. Gillis referred in the telegram he read, I should say a word in connection with their representations made at that time. They made a number of representations to myself and my colleagues, Mr. Winters and Mr. Prudham, the main representation being for a delay in the dieselization program of the Canadian National Railways. It was my impression that the consensus of opinion was it was chiefly a social problem in that it affected the miners and the operators rather than a purely Department of Transport problem. However, I did indicate to the members of the delegation that I would communicate with the president of the Canadian National Railways in so far as the delay in the program was concerned but that that was a matter for internal management. In fairness to my colleagues I feel I should say I did communicate those representations to the president of the Canadian National Railways through the officers of the department. Now, there has not been an opportunity for me to discuss the matter more fully with the president of the Canadian National Railways since then. It may be felt that the statement which the president made should be relegated to the delegates directly from the minister, but it was brought about, as the committee knows, from the question which Mr. Gillis asked and the question Mr. McCulloch asked.

Now, during the course of those representations there followed a discussion on the costs of coal, and there was present over and above the Minister of Mines and Technical Surveys, the chairman of the coal board, Mr. Uren, who gave his opinion as to these costs, and there was some difference of opinion as to what these costs were. I know that at the moment Mr. Prudham is giving some consideration to this matter. Of course, the problem can be met by increasing the subsidies. That would not be a matter for Transport; that would be a matter for the Dominion Fuel Board. The problem may also be met in part by a study of the costs, and I understand from Mr. Prudham that he is giving consideration to that now. I am sorry I am not able to give additional information on that and I hesitate to do it because it is not a matter which concerns the Department of Transport; it is a matter which concerns another department. There is another possibility and that is the change in the method of payment and it might be possible to arrive at some relief to these operators and to their miners by that alternative. I do not wish to say more than that because I am talking in a field which is not my own.

Mr. GILLIS: I understand that. The problem properly belongs to the Department of Mines and Technical Surveys and the coal board because that board was set up for the purpose of handling this problem. My reason for bringing it up here today is the Canadian National Railways buy that coal and a good place to talk about it is with Mr. Gordon. But, in the final analysis it belongs to the coal board to iron these things out.

Mr. Chairman, may I be permitted to ask Mr. Gordon another question?

The CHAIRMAN: I do not intend to stop you, but I am wondering if a small subcommittee of this committee could not meet with Mr. Gordon and with you and with the appropriate officers from his organization. Today we have a large group with us and we cannot properly do justice to your problem in my judgment and cover the work we have to cover before six o'clock tonight. Would that meet with your approval?

Hon. Mr. CHEVRIER: I would hesitate, with all deference, to accept that suggestion because already Mr. Prudham has suggested I see him about this matter, and perhaps Mr. Gordon and others.

Mr. GILLIS: I am not going to pursue that subject any further.

The next question I was going to ask was away from this subject altogether.

The CHAIRMAN: Go ahead.

Mr. GILLIS: Yesterday Mr. Gordon informed me in relation to the Canso Causeway they had a program to shift their terminals if and when the time arrives to do that. I have a little brief from the town of Canso—problems beget problems—and they fear the Canso Causeway is going to wipe their town out. I do not want to read this. Mr. Chevrier has seen it. Is there any program on behalf of the Board of Transport Commissioners or the C.N.R. to solve the problem of the 298 people employed there by the railways?

Hon. Mr. CHEVRIER: Yes. When I was at Canso for the opening ceremonies I did see a delegate of the Board of Trade of Canso and with me was Mr. Macdonald, the premier of the province, and they put before me the difficulties in which they would find themselves if and when the causeway was completed, and we then felt that there should be a statement of the problem. In other words, how many people are now employed by the C.N.R. and how many by the Department of Transport and what could be done to take care of these groups. We have made a study and we now know we can take care of a part of these. Unfortunately we cannot take care of them all. We can take care of a number of them on the locks; I have forgotten the number. The C.N.R. can take care of a number of them from both Port Hawkesbury and Mulgrave. We are giving our attention to your problems. Now, I am not suggesting that we can take care of them all, but I can assure my friend that the matter is under study.

Mr. GILLIS: I am quite satisfied with that. I do not expect a final answer on that today.

Hon. Mr. CHEVRIER: There is as you know some time left before this actual dislocation takes place.

Mr. GILLIS: If the matter is under a study by the minister I know I will have a chance to dig that out.

Hon. Mr. CHEVRIER: And we are also reporting to the province of Nova Scotia, because to some extent it is their problem too.

Mr. BROWNE: I have a short question to put to Mr. Gordon arising out of the answer he gave me last night. Can Mr. Gordon tell me if the Canadian National Railway is considering disposing of the Newfoundland Dockyard at St. John's?

Mr. GORDON: Well, if I gave you that impression I certainly did not mean to do so. I answered your question as to whether or not—I thought you asked if it has been under discussion?

Mr. BROWNE: Yes.

Mr. GORDON: We have had a proposal, or at least a request made to us as to whether we would be willing to talk about it. That is as far as we have gone at the moment. I have no authority to dispose of it. It is Crown property. But it is merely at the point that we are to discuss with this other group whether or not we would be willing to make such a recommendation.

Mr. BROWNE: Would the management be willing to meet representatives of the unions to discuss ways of improving the efficiency of the dockyard down there?

Mr. GORDON: Definitely.

Mr. BROWNE: They have been studying it themselves and they showed me a program which they have outlined.

Mr. GORDON: It would be a perfectly proper and normal thing, as I said before, to bring before the labour-management committee any idea which the

employees may have which they feel would be helpful. We would be only too glad to hear them at any time. In the first instance, the best approach, I should say, would be to take it up with the local manager there, Mr. Grayston.

Mr. BROWNE: We have done that already.

Mr. GORDON: Then we will be hearing from him.

Hon. Mr. CHEVRIER: Mr. Grayston is a very remarkable man.

Mr. GORDON: We are only too glad to discuss it.

Mr. FULTON: In your income account you show a substantial increase in government loans over last year of something over \$4 million.

Mr. GORDON: Yes.

Mr. FULTON: While the total figure is not huge, it is \$6,700,000, yet I think the increase is large enough to be a little disturbing, particularly since we have just recently refinanced the capital structure. Why were you able to show a small surplus last year and yet have these borrowings going on?

Mr. GORDON: We are only borrowing for capital account.

The only interest is government interest. It is still going up but that is because at the moment we are borrowing from the government instead of going to the market. Under normal procedure we would go to the market and sell our bonds to the public, and the interest would appear under "Interest to the public". But in the last two years we have been borrowing directly from the Minister of Finance because, for various reasons, the Minister of Finance desires that we do not go to the market. Our bonds carry a government guarantee and we cannot go to the market without the consent of the Minister of Finance.

Mr. FULTON: Your borrowings at the end of this year will be more than twice what they were last year, because the interest has more than doubled?

Mr. GORDON: Yes. In the annual report at page 34 you will see how it appears in our financial statement. That is all in capital account. It shows how we finance our capital. We got from the government \$18,486,540 for the sale of preferred stock under the recapitalization arrangement. We had certain retirements which netted out to \$9,702,206. We borrowed for capital expenditures \$94,586,864; and we retired a debt of \$12,279,932. Therefore our net increase is \$97 million, and the increase in our total capitalization is \$115 million.

Mr. FULTON: It is the interest on borrowings which increases the interest?

Mr. GORDON: That is right.

Mr. MACDONNELL: Mr. Gordon said yesterday that he would give us a few illustrative figures for comparison between the Canadian Pacific and the Canadian National. It seems to me that with the huge investments we are making, which have been explained in a clear manner, it would be of value to us to have some yardstick. We recognize that there are burdens on the Canadian National Railways which they have to carry.

The CHAIRMAN: I intended that that would come at the end, or would you rather have it now?

Mr. MACDONNELL: I thought you were leaving the Canadian National Railways.

The CHAIRMAN: I said that we would take up the clean-up questions after we had gone through the reports and the budgets. I understood that was one of the clean-up questions.

Mr. MACDONNELL: I do not care when we do it.

Hon. Mr. CHEVRIER: Could we get on perhaps to the end?

Mr. MACDONNELL: You mean before we leave the Canadian National Railways finally?

The CHAIRMAN: No. I mean that we would first clean up all the reports and the budgets and then deal with the special questions which had been asked, one at a time. There are some members waiting here who want to ask questions on the report.

Mr. MACDONNELL: Very well.

The CHAIRMAN: Now, the annual report of Canadian National (West Indies) Steamships Limited.

MONTREAL, March 2, 1953.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir:

The following report is submitted of the operations of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1952.

The operating results for the year compare with those of the previous year as follows:

	1952	1951	Increase	
Operating revenues	\$7,449,247	\$6,808,478	\$ 640,769	9.41%
Operating expenses	7,122,971	6,840,054	282,917	4.13%
Operating profit or loss ..	\$ 326,276	\$ 31,576	\$ 357,852	

Freight revenues amounted to \$5,801,570, showing an improvement of 9.2% due principally to an increase in sugar tonnage carried northbound at higher rates throughout the year, and an increase in general cargo rates southbound. The total tonnage carried in 1952 was 351,930 tons, or 3.4% greater than in the previous year.

Southbound tonnage decreased 11,207 tons, or 8.45%, due mainly to a reduction in the tonnage of flour to Jamaica. Northbound tonnage showed a gain of 22,851 tons or 11.0% due to an increase of 16.4% in sugar traffic.

Passenger revenue increased \$37,346, or 4.5%, reflecting an increase in passenger travel between Canada, the United States and the West Indies, and an increase in inter-island travel.

Charter revenues rose by 21.5% to \$633,661 because of the more favourable charter rates obtained for the non-refrigerated cargo vessels in the early part of 1952.

Operating expenses increased by \$282,917, or 4.1% due to the handling costs on the greater volume of freight tonnage carried and higher vessel operating costs during the year, together with increased lay-up expenses for the two "Lady" vessels out of service and awaiting disposal at the year-end. Sixty-four voyages were completed in 1952, the same number as in 1951.

The operating profit of \$326,276 compared with an operating loss of \$31,576 for 1951. After inclusion of vessel replacement fund earnings of \$145,065, and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909 compared with an income deficit of

\$466,992 in 1951. It will be noted from the income statement appearing on page 8 that the interest charges on Government advances decreased by \$90,534; this is due to the cancellation, effective 1st January, 1952, of the liability to the Government in respect to the balance of advances to meet deficits incurred during the development period 1929-1934.

The active fleet at the year-end consisted of the following vessels:

		Gross Ton- nage	Dead- weight Ton- nage
<i>Canadian Challenger</i>	Diesel-powered and refrigerated . .	6,745	7,460
<i>Canadian Constructor</i> . . .	Diesel-powered and refrigerated . .	6,745	7,460
<i>Canadian Cruiser</i>	Diesel-powered and refrigerated . .	6,745	7,460
<i>Canadian Conqueror</i>	Non-refrigerated	2,930	4,532
<i>Canadian Highlander</i>	Non-refrigerated	2,966	4,532
<i>Canadian Leader</i>	Non-refrigerated	2,930	4,532
<i>Canadian Observer</i>	Non-refrigerated	2,967	4,532
<i>Canadian Victor</i>	Non-refrigerated	2,963	4,532
		34,991	45,040

In accordance with the intention expressed in the previous Annual Report, the *Lady Nelson* and the *Lady Rodney*, being no longer suitable for operation in the Company's service, were withdrawn on completion of the 1952 season, and laid up awaiting disposal. Both vessels were sold in February, 1953, and delivered to the new owners. With the remaining vessels the Company is in a position to offer regular and frequent freight service which can be adjusted to the traffic offering. Attractive passenger accommodation continues to be available on the three motor vessels sailing in the Eastern service, each vessel having cabin space for twelve passengers.

The balance in the Vessel Replacement Fund at the end of the year was \$5,018,229 as compared with \$4,685,337 at the end of 1951, the increase representing depreciation accruals for the year of \$372,392, less an amount of \$39,500 released to meet capital expenditures covering installation of radar equipment on the five non-refrigerated cargo vessels. The interest earnings of the Fund for the year, \$145,065, were released to the general account of the Company to meet current requirements.

The Insurance Fund balance was \$2,354,572 against \$2,046,654 at the end of 1951. After providing for all losses, amounting to \$113,910, the Fund had a surplus of \$377,918 from which was appropriated \$70,000 for payment of income tax for the year.

The Directors again record their appreciation of the loyal and effective services rendered the Company by officers and employees.

For the Board of Directors,

D. GORDON,
President.

BALANCE SHEET AT 31st DECEMBER, 1952

ASSETS		LIABILITIES	
Investments—		Capital Stock—	
Vessels.....	\$9,883,945	Authorized and issued 400 shares of \$100 each.....	\$ 40,000
Less accrued depreciation.....	<u>5,952,174</u>		
	\$3,931,771	Funded Debt—	
		25 Year 5% Government of Canada Guaranteed	
Vessel replacement fund.....	5,018,229	Bonds, maturing March 1, 1955.....	9,400,000
	<u>\$ 8,950,000</u>		
Current Assets—		Government of Canada Advance—	
Cash in banks.....	\$803,898	For working capital.....	150,000
Special deposits.....	4,550		
	\$808,448	Current Liabilities—	
Accounts receivable.....	34,658	Accounts payable.....	\$ 441,405
Freight, passenger and agency balances.....	159,229	Interest matured unpaid.....	4,550
Government of Canada—Due on deficit account...	3,909	Unmatured interest accrued.....	156,667
Inventories.....	23,377	Income tax liability (estimated).....	<u>70,000</u>
Advance to captains, crews, etc.....	15,004		672,622
Due from insurance and replacement funds.....	221,818		
	1,266,443		
Unadjusted Debits.....	6,179	Insurance Reserve.....	2,354,572
Insurance Fund.....	2,354,572		
Discount on Capital Stock.....	40,000		
	<u>\$12,617,194</u>		<u>\$12,617,194</u>

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited, for the year ended the 31st. December, 1952.

In our opinion, proper books of account have been kept by the Steamships, and the balance sheet at the 31st. December, 1952, and the relative income and profit and loss accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Steamships.

The above balance sheet and the relative income and profit and loss accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st. December, 1952, and of the income and expense for the year.

The transactions of the Steamships that have come under our notice have, in our opinion, been within the powers of the Steamships. We are reporting to Parliament in respect of our annual audit.

2nd March, 1953.

GEORGE A. TOUCHE & CO.,
Chartered Accountants

INCOME ACCOUNT

	1952	1951
Operating Revenues		
Freight	\$5,801,570	\$5,312,191
Passenger	869,400	832,054
Miscellaneous	57,168	48,141
Subsidies	87,448	94,649
Charter	633,661	521,443
Total	<u>\$7,449,247</u>	<u>\$6,808,478</u>
Operating Expenses		
Voyage accounts	\$6,394,663	\$6,107,348
Lay-up expenses	46,308	11,978
Depreciation on vessels	372,392	371,699
Management and office expenses	228,105	224,143
Pensions	22,731	1,567
Other expenses	58,772	123,319
Total	<u>\$7,122,971</u>	<u>\$6,840,054</u>
Operating profit or loss	\$ 326,276	\$ 31,576
Vessel replacement fund earnings—Cr.	145,065	130,368
Interest on bonds held by public	470,000	470,000
Interest on Government advances	5,250	95,784
Income deficit	<u>\$ 3,909</u>	<u>\$ 466,992</u>

Note: Income tax provision of \$70,000 for year 1952 has been made from the surplus earnings of the insurance fund.

PROFIT AND LOSS ACCOUNT

At 31st December, 1952

Balance at 31st December, 1951— <i>Deficit</i>	\$3,618,505
Income deficit for the year \$3,909 assumed by the Government of Canada	—
Cancellation of Government of Canada advances for deficits (1929-1934)— <i>Credit</i>	3,618,505
Balance at 31st December, 1952	<u>Nil</u>

The CHAIRMAN: And on page 13 of the budget pamphlet you will find the budget of the Canadian National (West Indies) Steamships Limited.

Mr. KNIGHT: How many vessels have been withdrawn from that trade?

The CHAIRMAN: Mr. Knight moves that we dispense with the reading of the report.

Mr. KNIGHT: I did not move any such thing.

The CHAIRMAN: Well, you started to ask questions and I took it for granted that you would move that we dispense with the reading of the report.

Mr. MACDONALD: I so move, Mr. Chairman.

The CHAIRMAN: It has been moved that we dispense with the reading of the report. All those in favour?

Carried.

Hon. Mr. CHEVRIER: The budget will give you an opportunity to discuss anything you want.

Mr. KNIGHT: I was going to ask Mr. Gordon how many vessels have been withdrawn from this West Indies service?

Mr. GORDON: The two "Lady" ships.

Mr. KNIGHT: And they were sold?

Mr. GORDON: The last two of the "Lady" ships have been sold and are now on their way for delivery to the purchasers for the purpose of carrying pilgrims to Mecca.

Mr. FRASER: That is a very appropriate task for a lady.

Mr. KNIGHT: What was the book value? It says they were sold at more than the book value?

Mr. GORDON: The book value, net, is the ledger value after depreciation. Let me hesitate a moment. The reason I hesitate is that if the boats were still up for sale, there would still be objection because it might affect the market price. But since they are sold, it might make the people who bought them feel that they had made a bad bargain.

Mr. KNIGHT: But it says that they were sold for more than the book value.

Mr. GORDON: The net ledger value of the *Lady Nelson* was \$118,400; and of the *Lady Rodney*, \$109,450, making a total of \$227,850.

Mr. KNIGHT: Are these "Lady" ships of a different type from other ships in your trade, or are they simply given that name on account of their use?

Hon. Mr. CHEVRIER: The "Ladies" were passenger ships.

Mr. GORDON: They were all the same except one which was fitted up with refrigerator space for the purpose of carrying bananas.

The CHAIRMAN: And the sale price was what?

Mr. GORDON: The sale price was \$750,000, and it netted us \$705,000 for the two when it was all through.

Mr. KNIGHT: How many ships are left in that trade now?

Mr. GORDON: Eight ships. That is shown on page 4 of the report as you will see outlined there. The diesel powered ones have accommodation for 12 passengers in each case.

Mr. KNIGHT: The withdrawal of these ships I take it simply means that there was not trade enough to justify their retention?

Mr. GORDON: We found that the operating costs far exceeded any possible revenue.

Mr. KNIGHT: Does the present situation suggest that there will be further reduction in the trade?

Mr. GORDON: Not necessarily. We are at a certain stage in the West Indies trade. The "Lady" ships were handicapped by the fact that they were primarily passenger ships and that they had to run according to a passenger schedule. They had to be in a certain port according to schedule at a certain time for the convenience of passengers. But the rest of the ships are primarily freight ships, and we can go where we can get the traffic and not have to conform to rigid schedules.

Mr. KNIGHT: That is why I asked you if these two ships were of a special type?

Mr. GORDON: They were primarily passenger ships. It is not only the fact that we could not make money with them, but they were just at the point where they would have had to have very expensive overhauls which we did not care to make.

Mr. KNIGHT: I understand there are people in Trinidad who are very concerned what effect the withdrawal of the ships may have on Trinidad. I understand it is not your business to subsidize ghost towns in coal areas and I suppose, equally well, it is not your responsibility here, as head of the company, to subsidize Trinidad. But in our foreign policy I think there is a point that these people may have, namely, that we have a sort of responsibility, and it is a responsibility which comes with leadership. It is that of developing less

privileged areas. I think that the keeping up of that trade would be a good thing for Canada from the point of view of good relations and from the point of view of advertising.

Hon. Mr. CHEVRIER: The whole question is whether it should be kept up at a tremendous loss. Mr. Gordon's point is — and I add this — that TCA now operates into all those places, particularly into Trinidad, and that service has added to the deficit on the "Lady" ship operations. Moreover, the trade agreement with the West Indies, as Mr. Knight knows, has not been carried out to the letter, and that fact has worsened the financial position.

Mr. GORDON: We should remember a little of the history of the "Lady" boats. The "Lady" boats went into operation as a result of the original trade agreement. The "Lady" boats were the means whereby the trade agreement was implemented. Now the effective life of the "Lady" boats in that service has ended and they have served the purpose. I think it was a good investment for Canada because it developed the trade we were trying to develop at the time that agreement was signed.

Mr. BROWNE: When was that?

Mr. GORDON: About 1927 or 1928. The trade has been established, but times have changed. We believe that the service of the "Lady" boats is no longer necessary to retain that trade. There is more than enough shipping now between Canada and the West Indies to take care of the flow of trade between those countries. Furthermore, we have developed diesel and other types of ships in the trade, and our thought is that if we find that the needs of the trade, or the needs of the traffic between that area and Canada call for more ships and on a basis where we can earn dollars, we will certainly put them into service and recommend that we get more ships.

Mr. KNIGHT: Is it your idea that good relationships, which are desirable, have already been established?

Mr. GORDON: That is right. We made a survey to ascertain whether we should replace the "Lady" boats or let them go out of service. And we came to the conclusion that it would not be good business to replace them. There are others standing ready to supply freight ships if that operation proves necessary. There are others who can provide that service, and it seems to be adequate.

Mr. KNIGHT: Would you think that ensuring good relations through the operation of an uneconomic system would balance the lack of economic advantage?

Mr. GORDON: It is a question of degree. There is a point there. But our feeling has been that there was not enough trade to warrant the payment of heavy subsidies on passenger ships, particularly in view of the very satisfactory airplane service offered by TCA.

Mr. KNIGHT: These people feel it would provide the undeveloped areas with facilities. And I think from the point of view of Canadian foreign policy and our responsibility towards developing such under-privileged areas, it might be a good thing. But I wanted particularly to get your opinion on it. I suppose it is more a matter of government policy rather than Canadian National policy.

Mr. GORDON: A great number of the passengers who made use of the "Lady" ships originated in the United States and it did not seem to us to count very much for Canada to make a glamour appeal of the "Lady" ships for the use of United States travellers. The Canadian passenger demand in our opinion is pretty well taken care of by the passenger accommodation which we have available plus airplane travel which is a very good service indeed.

Mr. KNIGHT: I am not suggesting that it should be kept on. I merely wanted to get your opinion on it.

Mr. FULTON: In that connection would you be in a position if not now then perhaps later, by putting it in the mail to the chairman, to give us a list of the passengers you have carried to the West Indies free of charge in 1951 and 1952?

Mr. GORDON: In 1951 and 1952?

Mr. FULTON: Yes.

Mr. GORDON: You mean by name?

Mr. FULTON: Yes.

Mr. BROWNE: There would not be many of them.

Mr. GORDON: They would be very few. I ponder the significance of the question before I say "yes".

Mr. McLURE: One more question. Did the crews of those ships—

The CHAIRMAN: Order, gentlemen, please. Mr. Macdonnell has the floor, but there is so much noise Mr. McLure did not hear.

Mr. GORDON: I do not remember, Mr. Fulton, but if it develops that there were some courtesies extended for traffic reasons, and so forth, I am not too sure it would be in the interests of the company to make that matter public information.

The CHAIRMAN: Would it answer your purpose, Mr. Browne, if the president were to give you the total number?

Mr. BROWNE: It is Mr. Fulton who asked the question.

Mr. FULTON: Well, it would not altogether, Mr. Chairman. I am wondering whether I could put it some other way so that legitimate interests would not be interfered with.

The CHAIRMAN: You can think it over, then, and we will continue in the meantime.

Mr. GORDON: I can say this, that I cannot recall any free passages extended to anyone other than on company account.

Mr. FULTON: Will you have a look at your files then and let me know if there is or if there is not. If there is not, there is no point in my asking for the information, but if there is, perhaps I will have to find some other way of obtaining it.

Mr. MACDONNELL: In your income account you show a credit of \$145,065 which is called vessel replacement fund earnings. Is that connected with the sales?

Mr. GORDON: That is earnings from securities in which the fund is invested. In other words, a depreciation charge against operating expenses is made before replacement, and then we take the cash and invest it in securities, where they are held as a reserve fund.

Mr. MACDONNELL: You spoke about the ledger value of the ships sold and the actual sale price—does that go into earnings?

Mr. GRACEY: It is not in there this year. The transaction was completed in 1953.

Mr. McLURE: Now I suppose I can ask my question. Did the crews of those "Lady" ships belong to the Seafarers' International Union?

Mr. GORDON: I am not sufficiently sure of that to give a positive answer, but I can get information. They did belong to a union, but I do not remember the name of it.

Hon. Mr. CHEVRIER: They belonged to the C.S.U., but they struck and they were later taken over by the S.I.U.

Mr. McLURE: The reason I ask this question is that an effort was made just about the time you were giving up these ships to have the crews of the car ferries join in this union, and, of course, we as a province took objection to that because it would interfere with us and our contract with the federal government. That is the reason I ask this question.

Hon. Mr. CHEVRIER: The answer is yes, I am pretty sure.

Mr. GORDON: Any group of employees may determine who they want as their bargaining agent.

Mr. McLURE: But the crews on the Borden car ferry do not belong to this union?

Mr. GORDON: Not at the present time. They belong to the regular C.B. of R.E. Union.

Mr. McLURE: But there was a movement on foot to have them taken over last fall.

Mr. GORDON: It may have been as a result of the organizers of the S.I.U., I do not know; but we are not free agents in that. We must accept the wishes of the men as to whom their bargaining agent is to be.

Mr. McLURE: The crews of the two ferry ships objected very strongly because it would be detrimental to them.

Mr. GORDON: If the crews of the ferry ships objected, that answers the question, because they are the people who make the decisions. Is that right, Mr. Gillis?

Mr. GILLIS: That is right. It is a difficult province to make that decision in!

The CHAIRMAN: Shall the annual report of the Canadian National (West Indies) Steamships Limited carry?

Carried.

Now we are on the Canadian National (West Indies) Steamships Limited budget.

Mr. Gordon, may I ask you a question. I notice in making provision for income tax you simply provide for income tax on your earned income profit. Are you not responsible for income tax on your capital profit, on the sale of the "Lady" ships at a greater amount than the amount at which they are carried as an asset?

Mr. GORDON: That is a capital gain. There are no income taxes on capital gains in this country.

The CHAIRMAN: I think there is a provision in the Income Tax Act in regard to industry where they sell a machine, for instance,—

Mr. FRASER: And the farmer, too, selling a tractor.

The CHAIRMAN: —at a greater amount than what it is carried at in the inventory.

Mr. GORDON: Well, if that is so, then the income tax people will be after us. There is this, Mr. Chairman, it is a 1953 figure; we will have to deal with it this year. When we come to make up our figures this year, of course, our lawyers will be examining our liability in connection with any of these transactions.

Mr. FULTON: Are you not referring to stock in trade there, Mr. Chairman?

The CHAIRMAN: No, I am referring to equipment, I am afraid this surplus is taxable income.

Mr. GORDON: Mr. Gracey informs me, Mr. Chairman, that particular matter has been discussed with the Income Tax Department and we have their first ruling that it is not a taxable item.

Mr. FRASER: You must have a fine stand-in with them!

The CHAIRMAN: Are there any questions on the budget?

Mr. BROWNE: Yes. I notice in the budget for 1953 it is expected to have a very much lower revenue and expenses. Are these due to the fact that the two ships have been taken out of service?

Mr. GORDON: Yes. The "Lady" boats have been the most expensive.

Mr. BROWNE: They must have been giving a certain service. Do you intend to replace those ships at any time?

Mr. GORDON: We have no immediate intention of providing a service similar to that provided by the "Lady" ships. The service we provide now is a regular service to specified ports, also additional calls to other ports depending on the demands of the traffic.

Mr. BROWNE: How do you find that trade? Is it increasing or declining?

Hon. Mr. CHEVRIER: Decreasing, very substantially. The passengers on the "Lady" ships have been decreasing very rapidly because of the air lines.

Mr. BROWNE: I can understand that, but I am talking about the other ships now.

Hon. Mr. CHEVRIER: I would think so, too.

Mr. BROWNE: I am referring to the trade on the other ships apart from the "Lady" ships.

Mr. GORDON: That is a question, I suppose, of what do you think of the prospects. Is that what you had in mind?

Mr. BROWNE: Yes.

Mr. GORDON: Well, as it stands now, the actual export revenue for January and February, plus that estimated for March, is slightly below the estimate prepared at the end of the year. This is partly due to exports to some of the Colonies falling below last year's figures and the fact that Jamaica is purchasing the bulk of their flour requirements from the United States. That is one element of trade that is falling off.

Now, on the import side we also see a falling off in revenue there because of a drastic reduction in the freight rate on sugar brought about by the depressed charter market. We think there might be some improvement in that over the last part of the year, but at the moment it does not look very promising. Also, in the off season we have been able to charter several of our ships and the charter market this year has been very poor.

Mr. BROWNE: Where do these ships run from, Halifax or Saint John?

Mr. GORDON: Halifax and Montreal in summertime; Halifax in wintertime.

Mr. FRASER: I note there it says additional income tax provision from surplus of insurance fund, last year was \$70,000, and this year, \$144,000. Just what is that?

Mr. GORDON: Mr. Gracey has the accounting information.

Mr. GRACEY: On account of there being a deficit in the operations of vessels last year, it operated to reduce the amount of income tax that was payable on the combined earnings of the vessels and the insurance fund, but this year there is an estimated surplus and, therefore, the whole insurance fund will be taxable.

Mr. FRASER: They will all be taxable then?

Mr. GRACEY: Yes, they were last year, but they are reduced on account of the losses.

The CHAIRMAN: Shall the budget of the Canadian National (West Indies) Steamships Limited carry?

Carried.

Now, I assume the Canadian National Railways Securities Trust report is carried. Mr. Matthews is not with us, and he is the only gentleman who could explain this, as you recall.

Carried.

Mr. GILLIS: It is not controversial.

THE CANADIAN NATIONAL RAILWAYS
SECURITIES TRUST

MONTREAL, 9th February, 1953.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

The Trustees submit herewith their report of the transactions for the calendar year 1952 of the Canadian National Railways Securities Trust, hereinafter referred to as the "Securities Trust", as reconstituted under the provisions of The Canadian National Railways Capital Revision Act, 1952.

The transactions referred to in sections 5 and 13 of the Act are being dealt with as follows:

- (1) The Minister of Finance has transferred to the Canadian National Railway Company the capital stock of the Securities Trust consisting of five million shares with no par value and having a stated value of \$378,518,135.02.
- (2) The collateral securities referred to in section 5 of the Act are in process of being transferred by the Minister of Finance to the Securities Trust. These securities are now reflected in Schedule A.2 of the balance sheet of the Securities Trust.

There were no other transactions during the year affecting the securities held by the Securities Trust.

The Trustees present herewith the balance sheet at 31st December, 1952.

D. GORDON,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
BALANCE SHEET AT 31ST DECEMBER, 1952

ASSETS		LIABILITIES	
<i>Claims for Principal of Loans—</i>		<i>Capital Stock Owned by Canadian National Railway Company—</i>	
Canadian Northern Railway.....	\$ 312,334,805.10	5,000,000 shares of no par value capital stock:—	
Grand Trunk Railway.....	118,582,182.33	Stated value at 1st. January, 1952.....	\$ 378,518,135.02
Grand Trunk Pacific Railway.....	116,006,599.08		
Canadian National Railway Company.	96,936,971.75		
	\$ 643,860,558.26		
 <i>Claims for Interest on Loans—</i>			
Canadian Northern Railway.....	\$ 309,702,897.65		
Grand Trunk Railway.....	103,250,802.95		
Grand Trunk Pacific Railway.....	107,326,622.84		
Canadian National Railway Company.	54,501,313.57		
	574,781,637.01		
 <i>Transactions of Canadian National Railway System from 1st. January, 1937, to 31st. December, 1951, affecting the book value of the capital stock of the Securities Trust.....</i>			
	108,480,697.14		
 <i>Securities Held—</i>			
Collateral Securities—Schedule A.1.....	.....	Amount by which the book value of claims and interest thereon exceeded the initial stated value as of 1st. January, 1937..	948,604,757.39
Other Securities —Schedule A.2.....	.....	
	\$1,327,122,892.41		\$1,327,122,892.41

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st. December, 1952.

There have been produced for our inspection the Collateral and Other Securities as set out in Schedules A.1 and A.2 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st. December, 1952, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1952.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

9th February, 1953.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST
SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

SCHEDULE A.1

<i>Loans Outstanding</i>	
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 through subsequent issues of guaranteed securities and loans.....	
†6% Loan, Chapter 24, 1917.....	25,000,000.00
†6% Loan, Vote 110, 1918.....	25,000,000.00
†6% Loan, Vote 108, 1919.....	35,000,000.00
†6% Loan, Vote 127, 1920.....	48,611,077.00
†6% Loan, Vote 126, 1921.....	44,419,806.42
†6% Loan, Vote 136, 1922.....	42,800,000.00
6% Loan, War Measures Act, 1918.....	1,887,821.16
†6% Equipment Loan, Chapter 38, 1918.....	56,926,000.82
Indebtedness refunded by Government under Chapter 24, 1917, and Chapter 11, 1918.....	
†Mortgage covering loans above.....	
Total Canadian Northern.....	\$ 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 Government of Canada.....	8,704,662.65
Interest guaranteed by Provinces of Alberta and Sas- katchewan.....	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 Note.....	5,700,000.00
3½% Debenture Stocks.....	5,109,999.99
6% Demand Notes.....	56,858,496.44
Miscellaneous Debenture Stock and Debenture.....	14,097,470.59
Miscellaneous Debenture Stock.....	10,783,564.86
Mortgage dated November 16, 1917.....	
6% Demand Notes.....	\$ 25,479,226.97
6% Demand Notes.....	56,646,816.12
6% Demand Notes.....	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.....	8,698,170.42
Cremation Certificates, coupons destroyed.....	2,925,723.88
G.T.P. Development Company, Limited, Capital Stock.....	2,999,000.00

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT OF CANADA TO THE SECURITIES TRUST

<i>Loans Outstanding</i>		<i>Notes and Collateral Held</i>	
CANADIAN NATIONAL RAILWAY COMPANY:		{ 6% Canadian Northern Demand Note.....	\$12,655,019.57
6% Loan, Vote 139, 1923.....	\$24,550,000.00	{ G.T.P. Receiver's Certificates.....	3,313,530.01
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,831.96
5% Loan, Vote 137, 1924.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	1,318,315.86
		{ G.T.P. Receiver's Certificates.....	4,691,173.58
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,822.24
5% Loan, Vote 377, 1925.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,496,718.21
		{ G.T.P. Receiver's Certificates.....	Cr. 1,422,425.17
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,802.80
5% Loan, Vote 372, 126.....	10,000,000.00	{ 5% Canadian Northern Demand Note.....	9,062,624.30
		{ G.T.P. Receiver's Certificates.....	Cr. 364,898.78
		{ G.T.P. Interest Coupons (Cremation Certificates).....	1,530,880.56
5% Loan, Vote 336, 1929.....	2,932,652.91	5% Canadian National Railway Company Demand Notes...	2,932,652.91
5% and 5¼% Loans, Chapter 22, 1931.....	29,910,400.85	5% and 5¼% Canadian National Railway Company Demand Notes.....	29,910,400.85
5¼% Loans, Chapter 6, 1932.....	11,210,815.56	5¼% Canadian National Railway Company Demand Notes..	11,210,815.56
Temporary Loan, 1930, repaid through subsequent issues of guaranteed securities and loans.....		{ 166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad Company.....	4,171,940.94
		{ 5% 1st. and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc., due January 1, 1960.....	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937.....	Cr. 1,666,897.57		
Total Canadian National Railway Company.....	\$ 96,936,971.75		
Total Loans.....	\$ 643,860,558.26		

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Securities transferred from the Government of Canada to the Securities Trust pursuant to the provisions of The Canadian National Railways Capital Revision Act, 1952

DESCRIPTION OF ISSUE	Amount	
	Sterling Currency	Dollar Currency
Canada Atlantic Rly. Co. 4% Consolidated First Mortgage Sterling Bonds, due Jan. 1, 1955.....	£1,245,300	
Canadian National Rly. Co. 4½% Twenty Year Guaranteed Bonds, due September 1, 1951.....		\$ 1,978,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due June 15, 1955.....		1,504,000.00
Canadian National Rly. Co. 4½% Twenty-five Year Guaranteed Bonds, due Feb. 1, 1956.....		2,632,000.00
Canadian National Rly. Co. 4½% Thirty Year Guaranteed Bonds, due July 1, 1957.....		864,000.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due July 1, 1969.....		3,317,000.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Oct. 1, 1969.....		2,271,500.00
Canadian National Rly. Co. 5% Forty Year Guaranteed Bonds, due Feb. 1, 1970.....		662,000.00
Canadian National Rly. Co. 2% 1927 Guaranteed Debenture Stock.....	3,813,250	
Canadian Northern Alberta Rly. Co. 3½% First Mortgage Debenture Stock, due May 4, 1960.....	534,097	
Canadian Northern Ontario Rly. Co. 3½% First Mortgage Debenture Stock, due May 19, 1961.....	6,294,345	
Canadian Northern Ontario Rly. Co. 4% Perpetual Consolidated Debenture Stock.....	1,609,832	
Canadian Northern Pacific Rly. Co. 4% First Mortgage Guaranteed Debenture Stock, due April 2, 1950.....	3,208,545	
Canadian Northern Pacific Rly. Co. 4½% First Mortgage Terminal Debenture Stock, due April 2, 1950.....	1,533,131	
Canadian Northern Quebec Rly. Co. 4% Perpetual Guaranteed Debenture Stock.....	983,183	
Canadian Northern Rly. Co. 6½% Twenty-five Year S.F. Debenture Bonds, due July 1, 1946.....		145,000.00
Canadian Northern Rly. Co. 3% First Mortgage Debenture Stock, due July 10, 1953.....	1,684,362	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....	359,869	
Canadian Northern Rly. Co. 3½% First Mortgage Debenture Stock, due July 20, 1958.....		508,666.00
Canadian Northern Rly. Co. 4% Perpetual Consolidated Debenture Stock	8,414,402	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Stock, due Oct. 22, 1943.....	187,937	
Canadian Northern Western Rly. Co. 4½% First Mortgage Debenture Bonds, due Oct. 22, 1943.....		6,000.00
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "A" (Prairie Section), due April 1, 1955.....	1,364,500	
Grand Trunk Pacific Rly. Co. 4% Mortgage Sterling Bonds, Series "B" (Mountain Section), due April 1, 1955.....	1,402,900	
Grand Trunk Pacific Rly. Co. 4% First Mortgage L. S. Branch Sterling Bonds, due April 1, 1955.....	1,107,200	
Grand Trunk Pacific Rly. Co. 3% First Mortgage Sterling Bonds, due Jan. 1, 1962.....	1,754,500	
Grand Trunk Pacific Rly. Co. 4% Sterling Bonds, due Jan. 1, 1962.....	90,900	
Grand Trunk Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock.....	3,967,602	
Grand Trunk Rly. Co. of Canada 4% Perpetual Consolidated Debenture Stock.....	23,401,438	
Grand Trunk Rly. Co. of Canada 4% Perpetual Guaranteed Stock.....	12,500,000	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....	649,500	
Grand Trunk Western Rly. Co. 4% First Mortgage Bonds, due July 1, 1950.....		1,293,500.00
Great Western Rly. Co. of Canada 5% Perpetual Borrowed Capital Debenture Stock and Bonds.....	2,548,750	
Northern Rly. Co. of Canada (G.T. Rly. Co. of Canada) 4% Perpetual Debenture Stock.....	302,573	
Northern Rly. Co. of Canada 6% Perpetual Third Preferential Bonds.....	14,400	
Quebec & Lake St. John Rly. Co. 4% First Mortgage Perpetual Debenture Stock.....	815,170	
St. John & Quebec Rly. Co. 4% First Mortgage Debenture Stock, due June 1, 1962.....	432,600	
Wellington, Grey & Bruce Rly. Co. 7% First Mortgage Bonds, due July 1, 1891—Extended.....	6,100	

Mr. GORDON: May I make a comment on this. This is a purely formal matter and following the Recapitalization Act placing this in the ownership of the Canadian National Railways, I personally do not see much use in presenting this report. However, it is a fact that it is required by law and I would ask the opinion of the committee if, in order to save some small expense in the printing of this, that they believe they would be satisfied if we produced this just in the form of a stencil copy, perhaps, and restrict its distribution, so that we cover only the formal requirements of the law.

The CHAIRMAN: Mr. Gillis so moves.

Agreed.

Mr. BROWNE: I wonder if the Canadian National Railways report could be a little more expanded than it is? Could we not have more information on various points?

Mr. GORDON: Expanded?

Mr. BROWNE: This is a big undertaking, an undertaking of some \$670 million a year, and it seems to be a very small report.

Mr. GORDON: I must say I thought I heard everything. We are perfectly willing to give the committee and the members all the information possible, but I had thought that last year, in fact the suggestion was, that the report was much too long.

Hon. Mr. CHEVRIER: You are referring to the annual report?

Mr. BROWNE: Yes.

Mr. GORDON: You feel that it is not long enough?

Mr. BROWNE: I think it is not as long as that of the Department of Transport here.

The CHAIRMAN: Mr. Browne, in checking the minutes of evidence, I would suggest you would correct the figure which you just gave as the total assets of the Canadian National Railways.

Mr. BROWNE: I did not say assets, I said expenditures and revenue run into some \$600 million a year.

Mr. GORDON: Yes, our operating revenues run close to \$700 million a year, plus our capital expenditures.

The CHAIRMAN: Mr. Gordon, we have completed the formal part. Would you care to go into the special questions and answers?

Mr. KNIGHT: Does Mr. Gordon want a recommendation from this committee?

The CHAIRMAN: It has been moved and carried.

Mr. KNIGHT: It was done pretty fast then.

The CHAIRMAN: We will take the auditors' report next. Mr. Fraser moves we dispense with the reading of the report. All those in favour?

Hon. MEMBERS: Aye.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
LEWIS BUILDING
465 St. John Street
Montreal 1

5TH MARCH, 1953.

CANADIAN NATIONAL RAILWAY SYSTEM

The Honourable the Minister of Transport,
Ottawa, Canada.
Sir,

We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1952 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting and financial officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income Account and certification thereof.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

THE CANADIAN NATIONAL RAILWAYS CAPITAL
REVISION ACT, 1952

In previous reports, we have called attention, amongst other matters, to the disproportionate ratio of fixed charges to operating revenues in comparison with other railways in North America, and also to the desirability of a uniform system of accounting for Canadian railroads.

Under date, the 4th July, 1952, Royal Assent was given to The Canadian National Railways Capital Revision Act, 1952, an act to revise the capital structure of the Canadian National Railway Company, and to provide for certain other financial matters. The Consolidated Balance Sheet at the 31st December, 1952 gives effect to the revision of the capital structure, and the reduction of interest payable to the Government of Canada through the exchange of interest-bearing debt for Preferred Stock is reflected in the Consolidated Income Account.

In compliance with Section 6 of the Act, the Minister of Finance purchased during the year from the Company at par 18,486,540 four per cent preferred shares of one dollar par value equal to three per cent of the gross operating revenues of the system for the eleven months ended the 30th November, 1952. 1,770,042 additional preferred shares were purchased in January 1953, of a par value equivalent to three per cent of the gross operating revenues for the month of December.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" fixed properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately 1.5%, has been made during the year for the United States Lines of the System through the appropriate maintenance accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the maintenance accounts provided therefor the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for depreciation has been made for the equipment of both the Canadian and United States Lines of the System. The 3½% annual depreciation rate used for rail equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by Class I Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the maintenance accounts as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

We have received certificates from the responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit, such physical retirements, which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting Department.

The Royal Commission on Transportation recommended that the Board of Transport Commissioners be empowered and directed to prescribe as soon as practicable the classes of property for which depreciation may properly be charged in the rail accounts of all railways subject to its jurisdiction, and the rate or rates to be charged in respect to each class. This recommendation, which was embodied in the amendments to the Railway Act dated 30th November, 1951, is still under study by the Board of Transport Commissioners.

Insurance Fund Operations

On the 15th July, 1952, the main lodge at Jasper Park was destroyed by fire and as the special contribution by the railway to the Insurance Fund of \$500,000 was not sufficient to replace the cash withdrawn to cover this loss amounting to \$1,257,000, the Fund was reduced during the year, and at the year end amounted to \$12,843,000. This constitutes a change in policy, as in prior years, to the extent necessary to avoid diminution of the fund, reimbursement for losses has usually been made by the railway in the year in which they occurred. The change in policy, as authorized by the Board of Directors, is in our opinion, warranted, and we approve the procedure that has been followed in the year under review. We have noted that it is the company's intention to transfer annually to the fund the sum of \$500,000 (or such lesser final sum as might be necessary) to increase the fund to the objective of \$15,000,000.

Pension Expense

The cost for the year amounted to \$20,070,000, an increase of \$7,473,000 over the previous year. This increase results mainly from the introductory cost arising through the revision of The Canadian National Railways Pension Plan effective the 1st January, 1952, by which increased benefits were provided.

CONSOLIDATED BALANCE SHEET

Assets

Against the Corporate portion of the property investment brought into the National System accounts at the 1st. January, 1923, there have been properly applied the reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st. January, 1923, the additions and betterments less retirements of the System have been shown on the general basis of cost.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Fund, amounting in total to \$90,376,000 are represented by investments in the securities of the Government of Canada, the National System and securities of or guaranteed by the provinces, together with cash and sundry current assets. At the year end, System securities included in these special funds aggregated \$15,551,000 of which par value \$11,573,000 is covered by the guarantee of the Government of Canada. These securities were valued at par. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to \$69,417,000 were based on cost which exceeded the market value by 7.05 per cent.

Investments in Affiliated Companies are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. The amount appearing on the Balance Sheet under this heading is after deduction of deposits with the Railway by the Trans-Canada Air Lines totalling \$13,500,000. The Financial Statements issued by the Companies representing the larger investments other than the Trans-Canada Air Lines indicated that profits aggregated some \$1,595,000 and losses some \$145,000 for the year 1952.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The balance is represented by securities of the Government of Canada and the National System (Government Guaranteed), the book figure of which is based on cost for Government bonds and par for securities of the National System. The cost of the securities of the Government of Canada included therein exceeded the market value by 5.74 per cent.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual debtors and creditors.

No physical inventory of Material and Supplies was taken by the Railway during the year. These inventories at the 31st. December, 1952, as represented by the ledger balances, are carried on the basis of laid down cost for new material and estimated utility or sales value for usable second-hand, obsolete

and scrap materials after making reasonable allowances for condition thereof and are supported by perpetual inventory records and periodic internal audit tests.

Other Deferred Assets consist principally of Contracts Receivable in connection with land sales and sundry deferred accounts collectible.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted interline freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Liabilities

Current Liabilities include an amount of \$13,956,000 payable to the Government of Canada. This amount is comprised of (a) \$11,500,000 received in March, 1952, under authority of Section 9 of Canadian National Railways Financing and Guarantee Act, 1951, (b) \$2,314,000 interest payable on loans from the Government, and (c) \$142,000 dividend payable on Preferred Stock in respect of surplus earnings for the year.

Subsequent to the year end, settlement was reached with the Brotherhood of Railroad Firemen, and there was agreement in principle with the Brotherhood of Railroad Trainmen resulting in wage increases retroactive to the 1st. April, 1952, which have not been given effect to in the accounts under review. The estimated liability of approximately \$4,500,000 in this regard for the nine months to the 31st. December, 1952, has been charged to railway operating expenses in 1953.

Other Deferred Liabilities consist principally of the outstanding capital value of the workmen's compensation awards by the Provinces of Ontario and Quebec, together with the percentages retained from contractors pending completion of work in progress.

Reserves and Unadjusted Credits

Accrued depreciation on Canadian Lines equipment amounts to \$171,768,000. During the year the full ledger value of equipment retired, less salvage, was charged to this reserve.

The balance of the reserve for amortization of defence projects created during the years 1941 to 1945 inclusive amounting to \$3,051,000 has been credited to operating expenses, it being considered that the need for maintaining this reserve no longer exists.

Unadjusted Credits include the estimated proportion of prepaid revenues on freight in transit; excess of actual revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows:—

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the former par of \$4.86 $\frac{2}{3}$ to the pound.
- (c) French Currency—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 359 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.

Chartered Accountants

LEWIS BUILDING

465 St. John Street

Montreal 1

3rd March, 1953.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

The Honourable The Minister of Transport,
Ottawa, Canada.

Sir,

We have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended the 31st December, 1952, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the Balance Sheet and the Income and Profit and Loss Accounts and certification thereof.

INCOME ACCOUNT

Provision for depreciation on vessels was made during the year on the following bases:

- (a) The three diesel powered and refrigerated vessels—5 per cent;
- (b) The two "Lady" vessels and the five non-refrigerated vessels—3 per cent.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the accounting department.

BALANCE SHEET

Assets

Investment in vessels is carried on the general basis of cost less accrued depreciation. The *Lady Nelson* and the *Lady Rodney* were withdrawn from service late in 1952 and at the year end were awaiting disposal. Subsequent thereto they have been sold at prices substantially in excess of their net book value.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 7.94 per cent less than cost.

The Replacement Fund increased \$333,000 during the year as a result of depreciation accruals charged to Income Account and paid into the fund. The sum of \$39,000 was withdrawn from the fund to cover the cost of radar equipment installed on the five non-refrigerated cargo vessels.

The Insurance Fund increased during the year by \$308,000, after charging surplus earnings thereof for the year with a provision of \$70,000 for income tax. The insurance risks on all ships are carried in the Fund.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

Discount on capital stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the Steamships' bonds.

Government of Canada Advances

Under authority of Appropriation Act No. 2, 1952, Government of Canada advances for deficits amounting to \$3,619,000 have been cancelled, effective the 1st January, 1952. The consequent reduction in interest payable to the Government is reflected in the Income Account.

Where foreign currencies are involved the balance sheet accounts of the Steamships are converted generally as follows:—

- (a) United States Currency
—at the dollar par of exchange.
- (b) Other Foreign Currencies
—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The CHAIRMAN: Shall the report carry?

Carried.

The CHAIRMAN: Now, if members will turn to the three votes—vote 467, Prince Edward Island car ferry and terminals' deficit.

No. of Vote	Service	Details on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
467	Prince Edward Island Car Ferry and Terminals— To provide for the payment during the fiscal year 1953-54 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 1953.....	530	\$ 1,459,000	\$ 1,485,000	\$	\$ 26,000

The CHAIRMAN: Mr. McLure has the floor if he wishes to say anything.

Mr. McLURE: It is a federal service.

The CHAIRMAN: Vote 467, Prince Edward Island car ferry terminals.

Mr. McLURE: It does not appear there as a deficit, does it? I am always opposed to that because it is not a deficit it is a service, and I see they are getting a little nearer to it now. They have nearly wiped out the word deficit. It occurs only in about one place, and I want that eventually wiped out.

The CHAIRMAN: You will notice the deficit is reduced by \$26,000.

Mr. McLURE: I think if we were having the right returns for the service it would be reduced a great deal more. For instance, it is a great accommodation to the Canadian National Railways for which they do not pay a nickel at all, and we only get a very small credit. For instance, take a carload of potatoes going over and we only get a credit of about \$2, and there are thousands of empties and we do not get credit at all on them and we never get any statement in regard to them. Probably it is my own fault, I do not demand it from the Minister of Transport.

Hon. Mr. CHEVRIER: You do ask questions in the House now and again.

The CHAIRMAN: I think you have that nicely on the record this time.

Mr. McLURE: I will give credit to the minister and I will take a little credit myself that between the both of us we have got the reefer car situation pretty well handled, and with this new 500 which are ordered by the Canadian National Railway, I think we have already a few of these, and when the balance are made I think we will have all our difficulties with regard to reefer cars absolutely settled.

The CHAIRMAN: Vote 467.

Carried.

The CHAIRMAN: Vote 471—North Sydney, Nova Scotia—Port-aux-Basques, Newfoundland, ferry and terminals.

No. of Vote	Service	Details on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
			\$	\$	\$	\$
471	To provide for the payment during the fiscal year 1953-54 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 the payment of the deficit (certified by the auditors of the National Company) in the operation of the North Sydney, Nova Scotia—Port-aux-Basques, Newfoundland, Ferry and Terminals arising in the calendar year 1953.	530	1,870,000	.....	1,870,000	

Mr. GILLIS: Under consideration—

Mr. BROWNE: When do you expect to have the terminals at North Sydney finished and the one at Port-aux-Basques?

Hon. Mr. CHEVRIER: The North Sydney one is almost complete now, it will be completed in 1953 and Port-aux-Basques in June, 1954.

The CHAIRMAN: Shall 471 carry?

Carried.

Vote 476, Maritime Freight Rates Act, for payment on 20 per cent reduction to Canadian National Railway and our railways operating in territory fixed by the Act.

No. of Vote	Service	Details on Page No.	1953-54	1952-53	Compared with Estimates of 1952-53	
					Increase	Decrease
			\$	\$	\$	\$
476	Maritime Freight Rates Act— For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1953-54, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the calendar year 1953 (Chap. 79, Statutes of 1927, as amended)					
	<i>Appropriation not required for 1953-54.....</i>	532	10,453,000	9,910,000	543,000	
		532	.....	734,000	.....	734,000
			31,682,415	22,817,700	8,864,715	

The CHAIRMAN: Vote 476 carried?

Carried.

The CHAIRMAN: Now, Mr. Gordon, special questions and answers.

Mr. GORDON: I have a record of the questions asked, Mr. Chairman. Mr. Pouliot asked the total amount spent on rehabilitation of the Temiscouata line. Up to December 31, 1952, the total was \$947,677.13, of which \$423,325 was charged to capital. Total estimated for 1953 \$678,222 of which \$374,912 is to be charged to capital. Total authorized capital cost of the rehabilitation of the line has been set at \$1,069,555.

Mr. BROWNE: How many miles are there of railways?

Mr. GORDON: The line runs from Rivière du Loup to Edmundston and the branch line from Edmundston to Connors in New Brunswick and the total is 112.8 which includes running rights over our line of 11.9 miles.

Now the next question was by Mr. Thomas which I have recorded. "Please let me have a breakdown Canada and U.S. of various types of cars being manufactured—for example baggage cars, sleeping cars, coaches etcetera."

Perhaps if I can read it hastily I can give it to the reporter, or are you content to have it on the record.

Mr. THOMAS: Yes.

Mr. GORDON:

	In Canada	In U.S.A.
	(On order as at March 18, 1953)	
Baggage cars	118	nil
Sleeping cars	nil	104
Coaches	161	5 (For G.T.W.)*
Parlor cars	nil	17
Diners	nil	20
Mail and express	5	nil
	284	146

* Grand Trunk Western Railroad—Subsidiary of C.N.R.

Hon. Mr. CHEVRIER: The total in Canada is 284 units and in the United States 146 and the breakdown is contained in this table.

Mr. FRASER: Does it give the dollars?

Hon. Mr. CHEVRIER: No, because it was not asked for.

Mr. GORDON: Mr. Knight. Is he here?

The CHAIRMAN: He assured me that if it was placed on the record he would be content. He asked for the freight rates on motor vehicles originating in the U.K.

Mr. GORDON: The reason for our decision to reduce the domestic rates in this case is a competitive one. In other words to meet what the traffic will bear. In other words rates on automobile traffic are dictated by competitive conditions largely arising through truck competition which is non existent in relation to automobiles imported from other countries.

Mr. DINGLE: I have an answer here to a question asked by Mr. McLure in regard to Prince Edward Island diesel operations.

Based on 1952 traffic, economies effected by reason of diesel operation versus steam power, amounted to approximately \$235,000 or a return on investment of just over 13 per cent.

Mr. GORDON: I have a question here from Mr. Browne in regard to Newfoundland which I am not able to answer in the form asked. I have the answers to all these questions and the last one I extracted from notes, but in Newfoundland the situation is much more difficult, and I do not know how to answer it on the basis asked. We do not make up our figures on the basis that would permit of that answer. You see the difficulty Mr. Browne. To answer your question would require a very complicated economic analysis having to do with the origin of the traffic both ways, and we would have to set up pro rates covering the mileage portion of inbound and outbound traffic that apply to Newfoundland.

Mr. BROWNE: You are thinking of the question on the order paper.

Mr. GORDON: Yes, it is similar to that. I can tell you this. The direct expenditure in Newfoundland is a readily ascertainable figure and I could give you that but that would not cover any portion of the pro rata expenditure for headquarters costs including the president's salary if you will, and he does give Newfoundland some attention. If we were to get a fair figure applicable to Newfoundland we would have to analyse that and pro rate it as between several provinces, but it is such a complicated job that we have never attempted to do it.

Mr. BROWNE: You have the amount of actual expenditure on there?

Mr. GORDON: Yes we have.

Mr. BROWNE: Could you give me that.

Mr. GORDON: I am prepared to give you that with the qualification I have stated that it does not represent the true cost of the Newfoundland operations. The expenditure in Newfoundland on that basis is \$20,081,000 for the year 1952.

Mr. BROWNE: That does not include capital expenditure?

Mr. GORDON: That covers only operating expenditure. Capital expenditure for 1952 was \$2,631,000.

Mr. BROWNE: That \$20 million must include a lot of re-grading and re-railing and things like that.

Mr. GORDON: The capital expenditure that I gave of \$2,631,000 is for equipment only. I have not the figure covering additions and betterments.

Mr. BROWNE: What does the \$20 million include?

Mr. GORDON: Operating expenditure including maintenance of equipment, cost of transportation, running of railways and miscellaneous items.

Mr. BROWNE: Does it include widening the roads?

Mr. GORDON: What do you mean by widening the roads?

Mr. BROWNE: I notice on the west coast they have been widened considerably.

Mr. DINGLE: Bank widening.

Mr. BROWNE: Yes—the bed has been widened.

Mr. GORDON: That is why it is difficult to give the figures because under the accounting practice we have to determine in respect of each piece of work what portion is capital and what portion is maintenance. Suppose we replace something worn out; we might have to consider what is the capital content of that and what is the normal maintenance cost. If we replace a particular part of the road with something better then it is shown in part as capital, but if we do not so replace it, then it would have had maintenance in that year anyway. These things are figured out and are entered in that way.

Mr. BROWNE: That is what I mean. That is why we should have a more extended report because we do not know where we can get the information about Newfoundland so that we can see what is going on there. That is why I asked the question.

Mr. GORDON: We cannot undertake the expensive and almost endless analysis of breaking down the figures applicable to any particular section of the country. If we did that for Newfoundland we would have to do the same thing for the province of Ontario.

Mr. BROWNE: It is easy there.

Mr. GORDON: If we were to try to treat Newfoundland as an entity we would get into endless trouble.

Mr. BROWNE: But you can produce a regional deficit.

Mr. GORDON: Yes, you produce a regional deficit but regional deficits or surpluses lead to endless analysis and accomplish nothing. We can only give the figures for Canada as a whole. If we try to break down any region we would get into endless accounting difficulties.

Hon. Mr. CHEVRIER: The details over and above the \$20 million for operating expenditure in Newfoundland for the year as you have explained, are on capital account.

Mr. GORDON: That is right. Additions and betterments, rails, hotels and so forth. That is all you want.

Mr. BROWNE: Yes.

Mr. GORDON: If you take our total expenditure and estimate it for 1952 that part which is charged to additions and betterments is \$2,823,000.

Mr. BROWNE: Is it in the \$20 million?

Mr. GORDON: It is capital. The \$20 million I gave you is operating only. The capital cost for new equipment specifically for Newfoundland is \$2,631,000.

Mr. BROWNE: Excuse me, are these actual expenditures in 1952?

Mr. GORDON: Yes. Now, to embellish the point, I made before as to why I could not give regional figures, it so happens as a matter of accident I can identify Newfoundland equipment, because it is narrow gauge and cannot be used elsewhere. I could not identify such equipment for any other province. I cannot identify it for Prince Edward Island as we take cars there and bring them back, but I have the figure for Newfoundland.

Mr. BROWNE: Do you get the revenue?

Mr. GORDON: No, I am not prepared to give the revenue. It is on pro rates.

The CHAIRMAN: It is obviously interlocking.

Mr. GORDON: We could give you the revenue for Newfoundland if we took only the cash we collected in Newfoundland, but that would not be fair because a shipper ships from Toronto to Newfoundland and we collect the cash for that shipment in Toronto and it would naturally appear on Toronto accounts, but a portion of the whole is Newfoundland's.

Mr. BROWNE: I understand that point. I had not thought of that before. How do you figure out the value for the service given to Newfoundland compared with the returns you get?

The CHAIRMAN: Mr. Browne, I do not want to unfairly interrupt you but we still have Mr. Macdonnell's question which is in my opinion a very important one.

Mr. BROWNE: That is very important.

The CHAIRMAN: Just bear with me for a moment. I would suggest Mr. Gordon has already answered this very same question, indicating just what information he can give and what information he cannot give on the question asked by Mr. McLure a year ago. You will find it in the minutes of the committee.

Mr. BROWNE: I am not interested in the question he asked.

The CHAIRMAN: The question was exactly the same as yours. He wanted a breakdown of the revenue earned and of the operating cost in Prince Edward Island. He felt that was a separate island and it could be done. But for the reasons given by Mr. Gordon with the accounting system the railway has and the fact that the comparison does not start and stop at Newfoundland, it is impossible. If you will be good enough to read that it is printed and I will see that you get it.

Mr. BROWNE: I want to know how he can say whether the operations there are profitable or that he is losing money?

Mr. GORDON: On the basis of last year's figures we figure the deficits in operation in Newfoundland were over \$5 million.

Mr. BROWNE: That includes everything you could credit it with?

Mr. GORDON: The minute you start to challenge that figure you have to start making qualifications. If you say to me, "If you are to haul from Vancouver through Canada to Newfoundland what portion do you include", I would say "a portion"; but some would say "if it were not for Newfoundland you would not have any haul." If you say why don't you give more of the Canadian picture you get into an argument on it. On the bare figures we show a deficit in our operations in Newfoundland of over \$5 million in a year.

Mr. BROWNE: Where are those figures?

Mr. GORDON: They are included in the system figures. There is no regional breakdown. We show them in the general income.

Mr. BROWNE: You have no figures for the regions?

Mr. GORDON: No figures of the kind you are trying to get.

The CHAIRMAN: Have you the answer to Mr. Macdonnell's question regarding the C.P.R.?

Mr. GORDON: The only record we have of those figures are from the published accounts. The only figures brought to my attention about this capital program is that they have estimated an annual expenditure over a five year period of an average of \$95 million a year.

Mr. MACDONNELL: What are their assets as compared to yours.

Mr. GORDON: The total assets shown as of December 31st, 1951, are \$1,860,037,600.

Mr. FULTON: \$2,493,000.

Mr. GORDON: \$2,768 millions in our case. But I am giving you 1952. Their case is 1951.

Mr. MACDONNELL: Before we pass on I have a point of privilege I wish to raise. I wish to make one comment. I think it is in the highest degree unfortunate that this committee has taken the position that in respect of the Pitt-Fort Garry incident, which ended in a state of confusion, the people of Canada should not have been allowed to have all the relevant facts. Everyone believes that there were facts in the two letters from Mr. Pitt to Mr. Sommerville which I was unable to read and which the committee refused to have Mr. Sommerville called to produce that would have been enlightening if the people of Canada were allowed to know them. I submit that this was an arbitrary and unfair use of party majority, a denial of free speech and of the simplest principle of justice, and a further instance of the fact that the power of the government will be used in every way to protect themselves, quite regardless of public interest.

The CHAIRMAN: Gentlemen, I hope you will bear with me again if I make a comment on the same subject. Every member of this committee has a right and I hope always will have a right to his own opinion and to freely express his own opinion. Mr. Macdonnell has freely expressed his opinion. I do not agree with it and I believe a large majority of this committee does not agree with it. I believe we have passed a very important milestone in regard to the operation of Crown companies in this country. I believe that the committee used exceedingly good judgment in confirming which they did the decision which was made by the government of this country when the Canadian National Railway system was put on a corporate basis rather than a departmental basis, and Mr. Macdonnell, I would call your attention to the fact, if I may—and I trust there will be no offence in my doing so—that in the final vote and final decision which was made by this committee yesterday in regard to this important matter it was not a question of Liberal vs Conservative but that the other two parties, the Social Credit party and the C.C.F. party, joined in making that decision.

Mr. FULTON: In the absence of Mr. Knight.

The CHAIRMAN: The party was well represented. Mr. Gillis was here.

Mr. GILLIS: Hear, hear.

The CHAIRMAN: Gentlemen, we have concluded our work and as your chairman I do wish to thank you once again for the same type of co-operation which you have always lent to the chair in regard to our work, and I know that on behalf of the committee you would want me to extend to Mr. Gordon

and to his staff our sincere thanks for the very valuable assistance which has been given to the committee in connection with our work in reviewing the activities of the Canadian National Railways for the past year and their budget for the current year.

Mr. McLURE: I think you might have added something and said this, that we have entertained the management of the Canadian National Railway up here for a number of years on this committee and I think it is up to them now to invite this committee down to Montreal for the next session and let us have the three days down there on their budget.

Mr. GORDON: That would be railway interference with politicians.

The CHAIRMAN: We will adjourn until eleven o'clock tomorrow morning.

APPENDIX A

AVERAGE REVENUES PER TON MILE OF RAILWAYS IN
VARIOUS COUNTRIES

Year 1951

(Source: "International Railway Statistics")

Pub. by International Union of Railroads)

Country	Cents per ton-mile
Algeria	2.2779
Germany	2.2993
Austria	1.8028
Belgium	2.8144
Denmark	2.2471
Spain	5.1542
Finland	2.1599
France	1.9323
Great Britain	6.2771
Greece (State)	4.0536
(France Hellenic)	9.1550
Iran	3.2931
Italy	1.6692
Lebanon	4.7038
Luxembourg	4.7213
Morocco (Mor. Rly.)	12.9538
(Tang-Fez. R. Co.)	1.8650
Norway	2.4548
Netherlands	1.6135
Portugal	2.6468
Sweden	1.7817
Switzerland (Federal)	5.2178
(B.L.-S.R.)	5.4679
Syria (State)	4.1422
Tunesia	2.1643
Turkey	2.1928
Year 1952	
Canadian National Railways	
(Canadian Lines)	1.366
United States Class 1	
Railroads (10 months)	1.420 (U.S. Funds)

NOTE: All figures in Canadian Funds except as noted.

HOUSE OF COMMONS
Seventh Session—Twenty-first Parliament
1952-53



SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

THURSDAY, MARCH 26, 1953

FRIDAY, MARCH 27, 1953

Trans-Canada Air Lines—Annual Report (1952) and Budget
(1953) Auditors' Report to Parliament

WITNESS:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

SPECIAL COMMITTEE ON RAILWAYS AND SHIPPING
OWNED, OPERATED AND CONTROLLED BY THE GOVERNMENT

Chairman: HUGHES CLEAVER, Esq.

Vice-Chairman: H. B. McCULLOCH, Esq.

Messrs:

Benidickson	Fraser	Macdonnell
Browne (<i>St. John's West</i>)	Fulton	(<i>Greenwood</i>)
Carter	George	McCulloch
Cavers	Gillis	McLure
Chevrier	Healy	Mott
Churchill	Helme	Mutch
Cleaver	James	Picard
Dumas	Knight	Pouliot
Follwell	Macdonald	Thomas
	(<i>Edmonton East</i>)	

R. J. GRATRIX

Clerk of the Committee

ORDERS OF REFERENCE

THURSDAY, March 12, 1953.

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 to the voting of public moneys; and that the said Committee be empowered to send for persons, papers and records and to report from time to time, and that notwithstanding Standing Order 65, in relation to the limitation of the number of members, the said Committee consist of Messrs. Benidickson, Bourget, Browne (*St. John's West*), Carter, Cavers, Churchill, Cleaver, Dumas, Follwell, Fraser, Fulton, George, Gillis, Healy, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot, Thomas.

MONDAY, March 16, 1953.

Ordered,—The Annual Reports for 1952 of the Canadian National Railways, the Canadian National (West Indies) Steamships, the Canadian National Railways Securities Trust, and the Auditors' Report to Parliament in respect to the Canadian National Railways and Canadian National (West Indies) Steamships, tabled this day, be referred to the Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, together with the following items of estimates for 1953-1954:

Vote 467—Prince Edward Island Car Ferry and Terminals—deficit;

Vote 471—North Sydney, N.S.—Port aux Basques Ferry and Terminals—deficit;

Vote 476—Maritime Freight Rates Act—payment of twenty per cent reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the act.

And that the resolution passed by the House on January 28, 1953, referring certain estimates to the Committee of Supply, be rescinded insofar as the said resolution relates to Votes 467, 471 and 476.

TUESDAY, March 17, 1953.

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1952, the Auditors' Report to Parliament for the year ended December 31, 1952, in respect of Trans-Canada Air Lines, and also the Operating Budget and Capital Budget for the calendar year 1953 in respect of Trans-Canada Air Lines, all tabled earlier this day, be referred to the said Committee.

WEDNESDAY, March 18, 1953.

Ordered,—That the quorum of the said Committee be reduced from fourteen to eight Members.

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

Ordered,—That the said Committee be empowered to print, from day to day, 1,000 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.

THURSDAY, March 19, 1953.

Ordered,—That the Capital Budget of the Canadian National Railways for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

Ordered,—That the Capital Budget of the Canadian National (West Indies) Steamships, Limited for the year ending December 31, 1953, tabled this day, be referred to the said Committee.

FRIDAY, March 20, 1953.

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

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

FRIDAY, March 27, 1953.

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

SECOND REPORT

Pursuant to the Orders of Reference of the House of March 12, 16, 17 and 19, 1953, this Committee had before it for consideration the following:

1. The Annual Report for 1952 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' report to Parliament in respect of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited.
2. The Annual Report of the Trans-Canada Airlines for the calendar year 1952, and the Auditors' report to Parliament for the calendar year 1952, in respect of Trans-Canada Airlines.
3. The Annual Report of the Canadian National Railways Securities Trust for 1952.
4. The capital budget of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, for the year ending 1953 and the operating budget and capital budget of the Trans-Canada Airlines for the calendar year 1953.
5. Vote 467—Prince Edward Island Car Ferry and Terminals—deficit.
6. Vote 471—North Sydney, N.S., Port aux Basques Ferry and Terminals—deficit.
7. Vote 476—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other railways operating in territory fixed by the Act.

Your Committee held ten meetings, during which the above-named matters were considered and evidence adduced thereon.

The Annual Reports of the Canadian National Railways for 1952 disclose a net income of \$24,305,448.00, as compared with \$31,783,119.00 in 1951. However, interest charges amounted to \$24,163,121.00 in 1952, as compared with \$46,815,115.00 in 1951 bringing about a surplus of \$142,327.00 as compared with a deficit of \$15,031,996.00 in 1951. The said Annual Report was adopted.

The Annual Reports of the Canadian National (West Indies) Steamships, Limited for 1952 disclose a net operating profit of \$326,276.00 as compared with a net operating deficit of \$31,576.00 for 1951. After inclusion of Vessel Replacement Fund earnings of \$145,065.00 and payment of interest on bonds held by the public and on Government advances, there was an income deficit of \$3,909.00 compared with an income deficit of \$466,992.00 in 1951. The balance in the Vessel Replacement Fund at the end of 1952 was \$5,018,229.00 as compared with \$4,685,337.00 at the year end in 1951. The Insurance Fund balance was \$2,354,572.00 against a balance of \$2,046,654.00 at the end of 1951. The said Annual Report was adopted.

The Annual Report of Trans-Canada Airlines for 1952 discloses a net operating revenue of \$2,757,879.00, and that after payment of interest amounting to \$750,000.00 on capital invested and making provision for income tax of \$1,200,000.00, there is a resulting surplus of \$807,879. as compared with a

surplus of \$3,890,957.00 in the year 1951, during which year no income tax with respect to this company was payable. The said Annual Report was adopted.

The Auditors' Reports to Parliament with respect to the Canadian National Railway System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1952, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Airlines, for the calendar year 1953 were examined and adopted.

The items of the Estimates for the year ending March 31, 1954, being votes 467, 471 and 476, were considered and approved.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, and Mr. T. J. Gracey, Comptroller, both of the Canadian National Railways; and Mr. G. R. McGregor, President of the Trans-Canada Airlines, and Mr. W. S. Harvey, Comptroller.

A copy of the evidence adduced in respect of the matters referred is appended hereto.

All of which is respectfully submitted.

HUGHES CLEAVER,

Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 26, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11:00 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Carter, Churchill, Dumas, Follwell, Fraser, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: Messrs. G. R. McGregor, President; W. S. Harvey, General Auditor; S. W. Sadler, Auditor, and Mr. R. C. McInnis, Director, Public Relations, all of the Trans-Canada Air Lines, and Messrs. Frank P. Turville, J. D. Morison, and D. T. G. Padley, Chartered Accountants, of George A. Touche & Company, Accountants.

The Committee considered the following reports in respect of the Trans-Canada Air Lines:

1. Annual Report, 1952.
2. Operating and Capital Budget, 1953.
3. Auditors' Report to Parliament, 1952.

Mr. McGregor was examined with respect to each of the said Reports, being assisted by Mr. Harvey.

The examination of Mr. McGregor being concluded on all matters referred concerning the Trans-Canada Air Lines, the above reports were adopted and the Chairman, on behalf of the Committee, congratulated Mr. McGregor and his entire staff on the extremely successful performance of T.C.A. in 1952.

At 12:40 o'clock p.m. the Committee adjourned to meet again at the call of the Chair.

R. J. GRATRIX
Clerk of the Committee.

MARCH 27, 1953.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met, *in camera*, at 10:30 o'clock a.m. this day. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Browne (*St. John's West*), Churchill, Dumas, Follwell, Fraser, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, Mott, Mutch.

The Chairman submitted a draft report on all matters referred to the Committee.

After some discussion, and several amendments being proposed the said report was adopted without amendment, *on division*.

At 11:05 o'clock a.m. the Committee adjourned *sine die*.

R. J. GRATRIX
Clerk of the Committee.

EVIDENCE

MARCH 26, 1953.

The CHAIRMAN: Gentlemen, we have before us this morning the Trans-Canada Air Lines report. We are pleased to have Mr. G. R. McGregor back with us once again, and he has with him Mr. W. S. Harvey, Comptroller; Mr. S. W. Sadler, Auditor General Accounts; and Mr. R. C. MacInnes, Director of Public Relations. Shall Mr. McGregor proceed with reading the report?

Agreed.

Mr. McGREGOR:

TRANS-CANADA AIR LINES

MONTREAL, February 28, 1953.

To The Right Honourable,
The Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the calendar year 1952.

The rapid development of the airline's earning power and capacity for public service that has characterized recent years proceeded at an unslackened pace. For the first time in TCA's history, over a million passengers were carried. The volume of passenger transportation rose by 20 per cent, while aircargo and air express traffic increased by 30 per cent and mail volume by 8 per cent.

There was a considerable expansion of services and far-reaching plans made for future development. For the fourth year in succession the Company was able to carry on its business without the introduction of new capital.

It affords satisfaction that in a year of further cost increases the airline was again able to show a substantial net income, this year amounting to \$807,879, for all services, after tax of approximately \$1,200,000.

Financial review

There follows a tabulation of the 1952 operating results compared with those of 1951:

	1952	1951	Increase or (Decrease)
Operating Revenues ..	\$55,057,708	\$48,010,301	\$7,047,407
Operating Expenses ..	52,744,741	43,336,120	9,408,621
<hr/>			
Operating Income	\$ 2,312,967	\$ 4,674,181	(\$2,361,214)
Non-operating Income			
—Net	444,912	33,224	478,136
<hr/>			
Interest on Capital			
Invested	750,000	750,000	—
<hr/>			
Income	\$ 2,007,879	\$ 3,890,957	(\$1,883,078)
Provision for			
Income Tax	1,200,000	—	1,200,000
<hr/>			
Net Income	\$ 807,879	\$ 3,890,957	(\$3,083,078)
<hr/>			

Comparative earnings before taxes in 1952 were \$1,883,078 less than in 1951. North American operations showed a decrease of \$1,019,024, while the overseas service net was down by \$864,054.

System operating revenues increased by 15 per cent, due principally to the steady growth of the Company's passenger business, although income from express and cargo transportation was also greatly improved. On the North Atlantic, however, passenger revenues declined by \$939,283, due to the major fare reductions which were made effective May 1. The increased traffic that was stimulated on this route, although considerable, was not sufficient to completely offset the lower unit fare.

System operating expenses increased by 22 per cent due primarily to the direct cost associated with the increased mileage flown, increased traffic carried and the related increase in payroll expense which alone amounted to almost five million dollars. The percentage rise in expenses was, however, also affected in 1952 by exceptional items resulting from the fleet expansion programme.

The higher level of expense did not signify any deterioration of airline efficiency. In spite of it, the unit cost of producing air transportation decreased to 39.6 cents per available ton mile, thanks to the productivity of staff and equipment, combined with a greater business volume.

While it is hoped that this trend will continue, cost tendencies, largely beyond the company's control, demand that the future be regarded with caution.

The balance sheet for the year just closed reflects a satisfactory financial and cash position. The Company is committed to heavy expenditures for capital account during the next eighteen months. But it will be possible to meet these payments by recalling the Company's funds which are on loan temporarily to the Canadian National Railways. Capital expenditures for which TCA is committed over the next two and a half years approximate \$35,000,000, against which progress payments of \$5,600,000 have already been made.

Operations and traffic review

The steady growth of the airline's transport work is reflected in the following statistics:

	1952	1951	Per Cent Increase
Total Aircraft Miles Flown	28,600,919	25,090,068	14
Passengers Carried	1,132,518	973,337	16
Passenger Miles Flown	653,961,415	545,160,296	20
Passenger Miles Available	881,585,954	745,279,578	18
Mail Ton Miles	4,843,052	4,468,093	8
Aircargo Ton Miles	5,643,920	4,237,880	33
Air Express Ton Miles	1,398,507	1,174,096	19
Revenue Ton Miles Flown	77,495,093	65,173,848	19
Ton Miles Available	133,177,327	108,705,797	22

Service expansion

TCA flew 14 per cent more scheduled miles on all services than in 1951. Flight frequencies were increased on a number of routes, notably the trans-continental, where a fifty daily service was operated during the summer months. On the North Atlantic, daily flights were operated in all months except November and December, while Caribbean schedules were increased during the winter season. North Star service was extended from Montreal to Newfoundland, with scheduled stops at Moncton, Sydney and St. John's.

The first direct air service between Canada and Germany was inaugurated on November 5, with an initial schedule of one round-flight a week. Dusseldorf, the eastern terminal, is well located to attract business travel from the industrialized Ruhr area and to serve the air transport needs of the Canadian troops stationed in the Federal Republic of Germany.

Within Canada, Fredericton was added to the domestic route pattern on February 1. A once-weekly flight from Montreal was scheduled to serve Goose Bay, previously dependent upon North Atlantic operations.

Such progress was made in the levelling of the peaks and valleys of seasonal demand that the Company found it advantageous to provide 8% more domestic service for the winter months of 1952-53 than had been the case a year before. This healthy trend was due in no small measure to the airline's reputation for operational dependability, supported by a record of 97% of all scheduled miles completed.

Passenger traffic

The airline carried 1,132,518 passengers on all services in 1952, a figure that gives perspective to TCA's growth when placed beside the 443,782 passengers carried five years ago in 1947 and the 104,446 passengers of 1942.

To meet the rising demand for air service, TCA increased its domestic seating capacity 20% during the busiest traffic season by a combination of aircraft modification and additional flying. Under these circumstances the heaviest emphasis was placed upon a service improvement campaign to promote a high level of efficiency in all branches of the Company, but particularly with regard to functions of a reservations and passenger handling nature.

There were no fare increases during the year, and indeed there has been no increase in the cost of air travel to TCA's passengers since April 1, 1947. This condition is virtually unique in a period of consistently rising prices.

On the North Atlantic, there was a May 1 reduction of almost \$200 in the price of a round-trip ticket, as TCA joined other carriers in the introduction of low-fare service. Because of fleet limitations, the Company chose to operate a single standard of service pending delivery of aircraft of larger capacity now on order.

Carriage of immigrants from the British Isles and Europe, under arrangements with the Canadian Government, terminated on April 30. From the inauguration of immigrant transport in December, 1950 to its conclusion, TCA accommodated over 10,000 such passengers, with 3,000 of these travelling in the first four months of 1952.

There was a 41% increase in Bermuda and Caribbean passenger traffic as trade quickened between Canada and the West Indies and the vacation popularity of the southern resorts grew.

Commodity traffic

There was further orderly and steady development of commodity traffic throughout the TCA system. The air line continued to provide convenient and frequent shipping service by allocating cargo accommodation on all flights, as well as by offering express service on domestic routes.

Nevertheless, considerable cargo space remained available on most North American operations and, on July 1, the Company made an over-all reduction in its air cargo tariff of 10 per cent as a first step in a long range plan having as its objective the greater utilization of existing cargo capacity and the ultimate justification of the operation of all-cargo aircraft through progressive reductions in the cost to shippers.

TCA continued to be the principal North Atlantic air cargo carrier operating through the Montreal gateway. Here, and in contrast with the domestic situation, loads approached capacity level both eastbound and westbound.

With trade restrictions somewhat relaxed in the British West Indies, air shipment on the Company's southern routes showed marked improvement. Increased cargo for South American destinations also developed.

Mail traffic

TCA continued the general carriage of first-class mail in Canada over routes where the use of air transport ensured more rapid delivery. In consequence, the nation enjoyed one of the most expeditious postal transport services in the world.

Both domestic mail volume and mail revenue increased moderately. However, the Company's remuneration per mail ton mile decreased from \$1.45 in 1951 to \$1.39 in 1952, maintaining the steady downward trend of recent years.

Effective February 1, the Post Office Department introduced a substantial reduction in Air Parcel Post rates, with the result that there was some increase in the volume of this traffic.

North Atlantic mail load rose by 26 per cent with eastbound volume heavily predominating. Very little traffic was received from the United Kingdom postal authorities. Mail given to TCA for carriage on its Bermuda and Caribbean flights was almost negligible.

There was a further decline in the percentage of system mail revenue to total revenue, this amounting to only 14 per cent in 1952, as compared with 15 per cent in 1951 and 48 per cent a decade ago.

Routes

At the close of 1952 Trans-Canada Air Lines was operating on 9,916 miles of domestic routes and an overseas route pattern of 8,999 miles. In aggregate, this was an increase of 1,586 miles or 9 per cent from the previous year.

TCA's flights now embrace nearly 50 communities in Canada, the United States, the British Isles, France, Germany, Bermuda and the Caribbean. Not only are Canada's major cities linked by air, but a comprehensive system of overseas air transport now serves the nation's foreign commerce and the international travel requirements of its citizens. Over these routes the airline scheduled in 1952 a daily average of 74,149 aircraft miles and 2,404,538 available passenger miles.

The route map on pages 12 and 13 illustrates the wide scope of the airline's work.

Property and equipment

Three more North Stars, purchased in 1951, entered domestic service early in the year, bringing to 23 the number of these aircraft in the fleet.

As a further step to expanded carrying capacity, the Company undertook the addition of eight seats to each of the 40-passenger North Stars in North American service. This was done without operational penalty or change in the space available to the individual passenger. The work of modification was done at the Winnipeg overhaul base and by year-end was 65 per cent completed.

Performance of the North Star fleet was again of the highest order. These aircraft achieved a daily utilization of approximately ten hours during the busiest traffic months, a figure which is unrivalled in the industry.

The Company's fleet of 26 DC-3s used in passenger service and the DC-3 cargoliner which has been part of this fleet since March, 1947, operated efficiently and at a high utilization throughout the year.

In the interest of national defence, TCA continued the overhaul of RCAF training aircraft under contract with the Department of Defence Production in a programme designed to relieve trained military staff for operational duties. This project was concentrated at the Winnipeg base where 1,395 aircraft were handled during the year.

A contract was let for the construction at Malton Airport of Canada's largest commercial aircraft hangar. This will be required by the growing fleet and the rapidly increasing flow of air operations through Toronto.

To speed airline communications of both an operational and reservations character, provision was made for a number of telephone circuits interlocking various key offices and stations. As supplements to the established teletype circuits they proved of great value.

Airport and airway facilities

Although terminal facilities at the majority of Canada's major airports leave much to be desired and are being seriously taxed by the growth of air traffic, some progress was made at specific points. The airline continued to make recommendations to the Department of Transport on these matters and the two organizations cooperated usefully on many occasions.

Completion of a new airport near Saint John, N.B. enabled TCA, after January 1, to offer improved service to that city. Driving distance between Saint John and its airport was reduced from 40 to 10 miles.

The Company transferred its New York operations from La Guardia Field to Idlewild Airport on March 2. While this action was initially taken for the sole purpose of reducing aircraft congestion at the former point, it will have the ultimate effect of obtaining for TCA a decided improvement in passenger handling facilities.

The Department of Transport undertook the construction of new and superior airport terminal buildings at Moncton and the Lakehead. An extension was made to the seriously crowded Winnipeg terminal, and modifications of a helpful nature were made to the Dorval domestic airport building.

Important runway construction took place at Regina and Vancouver.

Personnel

Staff of Trans-Canada Air Lines numbered 6,224 at the close of 1952, an increase of 712 from the previous year. This moderate enlargement of the Company's working force was due solely to the larger scale of operations and the record traffic volume. The fact that a 13% increase of staff was accompanied by a 23% increase of available ton miles and a 20% rise of passenger business is testimony to the efficiency of personnel.

Noteworthy was the employment of 47 additional pilots, bringing to 413 the number of Captains and First Officers in TCA service.

In September, Mr. George S. Cowie was appointed Treasurer, succeeding Mr. C. D. Cowie, retired.

In November, Mr. W. S. Harvey was appointed Comptroller, succeeding Mr. T. H. Cooper, retired.

Development

In 1952 TCA completed its fifteenth year of service, but the potentialities of the air transport industry permitted no abatement of the Company's planning for its future growth. Rapid development of new aircraft types gave further impetus to this phase of the airline's activities.

Future aircraft

During 1952, TCA placed orders amounting to over \$23,000,000 for three additional Super Constellations to be used on overseas services, 15 Vickers Viscount aircraft of the turbine propeller type for Canadian intercity flying and three Bristol air freighters designed specifically to carry air cargo. These, combined with the airline's present flight equipment, will constitute one of the most modern and balanced fleets of commercial air transports in the world.

The Super Constellation, a greatly enlarged version of its able predecessor, is, in the Company's judgment, the contemporary aircraft best equipped to provide an economical and high standard of operation on long-haul services. Equipped with four engines of the new compounded turbine-reciprocating type, this 65-ton airliner will reduce present trans-Atlantic flight times by as much as four hours. Flexibility of the cabin interior will permit various seating arrangements and combinations of standard and low-fare service. Initially, TCA's Super Constellations will carry 63 passengers. A total of eight of these aircraft are now on order and expected to enter service in the spring of 1954.

With the delivery of Vickers Viscounts later in 1954, TCA will become the first airline to use aircraft of the gas-turbine type on North American routes. The Viscount is the most recently developed medium ranged civil air transport in the world. Its four Rolls-Royce Dart engines will provide Canadian air travellers with high speed, vibrationless flight and an exceptionally low cabin noise level. Turbine propeller power has the added advantage of overcoming the present inefficiency of the pure jet engine on short and medium ranged flights and eliminates the necessity of flying at a very high altitude for economic operation. TCA's Viscounts will supplement the present fleet on major intercity runs.

Aircargo Planning

Years of aircargo development and planning culminated in 1952 in plans to broaden still further the scope of this established shipping service. By ordering Bristol air freighters, TCA became the first scheduled airline in North America to order aircraft designed specifically for the loading, unloading and the transport of commodities. Other so-called cargo types in use are adaptations of basic passenger aircraft designs. These freighters, each capable of carrying six tons of load, will begin operation in late 1953 over the Winnipeg-Toronto-Montreal route.

The July reduction of 10% in domestic aircargo rates proved valuable in assessing market potential as part of the Company's long range cargo development plans, and it was therefore decided to file a tariff providing for a further 30% reduction. Market analysis indicates that with TCA's present frequency of operation, and with the single exception of that portion of the transcontinental run where the freighters will be employed, ample cargo accommodation will be available on established flights even at the lower rate level. In any case, it will continue to be the Company's policy to provide the additional capacity where it is required.

Route planning

Certain important changes to the domestic route pattern were also planned for implementation at the earliest possible dates. Lethbridge and Regina will be added to the transcontinental route in the spring of 1953, although continuation of this service through the latter point during the winter months will be dependent upon the completion of necessary runway construction. Both these cities are at present served by DC-3 intercity operations. In addition, application was made for authority to operate a daily service between Sault Ste. Marie, Sudbury, North Bay and Ottawa, with a connecting Toronto-Sudbury service and a northern extension to Timmins. This project, which would mean greatly improved transport for the Northern Ontario centres, must also wait upon basic airport installations.

Immediate outlook

It follows from the plans just described that 1953 will be a year of active preparation for Company service expansion. Many development expenses

will be involved from which no return can be expected until 1954. Under these circumstances, there is likely to be some decline in net financial results.

In spite of these cautioning prospects, the future of Canadian air transportation, growing within the framework of a flourishing economy, must be regarded with confidence. It will remain the Company's policy to provide the best airline service consistent with the maintenance of sound economic standards. The Board of Directors feel that the results achieved in 1952 again demonstrate the efficiency, industry and skill of the Airline's personnel and gratefully acknowledge the loyal and effective work which has been done.

For the Directors:

G. R. McGREGOR,
President.

TRANS-CANADA AIR LINES

BALANCE SHEET AT DECEMBER 31st, 1952

ASSETS		LIABILITIES	
Current Assets:		Current Liabilities:	
Cash.....	\$ 1,893,595	Accounts and notes payable.....	\$ 3,500,348
Working funds.....	37,642	Traffic balances payable to other air lines.....	1,712,778
Special deposits.....	12,231	Air Travel plan deposits.....	921,825
Accounts receivable:		Salaries and wages.....	818,570
Government of Canada.....	\$ 1,427,422	Prepaid transportation.....	1,498,416
Traffic balances from other air lines.....	929,136	Income taxes.....	603,514
Air travel plan.....	761,207	Other current liabilities.....	67,112
Agents.....	345,186		
Other.....	736,286		
	4,199,237		\$ 9,122,563
Materials and supplies.....	3,216,292	Reserves:	
Other current assets.....	84,525	Insurance.....	\$ 5,164,992
	\$ 9,443,522	Overhaul.....	860,764
			6,025,756
Investments and Special Funds:		Capital Stock:	
Deposits with Canadian National Railways	\$ 13,500,000	Common stock—fully paid.....	25,000,000
Insurance fund.....	5,164,992		
Joint associations.....	27,427	Surplus:	
	18,692,419	Surplus, January 1st, 1952.....	\$ 3,890,957
Capital Assets:		Net income, year 1952.....	807,879
Property and equipment.....	\$ 31,563,507		
Less: Accrued depreciation.....	20,458,606	Surplus, December 31st, 1952.....	\$ 4,698,836
	\$ 11,104,901	Reserved for replacement of capital assets..	4,698,836
Progress payments on purchase of aircraft..	5,606,313		
	16,711,214		
	\$ 44,847,155		\$ 44,847,155

W. S. HARVEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1952, and, in our opinion, proper books of accounts have been kept by the Air Lines.

The above Balance Sheet and the relative Statement of Income which are in agreement with the books of the Air Lines are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at the 31st December, 1952, and of the income and expense for the year on a basis consistent with that of the preceding year, with the exception that in the case of the Statement of Income there have been changes in the bases of providing for depreciation and insurance.

The transactions of the Air Lines that have come under our notice have, in our opinion, been within the powers of the Air Lines. We are reporting to Parliament in respect of our annual audit.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

TRANS-CANADA AIR LINES
STATEMENT OF INCOME

Operating revenues:	Year 1952	Year 1951
Passenger	\$42,022,616	\$36,911,889
Mail	7,698,641	7,225,149
Express and Cargo	3,380,337	2,643,210
Excess Baggage	350,184	272,713
Charter and Other	139,667	91,079
Incidental Services—Net	1,466,263	866,261
Total	\$55,057,708	\$48,010,301
Operating expenses:		
Flight Operations	\$11,317,143	\$10,024,720
Ground Operations	8,590,652	6,849,644
Maintenance	14,438,386	11,245,130
Depreciation	4,378,715	3,740,560
Passenger Service	3,281,646	2,676,216
Sales and Reservation Service ..	6,512,953	5,234,276
Advertising and Publicity	1,183,906	1,137,532
General and Administrative	3,041,340	2,428,042
Total	\$52,744,741	\$43,336,120
Operating Income	\$ 2,312,967	\$ 4,674,181
Non-operating Income—Net	444,912	33,224
Interest on Capital Invested	\$ 2,757,879	\$ 4,640,957
	750,000	750,000
Income	\$ 2,007,879	\$ 3,890,957
Provision for Income Taxes	1,200,000	—
Net Income	\$ 807,879	\$ 3,890,957

The CHAIRMAN: Thank you, Mr. McGregor.

The Right Hon. Mr. Howe asked me to convey to the committee his regrets that he is unable to be with the committee this morning and indeed, today. It had been planned that the TCA report would be taken up yesterday, and the Right Hon. Mr. Howe had that day clear. But today he has to be in cabinet this morning and out of the city this afternoon. However, he will be in Ottawa tomorrow if any point should come up as to which any member of the committee might wish to ask questions of him.

Are there any questions on page 3 of the report?

Mr. FRASER: On the matter of the increase in mail volume, did the Post Office Department pay you in accordance with that increase?

Mr. MCGREGOR: No. The agreement which is in existence between the Post Office and the TCA calls for a fixed payment with a certain maximum carriage. But the Post Office has not yet quite reached that maximum.

Mr. FRASER: You have not reached that point yet?

Mr. MCGREGOR: That is right. So the increase in volume did not produce any additional revenue to the airline.

Mr. FRASER: How near are you to that maximum?

Mr. MCGREGOR: I would have to look that up. We have those figures.

The CHAIRMAN: Does page 1 carry?

Carried.

Page 2?

Mr. BROWNE: I should like to ask about the rates for air cargo as compared with the rates for air express. Is there any supplementary charge for air express over air cargo?

Mr. MCGREGOR: Yes.

Mr. BROWNE: There is an additional charge?

Mr. MCGREGOR: Yes, there is an additional charge based upon priority of handling air express over air cargo. Air express is a door to door service while air cargo is an airport to airport service.

Mr. BROWNE: But it is similar?

Mr. MCGREGOR: Basically, yes.

Mr. BROWNE: And if you are in a hurry to get an express package, you will want it delivered to you as soon as the aircraft arrives at its destination?

Mr. MCGREGOR: Yes. Due to the availability of capacity, it is normally the case that air cargo travels on the first flights after reaching the airport, just as does air express. But if capacity were tight, then air express would take priority in travel over air cargo.

Mr. BROWNE: It would be handled by your own officials, would it not?

Mr. MCGREGOR: Yes.

Mr. BROWNE: If I send a package express, you deliver it. If I mail a letter, it just goes to the post office and you have nothing to do with it?

Mr. MCGREGOR: That is right.

The CHAIRMAN: Does page 2 carry?

Carried.

Mr. FOLLWELL: Your air express is handled by the express company for you?

Mr. MCGREGOR: Yes, on a contract. We pay them.

Mr. FOLLWELL: You do not maintain your own trucks?

Mr. MCGREGOR: The question is about air cargo?

The CHAIRMAN: Page 5 ?

Mr. MACDONNELL: How is your air cargo delivery made?

Mr. MCGREGOR: Quite often by the shipper or the consignee who picks it up at the airport, or delivers it at the airport. But if he requests it to be picked up or delivered, there is an express service provided.

The CHAIRMAN: Does page 5 carry?

Mr. FRASER: On page 5 it says that the North American operations showed a loss, and also that the overseas net was down. Now, in regard to that, what do you contemplate in 1953? Is it going to be down again?

Mr. MCGREGOR: The net?

Mr. FRASER: Yes.

Mr. MCGREGOR: Yes, I think it will be. Our operating budget indicates a net profit of \$600,000 as compared with \$800,000 for 1952 for the reasons which are mentioned. A great deal of the expenditure—and that includes some equipment—will be undertaken this year both in the matter of personnel and supplies. And the revenue from the new equipment will not become available until 1954.

Mr. FRASER: You are paying out that money this year?

Mr. MCGREGOR: That is right.

Mr. FRASER: You are paying it out of income; you are paying capital expenditures out of that?

Mr. MCGREGOR: No. I was referring to the hiring and training of personnel.

Mr. FRASER: I see, and to special equipment?

Mr. MCGREGOR: Yes, but not capitalized equipment. You see, there will be materials which are normally not capitalized.

Mr. FRASER: I see.

Mr. BROWNE: Are the reductions in fare all-the-year-round reductions, or just seasonal reductions?

Mr. MCGREGOR: In the case of the North Atlantic, there were two reductions, but they covered the whole year. However, in the case of domestic operations, we put in two seasonal reductions which are not year round fare reductions. They are, the introduction of family fare plans during the winter months and also a discount to commercial travellers during the winter months.

Mr. BROWNE: Could you give me the fare, let us say, from Gander to London?

Mr. MCGREGOR: Yes. I think it is in the time table, as a matter of fact.

Mr. BROWNE: I wanted a comparison before the reduction with now.

Mr. MCGREGOR: It is roughly \$110. I would like to check that figure exactly. That is for one way?

Mr. HARVEY: We have not got the previous one.

Mr. BROWNE: You mean there is a reduction of \$110. What is the fare now from Gander to London?

Mr. HARVEY: One way?

Mr. BROWNE: Yes.

Mr. HARVEY: \$205.

Mr. BROWNE: It used to be \$315.

Mr. MCGREGOR: We can get that figure for you. One way Gander-London fare early 1952 was \$339.20.

Mr. BROWNE: Very well.

Mr. MACDONNELL: I do not think you have explained the reason for the big increase in non-operating income.

Mr. MCGREGOR: No. I did not touch on that when I was reading my report.

Mr. MACDONNELL: Would you mind dealing with it now?

Mr. MCGREGOR: I could deal with it now and give you an outline. I would think that the interest revenue from the Canadian National that is our loan to the Canadian National of \$13,500,000 was largely responsible for that.

Mr. MACDONNELL: I noticed that loan. How can you explain that?

Mr. MCGREGOR: That comes about from the fact that the investment in capital in TCA remains fixed. We have been recovering that capital in the substantial depreciation accruals which have gone on right along, but all authorized capital will again be required in 1954 for the payment of the equipment already on order.

In the meantime, \$13 and one half million represents the recovery of capital from depreciation which is available to lend to the Canadian National Railway. They pay us 3 per cent on that capital, and our non-operating revenue increase accordingly.

Mr. MACDONNELL: What would that be?

Mr. HARVEY: Actually, that would be \$377,254 for 1952 and in 1951 it was \$127,000.

Mr. MCGREGOR: The advances to the Canadian National Railways have been progressive over a considerable time.

Mr. MACDONNELL: Would you just give us the history of your capitalization there?

Mr. MCGREGOR: Yes. The company was authorized to issue \$25 million of stock, all of which was to be made available for purchase by the Canadian National, and it was purchased by the Canadian National. It was fully issued by 1948, and that condition has remained static ever since.

But, as the company began to acquire capital through depreciation accruals, it was agreed that this money would be loaned back to the Canadian National at the same rate of interest which was being paid on the \$25 million. The money cost us nothing and netted us nothing. But as that money accumulated and was advanced to the Canadian National progressively, in the last year and a half it has had the effect of gradually decreasing our net capital interest cost.

Mr. MACDONNELL: You mention the \$25 million figure from the Canadian National. It was a sort of basic figure. Will you now explain the \$44 million? Your assets of \$44 million are practically \$20 million more. From what is that built up?

Mr. MCGREGOR: There have been accruals to reserve funds, notably the insurance reserve, which adds to the net worth of the company.

Mr. MACDONNELL: Certainly.

Mr. MCGREGOR: And there has been the depreciation reserve, and an overhaul reserve of nearly \$1 million. Those amounts of money which have come out of the current earnings over the years have all tended to increase the net worth of the company over its capitalization.

Mr. MACDONNELL: I just wanted to get the exact figure. The liability shows that you have a reserve of 6 and 4.

The CHAIRMAN: Yes, 6 and 4.

Mr. MACDONNELL: 13; I am not able to figure out the full \$19 million?

Mr. HARVEY: We had \$20 million accrued over the years through depreciation which we have used. Then there has been our surpluses.

Mr. MACDONNELL: Do they make the difference between \$25 million and \$44 million?

The CHAIRMAN: Included in the \$44 million are current liabilities.

Mr. MACDONNELL: That is true. I am looking at the assets side, and I ask where the difference comes, or the degree of difference, whether it be to expenditures or, looking at the liabilities' side of the reserves and so forth?

Mr. MCGREGOR: That is right. Most of it is offset on the assets side. There are moneys due to the company and they are offset under liabilities by the moneys payable to the company.

Mr. MACDONNELL: I have been trying to find this figure of \$13,500,000 in the Canadian National balance sheet. Can you find it there for me? You have told us about your commitments for aircraft. You explained that you have \$12,500,000 with the C.N., towards that end. You have got some \$5 million also?

Mr. MCGREGOR: That is right.

Mr. MACDONNELL: But there is nothing on the balance sheet to show that. I do not know if that is necessary accounting.

Mr. MCGREGOR: \$5,600,000 appears on our balance sheet. It is a payment already made and the rest is all in the future, commitments maturing beyond the period covered by this balance sheet.

Mr. HARVEY: We indicate in the narrative that we have a contingent liability.

Mr. FRASER: It shows a \$1,200,000 provision for income tax, an increase to that amount over last year. Why?

Mr. MCGREGOR: The company only became eligible to pay corporate income tax on January 1, 1952, as appears in the 1952 budget. Prior to that, the company was not liable to pay income tax. That is the total amount of income tax.

Mr. FRASER: You did not have to pay income tax in 1951?

Mr. MCGREGOR: That is right.

Mr. FRASER: It shows here that you had increased traffic owing to the lowering of the fares on the overseas service. Are you putting on special planes for the Coronation?

Mr. MCGREGOR: Yes.

Mr. FRASER: Will that show an increase in your revenues?

Mr. MCGREGOR: I think it will.

Mr. FRASER: Or is it going to cost more than what you get out of it?

Mr. MCGREGOR: No, I do not think it will cost more. But the net profit will be very small because the traffic is very directional.

Mr. FRASER: It is all one way?

Mr. MCGREGOR: At any one time, yes. Everybody goes over, but there is little traffic coming back. After the Coronation the traffic flow will be reversed.

Mr. FRASER: Will those passenger planes be able to carry express on the way back, or is any arrangement made to pick that up?

Mr. MCGREGOR: Oh yes, and that is one of the saving graces.

The CHAIRMAN: Carried.

Mr. BROWNE: Apart from the special circumstances of the Coronation, and dealing with page 5, is that passenger service on the North Atlantic justifying your decrease in the fare, or are you losing money?

Mr. MCGREGOR: It is not justifying it at the present time for the reasons referred to in our report. The present aircraft we are operating on the North Atlantic cannot take advantage of the additional number of passengers we would like to see and which are available at the lower fares. That is a condition which will be corrected by the introduction of the Super Constellations.

Mr. BROWNE: You will have two fares then?

Mr. MCGREGOR: Yes.

Mr. BROWNE: What will be the additional accommodation of the service?

Mr. MCGREGOR: Quite a bit, although it does not sound very much. In the lower fare service passengers will be seated five abreast, in groups of three seats and two seats. Generally the space between the seats will be considerably less. The free baggage allowance will be 26 pounds less.

Mr. BROWNE: You mean it will be 40 instead of 66?

Mr. MCGREGOR: That is correct. And in addition, the meals are paid for by the low fare passengers, and no beverages are available to them. So altogether there is quite a difference in the standard of service between the two fare rates.

Mr. BROWNE: What would be the difference in the fares?

Mr. MCGREGOR: Roughly \$125 between Montreal and London.

Mr. BROWNE: Will there be a reduction in the \$205 fare?

Mr. MCGREGOR: No. That is the low fare.

Mr. BROWNE: The other fare is increased?

Mr. MCGREGOR: That is right.

Mr. FRASER: You say that beverages are not allowed for these lower fares. But do you not make a profit from your beverages?

Mr. MCGREGOR: I would doubt it very much.

Mr. MACDONNELL: Why not?

Mr. MCGREGOR: They are expensive to carry.

Mr. BROWNE: But there is no duty.

Mr. MCGREGOR: I mean that the actual transport of them, as well as of the other mixes which go with them.

Mr. McLURE: And they evaporate quickly.

The CHAIRMAN: Page 6.

Mr. MCGREGOR: I think that is quite possible.

The CHAIRMAN: Carried.

Are there any questions on "Operations and Traffic Review"?

Mr. MACDONNELL: On page 6 it says:

In spite of it, the unit cost of producing air transportation decreased to 39·6 cents per available ton mile,...

It decreased from what?

Mr. HARVEY: From 39·87.

The CHAIRMAN: Does page 6 carry?

Carried.

Page 8?

Mr. CARTER: I wonder if Mr. McGregor could tell us if the North Star flight from Montreal to Newfoundland pays its way?

Mr. MCGREGOR: Yes and it is very popular, I am glad to say.

Mr. FRASER: In regard to the service to Germany, could you tell us more about it?

Mr. MCGREGOR: Yes. The service is provided as an extension from the service to London. The flights go to Dusseldorf via London, and they have a fairly short turn-around at Dusseldorf. We do not "over-night" the crews or aircraft there. The traffic, while it has not been heavy so far, has been better than is normal with a new service. I think we can attribute that to the fact that a lot of Canadian army personnel are located in Germany not far from Dusseldorf, which is a center of the area. We believe the service will prove to be financially satisfactory.

Mr. FRASER: That is what I was going to ask you.

Mr. MCGREGOR: Yes.

Mr. GEORGE: Do you carry traffic from London to Germany?

Mr. MCGREGOR: No, we have not the right to do so. We have not got the right to carry traffic between London and Dusseldorf, or vice versa.

Mr. MACDONNELL: That is true at both ends?

Mr. MCGREGOR: Yes it is. It would require a change in the bilateral air agreement between the United Kingdom and Canada, for us to have that permission.

Mr. BROWNE: Mr. Chairman, I would like to ask Mr. McGregor about that service again between Montreal and St. John's. Do you not find more people wanting to take passage that way than can get it?

Mr. MCGREGOR: At certain times and on certain days of the week, yes.

Mr. BROWNE: Are you thinking of expanding that at all, because that route is so much quicker and more convenient.

Mr. MCGREGOR: Yes, but before we can do anything we will have to get delivery of the equipment that we have on order.

Mr. BROWNE: You won't be able to do anything this year, then?

Mr. MCGREGOR: I am afraid not.

Mr. FRASER: In connection with the carriage of immigrants from the British Isles and Europe, do you make a profit on that?

Mr. MCGREGOR: Yes, it was a profitable traffic. It is over now, as you know; that reference is to last spring.

Mr. FRASER: It is mentioned in your report here and that is why I wanted to ask regarding it.

Mr. MOTT: Regarding the service from Vancouver to Ottawa, since you changed the number of flights there is that flight which drops you off at Toronto at four o'clock in the morning, and then you have to wait till eight o'clock in the morning before you can get out. It was better before that change.

Mr. MCGREGOR: We are putting on additional service. We are going to have six flights, six daily transcontinental flights, this spring and that requires a certain warping of timetables from the most desirable times in order to provide that amount of transportation with the existing fleet. I think it could be said, where we are working the existing fleet hard, and that naturally has a tendency to deteriorate the desirable flight departure and arrival times. That situation, as I say, will exist not much longer, but it will exist, I am afraid, until the delivery of the new equipment starts.

Mr. MOTT: Well, you changed it last year, did you not?

Mr. MCGREGOR: Yes, that was when we went to five flights.

Mr. MOTT: But you had four flights before?

Mr. MCGREGOR: That is right.

Mr. MOTT: And you changed it to five?

Mr. MCGREGOR: Yes, and we are going to six this spring.

Mr. FOLLWELL: It will be worse then?

Mr. MUTCH: Do you intend to expand the service from Toronto to Ottawa when you put in these six transcontinental flights, and thus eliminate that long wait in the middle of the night?

Mr. MCGREGOR: Yes, I believe there is a good connection on the April 26th timetable, but we have to provide a reasonable interval of time at Toronto in order to compensate for the situation when the transcontinental flight might be late in arriving at Toronto.

Mr. MUTCH: There would not be any justification for increasing the number of flights between Toronto and Ottawa?

Mr. MCGREGOR: I believe that the total number of flights is eight between Toronto and Ottawa now.

Mr. MOTT: You seem to quit about 11 o'clock at night.

Mr. MCGREGOR: There is one flight after that.

Mr. MOTT: If you are just a little bit late for the flight at nighttime, you might as well catch the train from Toronto to Ottawa, from that time on it is a terrible service.

Mr. GEORGE: Do you anticipate installing a through service between Ottawa and the east? For instance, now we have a lay-over in Montreal of four hours.

Mr. MCGREGOR: Yes, except on one flight. I think the service involving all intercity transportation will be improved with the delivery of the Viscounts—

will be very much improved. The Viscounts will be more than 100 miles an hour faster than the North Star, and 165 miles an hour faster than the DC-3's. As the traffic grows between two specific points, it begins to be possible to justify direct flights between those points.

The CHAIRMAN: What is the speed of the Viscount?

Mr. MCGREGOR: 305 miles an hour, cruising.

Mr. CARTER: Are they more economical in operation?

Mr. MCGREGOR: We believe they will be, but cannot say definitely until we find what the maintenance costs of engines will be.

Mr. MOTT: When do you expect to have them on the Canadian routes?

Mr. MCGREGOR: We expect delivery to start in September of next year and continue till April, 1955.

Mr. MOTT: What route will they go on first—routes in eastern Canada?

Mr. MCGREGOR: I think they would start on services between Montreal and New York, Toronto and New York, Montreal and Toronto, both direct and via Ottawa, Montreal and the maritimes, and then if the new route that was referred to in the report, is provided by that time they would operate to Winnipeg, Sault Ste. Marie and the Lakehead through Sudbury from Ottawa and Montreal.

Mr. MOTT: You are not planning to put any on the transcontinental runs?

Mr. MCGREGOR: No, because of the comparatively short range of the aircraft.

Mr. FOLLWELL: What is the accident or safety record of the T.C.A. in comparison with other air lines?

Mr. MCGREGOR: Well, that is a point that is difficult to talk about.

Mr. FOLLWELL: I always understood you were best. I was just wondering if you could confirm that.

Mr. MCGREGOR: That has to be related to the total volume of transportation provided by a company. There are companies that have had a longer, a very much longer, period of time accident free than T.C.A. has. On the other hand, they have been providing a very much smaller operation. So it has to be related to how much flying has been done. The International Air Transport Association measurement states it as "passenger fatalities per one million passenger miles flown". The answer, as far as the T.C.A. is concerned at the moment, is zero.

Mr. FOLLWELL: How does your company settle claims in connection with accidents in which people are killed?

Mr. MCGREGOR: That is a matter for the claims department to work out in conjunction with the legal people, and claims are paid to next of kin, depending on the circumstances.

Mr. FOLLWELL: What I mean by that is, do you carry insurance on these coverages with outside firms or do you carry it yourself?

Mr. MCGREGOR: We carry insurance both with respect to passenger liability and the hull of the aircraft and property damage up to \$1 million as first deductible. We insure our catastrophic risk up to \$5 million with outside underwriters.

Mr. FRASER: In regard to insurance that the passengers can buy from your firm, do you issue that insurance yourself or is that provided by an outside company?

Mr. MCGREGOR: No, that is an outside company. That insurance is not bought from T.C.A.

Mr. FRASER: You sell it from your offices, though?

Mr. MCGREGOR: Yes, and we also have vending machines at the airports and some city ticket offices.

Mr. FRASER: And you get a commission on that?

Mr. MCGREGOR: Yes.

Mr. FRASER: In regard to the Montreal-New York flight and the Montreal-Toronto flight. Both these flights have the same mileage, but you charge more for your Toronto-Montreal flight than on the Montreal-New York flight. Why is that? Is it because you have not a monopoly on it?

Mr. MCGREGOR: No, for another reason, Mr. Fraser; or rather, for two or three other reasons. In the first place, the Montreal-New York service is probably the oldest transport service on the continent. It was originated by the Canadian Colonial, which was later taken over by the Colonial Airlines, and the fare on that service is an extremely old one which has not been, for some reason or other, changed by that operating company. When Trans-Canada Air Lines obtained the right to parallel that operation, it was naturally necessary for it to meet the fare that had been in effect for some time.

Mr. FRASER: You got permission to fly that route a year ago?

Mr. MCGREGOR: Yes; but actually the costs of operating the Montreal-New York route, as compared with Montreal-Toronto, are considerably less for two or three reasons, principally fuel. The fuel cost of gasoline purchased at New York is 19.85 cents per imperial gallon. The cost of the same gallon of fuel at Toronto is 28.79 cents. Both those figures are stated in Canadian funds and relate to an Imperial gallon.

Mr. FRASER: Is there any tax on either of those figures?

Mr. MCGREGOR: Yes, but it is included. There is an airport gas charge on the Canadian purchase which is included in that figure for Toronto.

Mr. FRASER: Of how much?

Mr. MCGREGOR: One cent per gallon. I believe it is.

Mr. FRASER: In that case, then, you buy all your gasoline for those flights in the United States?

Mr. MCGREGOR: As much as is permissible.

Mr. FRASER: Can you travel from New York to Montreal and return on one load?

Mr. MCGREGOR: Not usually, it would depend on wind conditions and the load in the aircraft, and so on.

Mr. FRASER: And you pick up the extra then in Montreal for the return?

Mr. MCGREGOR: That is right. In addition, the landing fee paid in New York is \$12, and the landing fee paid in Toronto is \$19.50 per flight.

Mr. FRASER: That is a government field, too?

Mr. MCGREGOR: Department of Transport.

Mr. MACDONNELL: Would it be appropriate here to ask Mr. McGregor if he could say something about the development of air cargo business? I gather that you are not booked to capacity at the moment. I would like to ask you two questions: chiefly, whether you feel you have done the maximum in attracting business by lowering rates, and, secondly, to ask if there is anything in connection with new types of construction which will hold prospects of greatly-increasing air cargo business. Could you let us have some remarks on that?

Mr. MCGREGOR: I would like to. We do not feel that everything possible has been done in the matter of developing cargo. It is a continuing and accelerating development. We have made progressive reductions in our cargo

tariff over the years, we have been in the cargo business, by the way, since 1948—and we have put three reductions in force, the last one in fact being the July 1st reduction of 1952 which the report refers to. In addition to that, we filed in January of this year a further reduction of 30 per cent, but the implementation of it was suspended by the Air Transport Board because of the Canadian Pacific Air Lines application which was about to be heard. In addition to that, the amount of advertising that has been devoted to air cargo and the direct sales stimulation has increased steadily. We now have 47 employees in the system devoting their activities entirely to the development of air cargo business, and our expenditures in the matter of advertising have gone up steadily and will continue to do so.

Touching on the other point that you mentioned, you will note that the report referred to the purchase of three Bristol freighters. If the manufacturer's statements can be relied upon, and I think they can, the cost of providing air-cargo transportation in these aircraft will be considerably lower than would have been the case had we ordered cargo adaptations of passenger type aircraft. I look for a continuing increase in the speed of development of air cargo.

Mr. MACDONNELL: Could you give us one or two illustrative figures to show the comparative freight charges now on a certain type of commodity?

Mr. MCGREGOR: Yes. I think it could be said that our average over-all rate per ton mile of air cargo costs the shipper about 28 cents.

Mr. MACDONNELL: How would that compare with rail costs, and costs of shipment by sea?

Mr. MCGREGOR: It is many, many times the rate of sea transportation of cargo, and it varies considerably with respect to rail express, depending on how circuitous the rail route is. I think it is only slightly more than the rail express rate between such points as Calgary and Vancouver, and perhaps twice the rail express rate between Montreal and Toronto.

Mr. MACDONNELL: Are there any commodities which especially seek air transport?

Mr. MCGREGOR: Yes, flowers in season, cut flowers particularly, drugs, furs, styled clothing, photographic equipment, exposed unprocessed films and movie films.

Mr. FRASER: Chicks?

Mr. MCGREGOR: Chicks, and turkey pullets in great numbers at certain seasons.

Mr. BROWNE: How about the transportation of articles requiring refrigeration, like fruits and fish? Have you done anything about that?

Mr. MCGREGOR: Yes, we have carried fresh fish with rather indifferent success, and I think that same experience applies to other air lines, but there is no provision for refrigeration in cargo carrying aircraft, at the present time, and I doubt if there will be because of its weight.

Mr. BROWNE: But they ship lobsters, don't they, and fresh salmon, which are high priced?

Mr. MCGREGOR: Yes, and lake trout to some degree.

Mr. BROWNE: Do you carry any of these products from Newfoundland?

Mr. MCGREGOR: No. We did on an experimental basis carry some east coast fish products—cod fillets, lobsters and oysters—from the Maritimes to Montreal and Toronto, but the traffic, frankly, could not bear the cost at that time.

Mr. CHURCHILL: Mr. Chairman, on this general question of passenger traffic and commodity traffic, I wonder if Mr. McGregor could give us some more information in general terms with regard to the future development of

air travel in Canada. I notice in the past 10 years that passenger traffic has increased 10 times, and I note by the map here that there are other air lines operating in Canada. One of the questions I would ask is this: does Mr. McGregor foresee a time when the increase in air travel and in air cargo would bring about an increase in the number of air lines operating in addition to the Trans-Canada Air Lines now? In connection with that, I wonder if Mr. McGregor would care to comment on a statement he apparently made in Winnipeg a little while ago in connection with this matter of air cargo. I did not see the news report of the statement, but I did see an editorial comment in the *Winnipeg Free Press*, on which I wonder if Mr. McGregor would like to say something. From that I would just read one paragraph. I am raising the question, only for information—I have formed no opinion with regard to these matters whatsoever—but this has become a matter of public interest and perhaps this is the occasion on which comment could be made. This one paragraph simply says:

Mr. McGregor gave reasons why his company should continue to hold a monopoly of the transcontinental air service, and why the pending application of the Canadian Pacific airlines (now before the Air Transport Board) for a license to fly a transcontinental air freight service should be refused.

That is the end of the quotation. On these two points, could you enlighten us as to what you see is the development of air travel in Canada, and whether or not other air lines will be given an opportunity to participate in this development of traffic?

Mr. MCGREGOR: Yes, I would like to comment on the quotation which you read, though first I should say that I did not plead the case in Winnipeg because it was under consideration, and still is, by the Air Transport Board, but I did quote, as I understand I was permitted to do, from the evidence which had been submitted in public at that hearing. I think the T.C.A. case in that record can be summarized in these words: The history of air transportation, particularly in the United States where the development has run ahead of this country, due to the fact that they got into civil air transportation earlier than did Canada, has been that a route can be operated on an economical basis while the frequency is reasonably high, and the frequency over any one route at which that condition of economic operation occurs varies with the specific conditions associated with that route, but it is certain that if the transportation on any one route is divided between two or more carriers so as to produce the condition where the daily frequency of flight becomes lower than that economic minimum, then everybody loses money, and that has been proven time and time again. There was a tendency at one time in the United States to say to anybody who applied for a licence on a route which was already being served, "Yes, go and try it", and the condition arose in which the losses incurred by those companies had to be made up by the form of subsidy used in the United States of increasing the mail pay.

Our feeling is that there will come a time in the history of Canadian development when two companies may be operating on a transcontinental basis and each have a frequency high enough to keep it profitable and still operate at reasonably low rates. We feel that that state of development is a considerable time in the future. We feel certain that the introduction of competitive service of that type now would produce a lowering of the frequency by both companies below that minimum frequency which I mentioned. I think it should also be said that the so-called transcontinental monopoly is rather threadbare at the present time. We have paralleling services from the west coast virtually as far east as Winnipeg, except for a few gaps here and there, and we have competing service over a number of our maritime routes.

Furthermore, a transcontinental Canadian air operation is automatically paralleled by the United States services operating a short distance south of the border, and it is not an unusual thing for a man travelling between Vancouver and Montreal or Toronto to avail himself of that competition.

Mr. MACDONNELL: Do any of these lines operate in Canada?

Mr. MCGREGOR: Over the transborder routes, Buffalo to Toronto, Seattle to Vancouver, both are operated by American carriers.

Mr. GEORGE: On that route, do you sell the ticket for the whole trip?

Mr. MCGREGOR: Not in the case of the passenger beginning his travel with another carrier. If the travel begins with us, we would sell the whole ticket.

Mr. FOLLWELL: Do you get a commission for selling tickets of that nature?

Mr. MCGREGOR: Not on services between the United States and Canada. We do on international services.

Mr. FOLLWELL: If you sold a ticket from Toronto to Vancouver via the United States, and from Buffalo the passenger went to Seattle by an American air line and then went from Seattle to Vancouver, would you get a commission on that part between Buffalo and Seattle in the United States?

Mr. MCGREGOR: No. By agreement we will sell tickets for American air lines and they will sell on ours without commissions being paid either way.

Mr. CHURCHILL: Do you consider these arguments apply equally to passenger traffic as to air cargo?

Mr. MCGREGOR: Yes.

Mr. BROWNE: May I ask a question about the fare. I mean the food supplied, the menu. Is there any prejudice against the serving of fish on Fridays on air lines? I have never seen it served.

Mr. FRASER: What—serve flying fish!

Mr. MCGREGOR: There is a slight prejudice because the serving of a fish meal in an aircraft tends to produce an unpleasant odor throughout the cabin throughout the flight, although that prejudice is over-ruled and we do serve fish meals on Friday. I had one myself, recently.

Mr. BROWNE: On which route?

Mr. MCGREGOR: I was flying between London and Toronto.

Mr. BROWNE: Well, I have never seen any between Newfoundland and Ottawa. We have never had it between Newfoundland and Montreal.

Mr. MCGREGOR: I feel sure fish meals are frequently served on that route too. It is not a must and, frankly, we are not very keen on the result of carrying fish meals, because they do tend to be somewhat odoriferous.

Mr. BROWNE: When they do do that, do they have a full fish meal?

Mr. MCGREGOR: No, it is just the main course of fish.

Mr. MACDONNELL: I was interested in Mr. Churchill's question and I would like to ask you to say a word or two more about competition, first of all, going back to competition with American planes. If you fly from Seattle to Toronto, can you have a through flight on the same plane?

Mr. MCGREGOR: You have to change at Buffalo or Chicago.

Mr. MACDONNELL: Would you say a little more about the extent of competition existing in your Canadian business. I think that generally perhaps we like to avoid monopolies, but on the other hand you have pointed out a real difficulty, and I see the difficulty. Can you tell us a little more about the competition? You said, for example, that there was a good deal even presently existing, but I gather from what you said it is more in the nature of bits and pieces, perhaps a little bit of competition and then a gap. That is not very real competition in the transcontinental sense, is it?

Mr. MCGREGOR: That is quite true. Competition is keen enough over the short legs and the short routes, but there is a major gap between Winnipeg and Toronto.

Mr. MACDONNELL: Can you say how much of your present income is gained in a competitive area, over-all?

Mr. MCGREGOR: It would be only a guess, but I think it would be not a very large percentage of the total.

Mr. MACDONNELL: I mean, over-all, the Atlantic area, the whole business.

Mr. MCGREGOR: That would be a different picture. We are in intense competition on the Atlantic.

Mr. MACDONNELL: You are doing well there?

Mr. MCGREGOR: Satisfactorily well. We are in competition, after a fashion, at virtually all points in the Caribbean. We are competitive with all the major transborder routes, Montreal-New York, Toronto-New York, and we are competitive, as I described at both ends of our transcontinental operations, with limitations. I would think a fair guess might be that perhaps 45 or 50 per cent of our total revenue came out of competitive routes.

Mr. MACDONNELL: Well, then, can you answer this question: do you do much worse there than you do where you have no competition?

Mr. MCGREGOR: No, but where the competition exists the condition that I mention also exists of a high density of traffic. Montreal-New York, and Toronto-New York are two of the heaviest routes we operate.

Mr. MACDONNELL: Montreal to Toronto, is that fairly dense?

Mr. MCGREGOR: Yes, that is fairly dense, too. But that is about the only one I would say where there is a density of traffic that might justify competition.

Mr. FOLLWELL: I wonder if Mr. McGregor would comment on this. I notice in the report that the Post Office Department has made substantial reductions in the air parcel post rates, with the result that there is some increase in that business. In spite of the fact that you get more traffic in air parcel post, you do not get more money?

Mr. MCGREGOR: No, that is correct.

Mr. FOLLWELL: You are still on a fixed fee basis for operating that service?

Mr. MCGREGOR: Yes. That will continue until the gap between the existing total volume and the contracted total volume is closed.

Mr. MACDONNELL: It has been said by representatives of the C.P.A. that competition is a good thing. Would you agree with that general proposition, that competition is a good thing?

Mr. MCGREGOR: Yes, once the volume of traffic has reached the point where you will not be operating an uneconomically low number of services.

Mr. FRASER: On your Bermuda route, is that seasonal?

Mr. MCGREGOR: Yes, but not as seasonal as some of the other resort area regions.

Mr. FRASER: But you do good with your air service there in the summer?

Mr. MCGREGOR: Yes, from spring through to early fall, the reduction in traffic is not as pronounced as in the case of Caribbean points.

Mr. MACDONNELL: Is the Canadian National helping you in every way to get as much freight traffic as possible?

Mr. MCGREGOR: I have not noticed it particularly.

The CHAIRMAN: "Passenger Traffic", and "Commodity Traffic"?

Carried.

"Routes"?

Mr. FRASER: You have not carried "Mail Traffic" on page 11 yet. I believe Mr. McGregor has said that he could get the figures in regard to how close you were getting to the load limit on the post office contract.

Mr. MCGREGOR: Just a minute.

Mr. HARVEY: The commitments for the year were 5,400,000 ton-miles, and we flew 4,217,000.

Mr. FRASER: You say 4,217,000. There is a difference of 1 million odd; and was your parcel post carried on that same rate?

Mr. MCGREGOR: Yes, that rate applies to the total content of mail, and we do not know or care whether it is made up of parcels or letters, it is all turned over to us in bags.

Mr. FRASER: On account of your reducing the rates, that fact should raise the tonnage very quickly?

Mr. MCGREGOR: I would think so. It is not a very well known service as yet. The air parcel post has not had a great deal of publicity, and like most things it requires time in order to be extensively used by the public.

Mr. FRASER: Education?

Mr. MCGREGOR: Yes.

Mr. FRASER: The Post Office Department have had circulars out on it.

Mr. MCGREGOR: Yes.

The CHAIRMAN: Are there any questions on the heading of "Routes"? Carried.

"Property and Equipment", page 11?

Carried.

Mr. FOLLWELL: I take it that the North Stars are doing a mighty fine job?

Mr. MCGREGOR: Yes, and we are very happy with them.

Mr. MACDONNELL: Are they more quiet now?

Mr. MCGREGOR: Not yet, but we hope they will be soon.

Mr. FRASER: There has been quite a change in the engine?

Mr. MCGREGOR: I think Mr. Macdonnell was referring to the plan which I mentioned last year in which we would have cross-over exhaust manifolds installed. A good manifold has been developed for well over 18 months. An order was placed for 122 sets, but delivery delays have been encountered I am sorry to say. However, we expect to start to get the cross-overs in volume in June, and we hope that if the manufacturing problems are completely eliminated, we will have the whole fleet equipped by September of this year. But as I say regretfully, I have been preaching that same gospel for two years now.

Mr. FRASER: In those two years there has been quite a change in the light metals they can use in those exhausts. Have you changed those too?

Mr. MCGREGOR: That has been part of the delay.

Mr. FRASER: I would think so, because in the last few months there has been another metal crop up which they could use.

Mr. MCGREGOR: Yes, but that probably is not available in the quantity required.

Mr. MUTCH: The main change is that we are getting used to the noise.

The CHAIRMAN: Shall "Property and Equipment" carry?

Carried.

"Personnel"?

Mr. BROWNE: There is the heading of "Airport and Airway Facilities" before that on page 14, Mr. Chairman, and I would like to ask what facilities there are at Torbay Airport? I have seen people standing there because there were no seats on which to sit down.

Mr. MCGREGOR: The airline is not responsible for the passenger handling facilities at airports. That is the function in most cases, depending on the administration of the field, of the Department of Transport.

Mr. BROWNE: Can you tell me what arrangements you have got to land your aircraft at Stephenville?

Mr. MCGREGOR: We have permission from the United States authority. That service has been in effect for over two years now. It is an agreed stop, and it is named in the bilateral agreement with the United States.

Mr. BROWNE: It does not cost you anything?

Mr. MCGREGOR: Just the landing fees.

Mr. BROWNE: What do you pay there?

Mr. MCGREGOR: I think we can give you that.

Mr. HARVEY: I have it here. The rate for North Star aircraft is \$20.03 per landing, and the DC-3 \$5.15 per landing.

Mr. BROWNE: I have one other question. Have you got a GCA approach system in effect at Torbay?

Mr. MCGREGOR: We have nothing to do as an airline with the establishment or operation of air navigational aids. That is all the function of either the Department of Transport or the military services involved.

Mr. BROWNE: Is that service there, or when you get there during a fog, do you have to go away and come back again?

Mr. MCGREGOR: We have the ILS at Torbay, but not the GCA.

Mr. MACDONALD: With regard to airport or airway facilities, and regarding terminal facilities, we notice there is quite a differential between New York and Toronto. You are giving reasons for not putting the Vickers Viscounts in service west of Winnipeg because of fuel capacities and so on.

Mr. MCGREGOR: Yes.

Mr. MACDONALD: Would another reason be that terminal facilities west of Winnipeg are not suitable for such aircraft?

Mr. MCGREGOR: No. I would not say they would not go into service west of Winnipeg. I say they would not be used on the transcontinental flights. However we will probably make use of them on shorter routes west of Winnipeg.

Mr. MACDONALD: Is there a difference between the various airports with respect to landing fees, and the cost of fuel which would keep you from extending them to those fields?

Mr. MCGREGOR: No I do not think that applies. But the point which you mentioned of the administration building capacity could very seriously apply in regard to that operation. I personally think that Vancouver is the only place in Canada which has adequate passenger handling facilities at the present time, and that is perhaps due to the fire there some few years ago.

Mr. MACDONALD: There has been some interesting comment recently with regard to moving the airport at Edmonton, in respect to leaving the present field, the city field there for the local flying club, and moving all the larger aircraft to another base. Perhaps suitable arrangements could be worked out with National Defence?

Mr. MCGREGOR: Yes.

Mr. MACDONALD: How would that suit your convenience. Would it add materially to your landing fees, to your cost of gas or your fuel costs?

Mr. MCGREGOR: I do not think that the cost of moving would have any material effect along those lines. But as an airline we would be sorry to see it happen because we feel that one of the drawbacks of an airline is the time and the distance involved between city centers and the airports. Consequently we think that any extension of that distance would be a retrograde step.

Such things as occurred in Newark a year ago create some argument. But I personally feel that there is very little difference in the municipal hazard between using an airport one mile away and using an airport which is 5 miles away.

Mr. MACDONALD: There is some feeling that eventually the airport in Edmonton will have to be relocated.

Mr. MCGREGOR: Yes.

Mr. MACDONALD: Do you foresee any type of aircraft being put into operation by your company that would make the facilities at Edmonton obsolescent, in so far as your company's use of the airport is concerned?

Mr. MCGREGOR: Not with what we have on order or in contemplation would it be true.

Mr. MACDONALD: Would the facilities at the Namao base be suitable for your operations, if it were decided that the present airport in Edmonton would not be used for heavy aircraft, and that they should go outside the city?

Mr. MCGREGOR: So far as I know that is true.

Mr. MACDONALD: Thank you.

Mr. FRASER: On page 14 it mentions that:

"TCA continued the overhaul of RCAF training aircraft under contract with the Department of Defence Production. . ."

Do you do that work on a cost plus basis?

Mr. MCGREGOR: Yes.

Mr. FRASER: What does it amount to in the year?

Mr. MCGREGOR: You want the total amount of money?

Mr. FRASER: Yes.

Mr. HARVEY: Included in our accounts this year there is the sum of \$800,000.

Mr. FRASER: That is the gross.

Mr. HARVEY: No, the net. That is reflected in our revenue account. That is the net.

Mr. FRASER: That is the net profit?

Mr. HARVEY: Yes. You were speaking about the contract?

Mr. FRASER: Yes.

Mr. HARVEY: Exclusive of any overhead, if we applied our overhead, we would then net only \$165,000.

Mr. FOLLWELL: Is that a continuing arrangement with the department, or will it be finished in a year or so?

Mr. MCGREGOR: Frankly, we do not know. The original intention was that it should have quite a short life. I think the desire of the RCAF, was to make it short lived, in order to tide over the situation while their organization was built up. But it has extended longer than was originally planned. Two or three times an expression of opinion has been given by the RCAF that it would have to be extended again. I must say that we are in some doubt as to how much longer it will remain in the company.

Mr. FOLLWELL: You feel it is of some help to your line, to do these things?

Mr. MCGREGOR: Yes, it is of some help to us, because, it increases our total contact with experienced labour in Winnipeg.

Mr. FOLLWELL: It helps to train personnel?

Mr. MCGREGOR: Yes.

Mr. JAMES: There have been times when you have had a little trouble with fog around Malton. Has any study been given to using Oshawa as an alternative airport? It is about as close to Toronto, comparatively, as Malton.

Mr. MCGREGOR: That is true, and there are studies going on. I was talking to Group Captain Davoud about it only two days ago and it may well be that Oshawa, with some additional surfacing, can be a satisfactory alternative to Malton.

Mr. FRASER: In regard to the contract let for the construction of this hangar at Malton airport, is that one that you are putting up yourself?

Mr. MCGREGOR: Yes.

Mr. FRASER: What is the cost of it?

Mr. MCGREGOR: \$3,800,000.

Mr. FRASER: And when will it be ready?

Mr. MCGREGOR: I hope it will be ready by the end of this year.

The CHAIRMAN: Are there any further questions on "Airport and Airway Facilities"?

Carried.

Mr. FOLLWELL: It says here that the company transferred its New York operations from La Guardia Field to Idlewild Airport. And you say that it will have the ultimate effect of obtaining for TCA a decided improvement in passenger handling facilities. Is it making any improvement in the number of passengers that we have?

Mr. MCGREGOR: I think the word ultimate was in my reference to an improvement, because it certainly does not exist yet. It refers to the future.

The CHAIRMAN: Carried.

Mr. BROWNE: On "personnel", do the airway dispatchers at Gander come under you?

Mr. MCGREGOR: We use our own dispatchers. They are employees of TCA.

Mr. BROWNE: Did they not have a dispute about compensation which they were receiving, quite recently?

Mr. MCGREGOR: Not our dispatchers.

Mr. BROWNE: Perhaps it was in the Department of Transport?

Mr. MCGREGOR: I think it must have been.

The CHAIRMAN: "Personnel"?

Carried.

"Future Aircraft"?

Mr. FRASER: Is Mr. McGregor going to say anything about these new Super Constellations he is putting in?

Mr. MCGREGOR: The report, I think, covers it quite fully. Technically, they are an evolution from the Constellation aircraft previously or now in service with many of the major airlines of the world. The 1049 C can be seated in many arrangements up to, I think, a maximum for high density seating throughout the aircraft of 98 passengers. They are powered by a Wright engine which is known as the 3350 compound engine. They take the normal

piston engine in such cases and construct them with three turbines, and get a resulting additional horsepower of about 450. The power from the turbines is geared to the main crank shaft of the engine. It is a very economical engine to operate. It produces about 3,600 horsepower for take-off, and it seems to be the logical step between a straight piston engine and the turbine type of power. We expect to have extensive economical operations with such aircraft. They will have been both as to airframes and engines, in commercial service for two years before we shall have them in our service.

Mr. FRASER: Just what do you mean by that?

Mr. MCGREGOR: The Eastern Airlines already have them.

Mr. FRASER: You mean they are using them at the present time?

Mr. MCGREGOR: Yes, and their experience with the aircraft is good. I think they have not yet operated with the new type of engine to which I referred. But the United States navy has had that engine in operation for about a year now.

Mr. FRASER: You mentioned 98 passengers. You would not put in 98 would you?

Mr. MCGREGOR: That is right.

Mr. FRASER: What will you put in?

Mr. MCGREGOR: Sixty-three.

Mr. FRASER: You say 63. There would be no reduced fares on that?

Mr. MCGREGOR: Yes. That is a composite cabin arrangement.

Mr. FOLLWELL: Is there a first and a second class fare in the same plane?

Mr. MCGREGOR: Yes.

Mr. FOLLWELL: What would be the difference in the service, if it is the same plane?

Mr. MCGREGOR: I think we referred to that a short time ago. Seating arrangements are fairly congested and there are fewer amenities.

Mr. MACDONNELL: More dense?

Mr. MCGREGOR: Yes.

Mr. FRASER: I take it they are a little more quiet than the North Stars?

Mr. MCGREGOR: Yes, but no more quiet probably than the North Stars will be after September.

The CHAIRMAN: In regard to the motive power of the Vickers Viscount, what is that type of engine?

Mr. MCGREGOR: It is a type of propeller engine which does away with all reciprocating parts. There are no pistons popping up and down, and no valves, and that accounts for its amazing freedom from vibration.

The CHAIRMAN: Carried.

"Aircargo Planning"?

Carried.

"Route Planning"?

Carried.

"Immediate Outlook"?

Mr. FRASER: With respect to this route planning and the routes which you have marked here on the main map, is that the only planning you have at the present time?

Mr. MCGREGOR: Yes.

Mr. FRASER: Will that be just the TCA or will it be competitive?

Mr. MCGREGOR: The route through Sudbury?

Mr. FRASER: Yes.

Mr. MCGREGOR: I hope it will be just the TCA.

Mr. FRASER: But you are not sure yet?

Mr. MCGREGOR: We have not even got the licence yet.

The CHAIRMAN: Shall the report carry?

Carried.

Shall we now turn to the budget?

TRANS-CANADA AIR LINES
CAPITAL BUDGET—1953

	Revotes	New Items	Total
Airplanes	\$	\$ 206,000	\$ 206,000
Engines		864,000	864,000
Propellers	57,000	50,000	107,000
Radio Equipment	74,000	418,000	492,000
Instrument Equipment		72,000	72,000
Passenger Service Equipment		233,000	233,000
Spare Units and Assemblies	11,000	883,000	894,000
Ground Communication Equipment	6,000	48,000	54,000
Hangar, Shop and Ramp Equipment	94,000	432,000	526,000
Motorized Vehicles Equipment	41,000	246,000	287,000
Office Equipment	53,000	207,000	260,000
Storage and Distribution Equipment	12,000	21,000	33,000
Buildings		4,559,000	4,559,000
Contingency		200,000	200,000
	<u>\$348,000</u>	<u>\$8,439,000</u>	<u>\$8,787,000</u>

STATEMENT SHOWING SOURCE OF FUNDS
FROM WHICH CAPITAL EXPENDITURE
IS TO BE FINANCED

Net Income	\$ 600,000
Depreciation Accruals	5,200,000
Re-call of Deposits with CNR to extent of	3,000,000
Funds available for capital expansion	<u>\$8,800,000</u>
New Capital Required	NIL

TRANS-CANADA AIR LINES
OPERATING BUDGET—1953

Operating Revenues	\$62,700,000
Operating Expenses	60,700,000
Operating Income	\$ 2,000,000
Non-Operating Expense—Net	500,000
Income	\$ 1,500,000
Provision for Income Taxes	900,000
Net Income	\$ 600,000

The CHAIRMAN: "Trans-Canada Air Lines Capital Budget—1953". Are there any questions?

Mr. MACDONNELL: "New capital required, nil."

The CHAIRMAN: Very refreshing!

Mr. FOLLWELL: I have a question. It seems to me that the airlines—all of them, and I suppose we are the same—consistently seem to be locating their agencies in quarters which are very expensive. Does TCA follow that line too? I think they do. It seems to me that they get a lot of overhead which would be unnecessary in comparison with the railway?

Mr. MCGREGOR: Personally I feel that is a criticism which is honestly directed at some airlines, but I do not think we are guilty of it. We have consistently refused to keep up with the Jones's by having Fifth Avenue offices in New York. We think that if a place is reasonably convenient to ground transportation in a city for the purchase of tickets, that seems to us all that is required. We do not have these very expensive corner locations and "posh" offices. Those are things we have avoided consistently.

Mr. MACDONNELL: What about Dorchester St.?

Mr. MCGREGOR: That ground floor is shared by five different airlines.

The CHAIRMAN: Carried.

"Operating Budgets".

Mr. BROWNE: In the operating budget I notice there is no item for non-operating income which is included in the financial review. Is there any reason for that?

Mr. HARVEY: We netted the interest paid on \$25 million against interest received on the deposits with the railway together with other items.

Mr. BROWNE: You have got that in the non-operating expenditures?

Mr. HARVEY: That is right.

Mr. BROWNE: Is the \$500,000 the net of the two things?

Mr. HARVEY: That is right.

Mr. CARTER: What kind of items are included in non-operating expenditures? May I have just an idea of that?

Mr. MCGREGOR: Loans on which interest was charged, would be one.

Mr. HARVEY: And cash discounts taken. That is a big thing. It runs about \$5,000 or \$6,000 a month.

Mr. BROWNE: Who gets that?

Mr. HARVEY: The airline. Then there is the interest received on the deposits. That is the principal item.

Mr. FRASER: In relation to the operating budget, you have a provision for income tax of \$900,000, and on page 5 of the report you say it is \$1,200,000.

Mr. HARVEY: That is right.

Mr. FRASER: How do you come by that?

Mr. MCGREGOR: You mean the difference?

Mr. FRASER: Yes!

Mr. MCGREGOR: First of all, we are assuming a lower operating surplus in 1953 than in 1952. And the second thing is, that there has been some reduction in corporate income tax, due to the budget.

Mr. BROWNE: But you have got the same rate for both. You do not allow for the 60 per cent.

Mr. MCGREGOR: I am glad to say that it is not 60 per cent in our case. It is 52 per cent, I think.

Mr. BROWNE: You have got 60 per cent of \$900,000.

Mr. HARVEY: When we submitted this, it was before the good news came down, so we could not very well change it.

Mr. BROWNE: It will be less than that, then?

Mr. HARVEY: Yes.

The CHAIRMAN: Carried.

Are there any further questions on "Operating Budget"?

Carried.

Mr. GILLIS: Have you broken down in your report your operating expenses, or the percentage of your operating expenses which would be chargeable to wages and salaries?

Mr. HARVEY: It is 43·86 per cent.

The CHAIRMAN: Does the "Operating Budget" carry?

Carried.

Mr. Macdonnell, would you move that we dispense with the reading of the auditor's report?

Mr. MACDONNELL: I so move.

Carried.

GEORGE A. TOUCHE & CO.

Chartered Accountants

LEWIS BUILDING

465 St. John Street

Montreal 1

TRANS-CANADA AIR LINES

24th February, 1953.

The Right Honourable the Minister of Trade and Commerce,

Ottawa, Canada.

Sir,

We have audited the accounts of the Trans-Canada Air Lines for the year ended 31st December, 1952, under the authority of the Trans-Canada Air Lines Act, 1937 as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive

accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the Balance Sheet and the Statement of Income and certification thereof.

STATEMENT OF INCOME

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

- (a) Flight equipment in service—
North Star M2—6 year estimated life from date of being put into service.
DC3—having been fully depreciated in 1951, no provision required.
- (b) Ground facilities—estimated life, the period depending upon the type of asset.

Effective the 1st August, 1952, the estimated life from date of being put into service of North Star M2 aircraft was reduced from 7 years to 6 years, as it was considered that piston engined aircraft will be subject to a high rate of obsolescence.

Depreciation of flight equipment arrived at as above indicated, has been increased by \$335,000 thereby bringing the provision for the year into approximate agreement with the allowance permitted for income tax purposes.

The procedure adopted in 1951 and reported on by us in respect of the two used North Star M2 aircraft purchased during that year, has been followed with regard to the used North Star M2 aircraft purchased in 1952, the net book value thereof having been brought into line with the depreciated value of similar aircraft owned by the Air Lines by a charge to flight equipment depreciation expense.

Interest on Capital Invested

Interest at the rate of 3% was paid to the Canadian National Railway Company on its investment in the capital stock of the company.

Non-Operating Income—Net

This account is principally comprised of interest on deposits with the Canadian National Railways and discounts earned on purchases.

BALANCE SHEET

Assets and Liabilities

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1952. We have received a certificate from the responsible officers to the effect:—

- (a) That the quantities were determined by actual count, weight or measurement or by a conservative estimate where such actual basis was impracticable, and
- (b) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable secondhand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory by a credit to operating expenses of \$14,000.

During the year surplus funds of \$2,500,000, made available through accumulated depreciation accruals, were deposited with the Canadian National Railways. The total of such surplus funds on deposit with the Railway at the year end was \$13,500,000. Interest at the rate of 3% was paid to the Air Lines on these deposits.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of these securities was 9.36% less than cost.

Capital Assets

Property and equipment is carried on the basis of cost, less accrued depreciation.

The classification of semi-consumable parts has been reviewed during the year, and in view of their rapid turn-over, it was considered advisable to record them as material and supplies.

Progress payments on purchase of aircraft represent advances on the purchase of eight Lockheed Super-Constellations for delivery starting early in 1954 and fifteen Vickers-Viscount aircraft for delivery commencing later in that year.

Insurance Reserve

The Insurance Reserve amounts to \$5,165,000 having increased \$593,000 during the year. As self-insurance accruals are not permitted as a charge against earnings for income tax purposes, aircraft hull insurance premiums have been suspended. The Insurance Reserve has, however, been increased during the year in line with the practice of previous years, part of the increase being effected by a transfer from Accrued Depreciation Reserve.

Surplus

After providing \$1,200,000 for income taxes, the net income for the year amounted to \$808,000, which has been reserved as a further contribution towards increased cost of future purchases of capital assets, bringing to \$4,699,000, the total amount reserved for that purpose at the 31st December, 1952.

Where foreign currencies are involved, the balance sheet accounts of the Air Lines are converted generally as follows:

- (a) United States Currency—at the dollar par of exchange.
- (b) Sterling Currency—at the rate of \$2.80 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

George A. Touche & Co.

The CHAIRMAN: Are there any questions on the auditor's report?

Carried.

Before we adjourn, I know it would be the wish of the committee that I extend to you, Mr. McGregor, and to your associates, our thanks for the information which you have given us. I know you will convey our congratulations to them.

Mr. MCGREGOR: Thank you very much, Mr. Chairman.

Mr. BROWNE: I think we ought to ask Mr. McGregor to extend to his

staff our congratulations for the efficient manner in which they have been operating the TCA.

The CHAIRMAN: Thank you, Mr. Browne.

Mr. MCGREGOR: I shall be delighted to do so.

Mr. MACDONNELL: We hope his business will increase so rapidly that he will have competition everywhere soon.

The CHAIRMAN: The meeting is now adjourned.

