Rm. 10-A.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, MAY 13, 1946

TUESDAY, MAY 14, 1946

WITNESSES

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;

Mr. T. H. Cooper, Vice-President and Comptroller, C.N.R.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

ORDERS OF REFERENCE

House of Commons

FRIDAY, 12th April, 1946.

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 63, the said committee consist of Messrs. Chevrier, Clark, Coyle, Belzile, Bourget, Emmerson, Gibson *(Comox-Alberni)*, Harkness, Harris *(Grey-Bruce)*, McLure, Hazen, Jackman, LaCroix, Lockhart, Maybank, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid and Shaw.

MONDAY, 15th April, 1946.

Ordered,—That the Annual Reports for 1945 of the Canadian National Railways, the Canadian National Railways Securities Trust and the Auditors of the Canadian National Railway System, tabled this day, and the Annual Report for 1945 of Trans-Canada Air Lines which was laid on the Table of the House on April 11, 1946, be referred to the said Committee, together with the following items of estimates for 1946-47:—

Vote 422, Maritime Freight Rates Act—
Canadian National Railways;

Vote 423, Maritime Freight Rates Act—
Railways other than Canadian National;

Vote 469, Prince Edward Island Car Ferry and Terminals—
Deficit 1946;

And that the resolution passed by the House on March 28, 1946, referring certain estimates to the Committee of Supply, be rescinded in so far as the said resolution relates to Votes Nos. 422, 423, and 469.

TUESDAY, 16th April, 1946.

Ordered,—That the Annual Report for 1945 of the Canadian (West Indies) Steamships Limited, tabled this day, be referred to the said Committee.

WEDNESDAY, 8th May, 1946.

Ordered,—That the Budget of the Canadian National Railways and the Canadian National (West Indies) Steamships, Limited, for the calendar year 1946, tabled this day, be referred to the said Committee.

MONDAY, 13th May, 1946.

Ordered,—That the said Committee be authorized to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

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

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

WEDNESDAY, 15th May, 1946.

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

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

MONDAY, 13th May, 1946.

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

FIRST REPORT

Your Committee recommends:

1. That it be authorized to print from day to day, 500 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto;

2. That is be given leave to sit while the House is sitting;

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

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

Concurred in, 13th May, 1946.

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

MONDAY, 13th May, 1946.

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

Members present: Messrs. Chevrier, Coyle, Belzile, Gibson (Comox-Alberni), Harkness, LaCroix, McCulloch (Pictou), Moore, Mutch, Nicholson, Reid, Shaw.—12.

The members proceeded to elect a Chairman.

On motion of Mr. McCulloch (Pictou), it was unanimously agreed that Mr. S. M. Clark be Chairman of this Committee.

The Committee was advised that a telephone message had just been received that Mr. Clark, owing to serious illness in his family, was prevented from attending this meeting.

On motion of Mr. Reid, it was unanimously agreed that Mr. McCulloch (Pictou) would act as Chairman of the meeting.

Mr. McCulloch took the Chair, explained the purpose of the Meeting.

On motion of Mr. Nicholson, it was

Resolved,—That the Committee ask leave to print, from day to day, 500 copies in English and 200 copies in French of the minutes of proceedings and evidence taken before the Committee, and that Standing Order 64 be suspended in relation thereto.

On motion of Mr. Belzile, it was

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

On motion of Mr. LaCroix, it was

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

It was agreed that the Acting Chairman would report to the House accordingly and ask concurrence therein.

The Committee then discussed the agenda for future meetings. Honourable Lionel Chevrier, Minister of Transport and a member of the Committee, suggested that the order of business followed in previous years might be adopted, i.e., that the Committee would first consider the 1945 Report of the Canadian National Railways System and other Companies related thereto, then the 1945 Report of the Auditors and finally the 1945 Report of Trans-Canada Air Lines. The Minister advised that he had consulted with the Minister for Reconstruction and Supply (Hon. C. D. Howe) and that he concurred in this arrangement. The Committee agreed to this procedure and were informed that the Directors and Officials of the Canadian National Railway System were ready to proceed immediately.

On motion of Mr. LaCroix, the Committee adjourned at 11.25 o'clock, to meet again at 11 o'clock a.m., to-morrow, Tuesday, 14th May, 1946.

ROOM 497,

HOUSE OF COMMONS,

TUESDAY, 14th May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met this day at 11.00 o'clock a.m. Mr. McCulloch (*Pictou*) presided.

Members present: Messrs. Chevrier, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, LaCroix, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot, Reid—14.

In attendance: (Representing Canadian National Railways): Mr. R. C. Vaughan, Chairman and President; Mr. N. B. Walton, C.B.E., Executive Vice-President; Mr. T. H. Cooper, Vice-President and Comptroller; Mr. N. J. Macmillan, General Counsel; Mr. W. S. Thompson, Director of Public Relations and Mr. S. H. May, General Auditor; (Representing G. A. Touche & Company, Government Auditors for C.N.R.): Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, Deputy Minister and Mr. F. M. Maclennan, Assistant Deputy Minister and Comptroller.

Mr. Vaughan read a statement to the Committee and was questioned thereon.

Consideration was begun of the 1945 Report of the operations of the Canadian National Railways. Messrs. Vaughan, Walton and Cooper were questioned thereon.

Mr. Vaughan next read a statement with respect to the fixed charges of the Canadian National Railway System. Questions concerning this statement were answered by Messrs. Vaughan and Cooper.

The Minister of Transport (Hon. L. Chevrier) replied to questions with regard to steps under consideration by the Government with regard to certain regulatory control of competition between railway and highway services.

On motion of Mr. Mutch, the Committee adjourned at 1.00 o'clock, p.m., to meet again this day at 4.00 o'clock p.m.

The Committee resumed at 4.00 o'clock p.m. Mr. McCulloch (*Pictou*) was in the Chair.

Members present: Messrs. Chevrier, Gibson (*Comox-Alberni*), Harkness, Jackman, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot—10.

In attendance: The same officials as are named above.

Messrs. Vaughan, Walton and Cooper were questioned with regard to the 1945 Report of the operations of Canadian National Railways and the post-war projects and plans for the improvement of the Company's service to the public.

The Minister of Transport informed the Committee that in the interim he had inquired from the legal officers of the Department and had been advised that in 1937 the Department of Justice had given a ruling that the Dominion Government had power to legislate with regard to both international and interprovincial highway traffic, but that some Provinces had challenged this ruling and that, as a consequence, the Department had withdrawn the control section of contemplated legislation with regard to such traffic.

As the Committee was not unanimously agreed to sit at 8.00 o'clock this evening, it was decided that the Committee adjourn to meet again at 11.00 o'clock, a.m., on Wednesday, 15th May, 1946.

T. L. McEVOY,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

May 14, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'clock a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The Acting Chairman: Gentlemen, the first matter before us today is the report on the Canadian National Railways. I shall ask Mr. R. C. Vaughan, President of the Canadian National Railways to make his statement.

Mr. Vaughan: Our reports for the year 1945 have been distributed, and in accordance with what has become a well established practice, we are here before the committee to supplement the reports to whatever extent and in as much detail as the members of the committee may desire. This meeting is analogous to an annual general meeting of shareholders, except that the shareholders or their proxies in privately owned enterprises are not furnished with such full information or are given the same latitude to question the management as the members of this committee possess. We are very glad to give all the information that is required. This is as it should be. Through the committee, parliament and the people of Canada may secure all the information they require on the affairs of these state owned enterprises, the Canadian National Railway System, the Canadian National (West Indies) Steamships and Trans-Canada Air Lines.

It is very gratifying to be able to present such another excellent report for Canadian National Railways. We had a net income surplus for the year of \$24,756,130 or \$1,729,206 better than in the preceding year. In general the results of operation in both years were very similar. Gross revenues were only 1·7 per cent below 1944, operating expenses were two per cent less. Net revenue, which means the amount of revenue left after paying all operating expenses, was \$78,479,000 in 1945 compared with \$78,600,000 in 1944. Net income available for interest was \$71,084,000 in 1945 and \$71,096,000 in 1944. It is a curious coincidence that when all the multitudinous waybills, tickets, payrolls, vouchers, etc., necessary for the business of moving 80 million tons of revenue freight and 30 million passengers with all our ancillary services—express, telegraphs, sleeping and dining cars, mail, hotels and subsidiary company operations—have been accounted for and drawn down to a final total the net income before interest differs by only \$12,000 from the corresponding figure for the previous year. Net income before interest at \$71,084,000 shows that we earned approximately 3½ per cent on our total capitalization of \$2,024,708,137, a most satisfactory achievement and one I must add made possible only by the abnormally high revenues which we enjoyed, and the untiring efforts of the officers and staff.

We take a little satisfaction from the accuracy with which we forecasted the results last year. The budget for 1945 which we submitted to the committee estimated the gross operating revenues at \$433 millions. The actual revenues were \$433,773,000 or within one-fifth of one per cent of the estimate. Operating expenses varied from the estimate by about one-seventh of one per cent and the surplus for the year by less than one per cent. We would like to think our aim for 1946 will hit the target so accurately.

The war is over. The movement of men and munitions to the fighting fronts is finished. The repatriation of the troops and their dependents is proceeding apace, being retarded only by the shortage of shipping. Reconversion from wartime to normal conditions is the order of the day. There is no need to go over our war record, it speaks for itself, but let me say that if ever there were doubts as to the capacity of the railway or of its efficiency, or of its being a national necessity at all times, such doubts must have been completely dispelled by the record of the past six years.

Now we face new problems. The shortage of labour is behind us. The supply of repair material still remains difficult and in some cases critical. We have some arrears of maintenance to catch up. The supply of coal is a matter for anxiety. Traffic receipts are falling off, operating costs are increasing, and our big problem is how to meet our heavy fixed charges. The change over from war to peace affects production in all sections of the country which is immediately reflected in our traffic receipts. It is difficult to estimate how far the reduction in revenues will go, how much of it is temporary and how much will be recovered. Our 1946 budget forecasts a decrease in earnings of $48,700,000 or 11 per cent. For the first four months of the year the decrease has been nine per cent. Our difficulty is that we cannot pull expenses down as much or as quickly as the drop in revenues. There are many reasons why this is so. Some expense varies with traffic volume, other expense does not. General administration expense, depreciation, pensions, snow removal, etc., for example are controlled by factors other than the immediate traffic movement. We consider 33 per cent of the expense for maintenance of way and structures varies with traffic, 58 per cent of maintenance of equipment and 85 per cent of transportation expense. Then of course we are not compensated at the same rate for an equal amount of effort. Commodity rates vary. Manufactured products earn a higher rate per ton mile than do the products of agriculture, mines and forests. Last year we were moving large quantities of material related to the war effort. This traffic has been replaced by less remunerative traffic. In the first quarter of this year we had an increase in car loadings and we operated more freight trains but our revenue per ton mile decreased from ·947 cents to ·902 cents and our freight revenues decreased by $6,474,000. Likewise in the passenger service, we ran more passenger train miles but had a decrease in passenger revenue of $1,673,000. We are therefore doing more work for less money.

But we are much more concerned about the constantly increasing costs of operation. There seems to be no end to the increases in wage rates and material prices. The report on last year's operations points out that operating expenses in 1945 were increased by $69,391,000 due to higher wage rates and higher prices for materials as compared with the pre-war price level. Since the war began our employees received the cost of living bonus of $19.93 per month, and a general wage increase of 6 cents per hour of $12.48 per month. These two together gave an employee an increase of $389 per annum on a straight time basis (our employees in Canada last year totalled 95,393). In turn overtime rates of pay had to be increased proportionately. Vacations with pay, changes in working conditions, and other wage adjustments have added to the payroll expense. The average hourly rate of pay increased from 66 cents in 1939 to 84 cents in 1945, an increase of 26·6 per cent, representing an increased charge to operating expenses of $43,041,036. Increases authorized by the National War Labour Board during 1945 are estimated to cost $1,232,647 a year. Other increases authorized in 1946 will cost $430,000 a year and further applications have been received which if granted would add considerably over $30 millions to our payrolls.

Material prices have increased substantially during the war and are still increasing. For example, treated ties which cost us $1.33 in 1939 cost $1.79 in 1945; untreated ties which previously cost 60 cents now cost $1.15; new rail has gone up from $48.98 to $57.70 per ton; locomotive coal from $4.11 to $6.14, an increase of $2.03 per ton. When you realize we consumed last year 6,725,320 tons you see why an increase of $2.03 per ton puts our fuel costs up by $13,645,000. The price of steel and steel products excluding rail increased by

12 per cent, lumber excluding ties by 47 per cent and other general material by 20 per cent. All in all we estimate our costs in 1945 were increased by $26,352,000 over what they would have been had the 1939 price ceilings been observed for material used in railway maintenance and operation. Prices for materials in 1946 it is estimated will be higher than in 1945 by several millions of which $2,000,000 is attributed to higher prices for fuel.

And so it goes. We are in the toughest kind of a squeeze play. Our selling prices are frozen but our production costs are mounting in ominous fashion. Even a continuation of traffic volume at wartime levels would not suffice to enable the railway to shoulder additional burdens, of the magnitude I have outlined, without relief of some sort. Traffic volume is now falling. In the month of April our receipts were down $4,341,000 or 12 per cent. Our May budget forecasts a decrease for that month of $7,171,000 or 19 per cent. It looks as if in the first five months of the year our traffic receipts will be $20 millions below those of the previous year.

The burden of fixed charges also is a matter of grave concern to all of us. It has always been a matter of concern but it becomes more so as we face declining revenues and increasing costs. Our fixed charges in 1945 were $49,009,000 of which $26,021,000 was for interest on funded debt held by the public and $20,306,000 was for interest paid to the government. They absorbed 11·3 per cent of our gross revenues, a ratio nearly twice that of the Canadian Pacific or the class one roads of the United States. As our revenues fall off the percentage relationship will increase, of course. No other comparable railway shoulders such a burden.

I am sorry that these remarks are in such sharp contrast to the report for 1945 which we are about to examine but I do not wish to leave any misconception as to the basic situation which exists and which is emerging as business recedes from its wartime intensity.

The Acting CHAIRMAN: Thank you, Mr. Vaughan. I think you, as president of the Canadian National Railways, and your officers deserve a great deal of credit for the showing you have made in this report.

Mr. VAUGHAN: Thank you. Shall I proceed with the reading of the annual report?

The Acting CHAIRMAN: Yes, please.

Mr. VAUGHAN: In conformity with *The Canadian National-Canadian Pacific Act, 1936,* the Board of Directors submit the following report of the operations of the Canadian National Railways for the calendar year 1945.

The downfall of Germany and Japan relieved the nations of the terrible afflictions of world-wide war, but it did not end their problems. The period we have now entered brings great uncertainty and imposes new and highly complex responsibilities, and Canada, which acquitted itself with honour in the war, is called upon to share these obligations.

In the Dominion's contribution to the work of building the new world which must arise out of the ruins of the old, the Canadian National System will play a valuable part, as it did in the war. Its co-operation, direct and effective, will be available in all the activities leading to a bigger and better Canada, whether it be in the fields of increased industrial and agricultural development or greater exploitation of the country's mineral and other resources. All departments of the railway are giving these matters close attention.

Post-war projects were studied during the past year and plans were advanced for the improvement of the Company's service to the public, particularly in regard to accelerated schedules and the provision of equipment designed for more economical operation and greater convenience and comfort for passengers.

Competition between railway and highway services presents a problem of growing importance. It is desirable that this competition should be on a fair basis, having due regard to public convenience and necessity. To accomplish this, common regulatory control would seem to be necessary.

Further evidence of the System's ability to meet the heavy demands made upon it as a public service is to be found in the 1945 traffic figures. They also reflect the change in pace and direction as the world moves out of wartime emergency into reconstruction. Traffic volume continued at a high level during the first nine months of the year, then the trend was gradually downward. Revenue freight for 1945 amounted to 79,941,296 tons and 30,370,680 passengers were carried.

Resulting from 1945 operations, a surplus of $24,756,130 has been turned over to the federal treasury, after the payment of interest due the public and the government. This was an increase of $1,729,206 over the surplus for 1944.

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

	1945	1944
Operating Revenues	$433,773,393 56	$441,147,510 35
Operating Expenses	355,294,048 48	362,547,043 53
Net Operating Revenue	$ 78,479,345 08	$ 78,600,466 82
Taxes, Equipment and Joint Facility Rents	10,601,406 83	10,875,822 81
Net Railway Operating Income	$ 67,877,938 25	$ 67,724,644 01
Other Income, less deductions—*Credit*	*3,206,334 49*	*3,371,920 27*
Interest on Funded Debt—Public	$ 26,021,784 56	$ 28,135,938 36
Interest on Government Loans	20,306,358.18	19,933,701 57
Surplus	$ 24,756,130 00	$ 23,026,924 35

While shortages of labour and materials continued to restrict certain classes of work, the property was maintained to meet the heavy demands of traffic. Every effort has been made to maintain a high level of operating performance. Freight train loading and speeds, and the utilization of equipment, have been well maintained.

The repatriation of Canada's armed forces added to the strain on the Company's facilities and equipment. A large number of special trains was required to meet the ships at Halifax, New York, Quebec and Vancouver to transport returning service personnel to all parts of the Dominion. Arrangements made in anticipation of this heavy and concentrated movement enabled the railway to handle the trains with dispatch. To fill the repatriation needs, it was found necessary to withdraw many sleeping and dining cars from regular passenger service, but the public accepted the inconvenience with wholehearted understanding, and the Directors gratefully acknowleged their co-operation.

By the end of the year 7,015 Canadian National men and women had been released from the armed forces and welcomed back by the management and their fellow employees. The re-establishment program is proceeding smoothly under the supervision of the headquarters committee referred to in last year's report. Regional sub-committees of the Rehabilitation Committee organized fifteen years ago to re-establish employees injured while on railway duty have been set up throughout the System to expedite the re-employment of men suffering physical disabilities as a result of war service. In engaging new personnel, it is the Company's policy to give preference to those who have had war service.

Results of Operations

Operating Revenues. Traffic continued at a very high level. There were changes in its nature and direction but not to any great extent in its volume. Gross revenues amounted to $433,773,000 and were $7,374,000 or 1·7 per cent below those of 1944. To the end of September the average daily earnings were slightly higher than those of the previous year; in the last quarter of the year, however, the decrease was 5·8 per cent. For the entire year freight revenues decreased 1·6 per cent, passenger revenues decreased 6·6 per cent, express revenues increased 6·7 per cent and other revenues increased 3·3 per cent. The tonnages of freight traffic by commodities are given on pages 32 and 33 of this report. Due to the war such statistics have been withheld from publication since 1941. Figures for the past four years are included in this report as a matter of record.

Operating Expenses amounted to $355,294,000 and were $7,253,000 or two per cent less than in 1944. The 1944 accounts included $5,428,000 for 1943 backtime payrolls; there was no similar charge in 1945. The provision made for deferred maintenance was $5 millions in 1945 compared with $10 millions in 1944. Equipment depreciation charges amounted to $16,974,000 compared with $19,853,000 in 1944, the reduction resulting from the adoption in 1945 of a depreciation rate of 3⅓ per cent which is the average of the rates used by United States Class I railroads. The reductions referred to were partly offset by increased maintenance and by some increase in the cost of moving traffic. Pension costs also increased.

The increased cost of moving traffic, not compensated by additional revenue, was related to the considerable empty movement of passenger equipment to the seaboard for troop repatriation, also to the movement of Company fuel which had to be brought in from the United States at Sarnia and the Niagara Frontier for distribution throughout Eastern Canada.

The Directors feel that attention should be drawn to the higher costs of operation resulting from higher wage rates and higher unit prices for materials used in railway operation and maintenance. As compared with 1939 the higher wage rates added $43,041,000 to the payroll in 1945 and higher unit prices added approximately $26,350,000 to the cost of materials. In the event of any substantial decrease in traffic volume, not otherwise compensated for, these higher costs of operation would prevent a continuance of the favourable financial results which the System has been able to report for the past five years.

The above (see appendix "A") indicates what has happened in so far as operating costs are concerned. On the revenue side freight and passenger rates generally remained fixed at the pre-war level in accordance with the regulations of the Wartime Prices and Trade Board. Even so, by reason of changes in traffic characteristics, the actual revenues per ton mile decreased from 0·938 cents in 1939 to 0·915 cents in 1945 and the revenue per passenger mile from 2·035 cents to 1·953 cents. These reductions in average revenue rates are equivalent to a reduction in operating revenue of $10,742,000.

Net Operating Revenue. After deducting operating expenses, $355,294,000, from operating revenues of $433,773,000, net operating revenue was $78,479,000 in 1945. The corresponding amount in 1944 was $78,600,000.

Surplus for the year. After making provision for various charges consisting of taxes, equipment and joint facility rents, exchange and discount, also for various income credits such as dividend and interest income, the results of hotel and subsidiary company operations, etc., the net income available for the payment of interest was $71,084,272. Interest payments to the public and to the government totalled $46,328,142. After payment of interest the surplus for the year was $24,756,130, an increase of $1,729,206 over the previous year.

CAPITAL EXPENDITURE ACCOUNT

The capital expenditure during the year amounted to $21,709,204, details of which are given on page 20. The major portion of the total expenditure was for new equipment acquired under hire-purchase agreements with the Dominion

Government, consisting of 1,980 box cars and 146 refrigerator cars costing $10,078,911. Many needed improvements had to be deferred by reason of the shortage of manpower and materials.

FINANCE

Funded Debt was reduced during the year by $56,273,908 and government loans increased $29,097,741, a net reduction of $27,176,167. Details are as under:—

Funded Debt Retirements	
3% 16-year Guaranteed Bonds, Can. Nat. Ry. Co., called for redemption December 15, 1945, at par	$ 20,500,000 00
3% 13-year Guaranteed Bonds, Can. Nat. Ry. Co., called for redemption December 15, 1945, at par	30,000,000 00
4% Debenture Bonds of Stanstead, Shefford & Chambly Railroad Co.	155,865 25
5% Indebtedness to Province of New Brunswick	818,000 00
Equipment Trusts—annual principal payments	4,200,000 00
Various securities repatriated under the arrangements referred to in 1942 annual report—par value	600,043 14
Reduction in Funded Debt	$ 56,273,908 39
New Government Loans	
Loan to retire two Can. Nat. Ry. Co. bond issues as above at par, A. and St. L. Stock and various securities repatriated at market value	$ 51,102,570 77
Loans under Equipment Hire-Purchase Agreements	10,078,911 33
Total New Loans	$ 61,181,482 10
Government Loans Repaid	
Loans repaid out of 1944 surplus earnings	$ 3,026,924 35
Loans repaid out of 1945 surplus earnings	20,000,000 00
Equipment Hire-Purchase annual principal payments	5,322,170 70
Payment under Financing and Guarantee Act 1944. The amount available from reserves for depreciation and debt discount amortization in 1944 exceeded the total capital requirements for the year	2,776,532 03
Payment under 1938 Refunding Act, representing release of Trust Funds held re Can. Nor. Ont. Ry. 3½% Debenture Stock	958,113 83
Total Repayments	$ 32,083,740 91
Increase in Government Loans	$ 29,097,741 19
Net reduction in debt during the year	$ 27,176,167 20

Details of funded debt and government loans are shown on pages 21 and 22.

WAGES

During the year the National War Labour Board awarded six days' vacation with pay to additional employee groups which, together with changes in working hours and overtime rates, also directed by the Board, represented a further substantial increase in payroll expense.

From the beginning of the war to the end of 1945 the total cost to the National System of increased wage rates (including cost of living bonus) and changes in working conditions amounted to $146,261,000.

Applications have been received for further increases in rates of pay and changes in working conditions which, if granted, would represent an additional payroll expense of about $32,000,000 per annum. These applications were not acceded to by the management and for the most part are now before government tribunals in Canada and the United States.

CANADIAN NATIONAL EXPRESS

The traffic handled by the Express Department was the heaviest ever experienced. Shipments totalled 17,063,716, an increase of 8·13 per cent over 1944.

Movements of war materials during the first part of the year and the volume of merchandise traffic accounted for the increases. Fish traffic moved in greater volume, while fruit business declined somewhat.

CANADIAN NATIONAL TELEGRAPHS

The facilities of the Canadian National Telegraphs were taxed to capacity during 1945, and the volume of traffic, almost ten million telegrams, including 500,000 cablegrams, was the heaviest on record. The repatriation of overseas forces and the reconversion of industry to a peacetime basis contributed in considerable measure to this total.

Experimental work in connection with the establishment of a radio relay system Montreal-Ottawa-Toronto, in collaboration with Canadian Pacific Communications and the National Research Council, was actively carried on during the year.

HOTEL OPERATIONS

The business of the Company's hotels was the largest in their history in respect of guests accommodated and meals served. In all 2,534,575 meals were served during the year. Despite wartime controls, the difficulty in obtaining supplies, and the extreme shortage of labour, the standard of service has been maintained at a high level. The resort hotels, Jasper Park Lodge, Minaki Lodge and Pictou Lodge, which were closed during the war, will be open for the summer of 1946.

The Hotel Vancouver, owned by the Canadian National Railway Company and operated by a separate company for the Canadian National and the Canadian Pacific Railways, was well patronized during the year.

SLEEPING AND DINING CARS

The Company's Sleeping and Dining Car Department was called upon to meet a record demand for service. Meals served during the year in dining cars, café, buffet, commissary and kitchen cars totalled some five million, of which nearly 50% were served to members of the armed forces.

Under wartime conditions the Company was again unable to add to its sleeping and dining cars and during 1945 the equipment situation became more acute.

TRANS-CANADA AIR LINES

In 1945 the number of passengers carried by Trans-Canada Air Lines increased by 17% and air express volume by 11%, while air mail volume declined by 8%. A third daily transcontinental flight was established during the year. Development of a full commercial operation of the Canadian Government Trans-Atlantic Air Service, operated by T.C.A., was well advanced. Passenger tickets are now being sold and a trans-Atlantic air express service is in operation. There are three scheduled flights weekly in each direction across the Atlantic and these will be increased as planes become available.

VICTORY LOAN CAMPAIGNS

In the two Victory Loan campaigns held during the year, Canadian National employees subscribed $34,010,650, an increase of $11,150,100 over 1944. Contributions by personnel of Trans-Canada Air Lines, included in this total, amounted to $1,024,450.

Through the payroll deduction plan, employees invested a further $1,136,248 in war savings certificates during the year.

Apart from the individual purchases by employees, the Company subscribed $11,487,500 to the 1945 Victory Loans for account of reserve and other funds.

The total of employee subscriptions to all the wartime loans was $83,795,900. The railway subscribed $83,787,850 and Trans-Canada Air Lines, $1,899,500, making a total subscription of $85,687,350. The grand total for employees and Companies was $169,483,250. Total subscriptions to war savings certificates to the end of 1945 added $9,205,320.

The War Bond campaigns in the United States were well supported by employees on the System's United States lines.

GENERAL

The Company moved from Halifax and other ports 576 special trains for the transport of some 208,000 repatriated armed forces personnel from overseas. In approximately twenty-five crossings of the Atlantic, the senior hospital ship *Lady Nelson,* formerly of the Canadian National West Indies fleet, brought home more than 13,000 wounded and sick. Hospital cars built in the Company's own shops were used in the hospital trains. The armed services have been most gracious in their expressions of appreciation of the efforts of all departments of the railway on their behalf. The repatriation is now practically complete, apart from the movement of dependents from overseas.

After making a valuable contribution to the Dominion's war effort, the plant of National Railways Munitions Limited at Point St. Charles completed its work during the year. The building will be acquired by the railway for use as a car repair plant.

In 1946, deliveries of the following new equipment will be made: 650 box cars, 30 coaches, 10 mail and express cars, 10 baggage cars, 200 refrigerator cars, 400 box cars for the Grand Trunk Western Railroad, 16 diesel switching locomotives. The new equipment will be of the most modern design and the passenger cars will embody new features for the greater convenience and comfort of the travelling public. Existing equipment is being renovated in an intensified programme in the Company's shops.

Construction of the new line from Eastern Junction to Bout de l'Ile on the Island of Montreal was completed and brought into operation in 1945. The new line enables all trains from the Lake St. John and Abitibi area of Northeastern Quebec to come into the Central Station and by improving suburban service will greatly assist in the development of communities adjacent to Montreal. It also provides improved facilities for the transfer of freight in Montreal and shortens through routes. Completion of the new line permitted the abandonment of 27.62 miles of the St. Lin subdivision between Joliette and Montfort Junction.

The SS *Prince George,* in the Company's Pacific Coast service since 1910, was destroyed by fire on September 22nd.

THE STAFF

At the close of the war the Company desires to place on record its gratitude—shared by the nation as a whole—to those who gave their lives in the cause of humanity. The loss to Canada can never be estimated. From the ranks of the National System to join the honoured war dead have gone 842 brave men. The Company extends its deepest sympathy to their bereaved families.

The Company remembers with pride the 20,000 members of the staff who participated so gallantly in the conflict, and those who faced great hazard serving in the ships under the Company's management.

The management is happy to welcome back to their daily work with the railway those who have returned from the war fronts. While they were away a large number of their fellow employees at home undertook to remain in service beyond the normal retiring age to assist the railway and the management in the emergency. As they now go into retirement, thus assisting in the re-assimilation of the war veterans, they take with them the best wishes and thanks of the Company for their valued co-operation.

The Directors express their gratitude to the men and women of the System who by their loyal devotion to duty enabled the National System to carry the heavy burden of the war years and give the shipping and travelling public the responsible, efficient and courteous service it has a right to expect.

The ACTING CHAIRMAN: Now, gentlemen, if there are any questions you wish to ask President Vaughan, do so.

Mr. REID: Mr. Chairman, I have one or two general questions I would like to ask the President. Perhaps I might have the opportunity of starting off because I have to attend another committee; if President Vaughan doesn't mind. One question is in regard to the statement made as to the fuel situation. What has been giving me concern is the importation of coal from the United States. I have just been wondering, Mr. President, if consideration has been given to the burning of oil in some of the provinces, because you have to transport coal and likewise you have to transport oil; but I am wondering if any consideration has been given to the burning of oil to overcome the difficulty which very often arises due to strikes and their effect on the importation of coal from the United States?

Mr. VAUGHAN: We have been, Mr. Reid. We have been using oil where it could be obtained. During the war we had difficulty in obtaining oil as well as coal. There is, as you know, insufficient oil produced in Canada to anything like take care of requirements for oil in Canada; but we have used as much Canadian produced oil and coal as we could get, and I think in future we will be able to use all the oil produced in Canada that is available. As you know, we are operating some oil wells of our own in Northern Alberta around Vermilion which we opened up as a result of the shortage created by the war. We were able to get some production, but it was very limited.

Mr. REID: I am sorry, Mr. President, I forgot at the outset to compliment you, not only on your splendid report, but also on the fact that I see you have put New Westminster on the map this year. I want to express my personal appreciation for your having done that, that makes my having been named a member of this committee very much worth while. However, that is an incidental in passing. I have some questions I would like to ask before I leave for the other committee. I have about four or five of them, and my first one is regarding lodges; for instance, Jasper and the other lodges. Over the years do they pay their way or are they run at a loss?

Mr. VAUGHAN: Well, let us say that generally speaking summer hotels are not profitable in themselves. Jasper usually makes an operating profit. But it must be remembered that a great deal of indirect benefit accrues to the railway by reason of the operation of Jasper Lodge, because we move a great many people in and out of there every year, from whom we get a long haul; so we feel that in the long run it pays us to operate these hotels both at Jasper and these other places.

Mr. REID: The next question I wanted to ask emanates from your report: Let us suppose the future is not bright, the situation which the railway faces from now on, particularly as compared with the war years. I was just wondering, Mr. President, if you have any suggestions you can make that might keep the railway out of the red better than apparently you feel will be possible?

Mr. VAUGHAN: We study every item of operating expense with a view to seeing if we can reduce that expense without unnecessarily curtailing the service to the public. Speaking of Jasper Lodge, we have had so many applications for accommodation there that we just do not know what to do with them. We have been practically filled up there for two or three months in advance, that means an extensive volume of long haul traffic for the railway.

Mr. REID: Regarding overtime, I notice overtime mentioned in your report. I had a delegation come in to see me regarding overtime just before I came down to the committee room this morning. Their complaint was that in certain sections there is far too great an amount of overtime, and their suggestion was that if overtime was cut down it would be possible to bring many more ex-service men into railway work. As one who is against overtime if at all possible to do without it, I was wondering if some attention was being given to the matter of having it reduced. For instance, they pointed out that a hundred miles per day used to be a run. The delegation were complaining, and I thought it was most generous on their part, because that rule is not now being observed and they were getting a great deal more overtime than seemed to them to be fair. One of the delegates said he did not want to do too much work, two months time in one, but there was nothing to stop him from doing that under arrangements as they now stand; he said, why could we not go back to the system which was in effect before the war. He was speaking of trainmen particularly.

Mr. VAUGHAN: They are all governed by train schedules and the men themselves are all parties to the arrangement. So far as overtime is concerned, a great deal of overtime was necessary during the war on account of the shortage of employees. We had to pay out large sums of money for overtime in all departments. That is being cut down every month and is now nothing like what it was. That overtime situation is being watched very carefully. These runs for the men are very carefully arranged, and while we do have some complaints, I think generally speaking the organizations, as a whole, are satisfied.

Mr. WALTON: May I say with respect to that that each month since the beginning of the year we have been studying the payrolls for the express purpose of reducing overtime. Research is going on continuously and as a result of efforts which have been made overtime has been considerably reduced, and a number of additional men taken on. That is one of the things on which we get a special monthly report, and it is very noticeable that the proportion of overtime to total payroll has been on a descending scale each month since last November.

Mr. JACKMAN: I wonder if I might ask Mr. Reid for a clarification of the statement as to what one of the members of a train crew said to him, that is, not wanting to go over the hundred mile run limit and that they were doing far more than that, in effect that they could get all the overtime they wanted; and as I understood him, his complaint was that the amount of overtime was excessive and they wanted the rules brought back into force as they existed in the pre-war years thereby cutting down on the excessive amount of overtime and providing employment for more men. I think Mr. Reid said that in his opinion the complaint was a very fair one, they were not asking for more money but rather that they did not want to be working sixteen or seventeen hours a day—and I think he said one member of the delegation told him something to that effect, that in many instances that they could do that; and I gather from what he said that it was the desire of the men themselves that they should be permitted to return to the rules of operation which applied prior to the war.

Mr. WALTON: I may tell Mr. Reid, and others interested, that we do not have arrangements whereby a man can put in from seventeen to eighteen hours a day. It is conceivable in the event of some unforeseen delay which might occur that one single trip might involve excessive hours, but the runs are not set up on that basis.

Mr. Reid: This man told me he was on a freight train, he said, "I can put in all the hours I want to;" he said, "there is nothing to prevent me if I can do without sleep, I can work as long as I want to." What this man wants is to see the mileage cut down to what it was before the war so that not only would they be putting in a fair and reasonable amount of time, but more particularly so that there would be more opportunity for employment for returned service men. And I may tell this committee that this man was a returned soldier from the last war.

Mr. Walton: That statement is one which I think should be accepted with some qualifications, because we have different working arrangements with the various branches of employees which set out the maximum mileage. These men are paid by the miles, not by the month.

Mr. Reid: I will promise you this, I will get a statement from this individual and place it before you at our next session.

Mr. Walton: It will be appreciated if you will arrange to do that, Mr. Reid. May I say that it was only due to the pressure of war years that we extended the working mileage, of course, that is a situation which does not exist at the present time.

Mr. Jackman: Some time ago we were discussing that rule of one hundred miles per day. I think Mr. Vaughan said at that time that that rule was in operation when he first started in railroading,which is quite a few years ago I believe, Mr. Vaughan?

Mr. Vaughan: Yes, it was.

Mr. Jackman: How could a man help putting in more than one day's work if he is only allowed to run one hundred miles the average day?

Mr. Walton: I was speaking of a monthly maximum, not a trip mileage. He may make one hundred and forty or one hundred and fifty miles on the individual day, but the wage agreement is for regulation on a monthly basis, so that in respect to length of trips the whole matter is subject to monthly regulation.

Mr. Jackman: What would be the regulation with respect to one of these crack trains running, let us say, down to the maritimes, or between Montreal and Toronto. The engineers and the train crews would be piling up mileage pretty fast on runs of that kind if the one hundred mile rule were applied. It certainly would not take them very long to acquire that amount of mileage. Can you give us the approximate figure over the system which indicates how long it takes for a man to pile up one hundred miles?

Mr. Walton: Well, it varies of course. On the fast trains of the type to which you referred, the man would make a hundred miles in two or three hours, but on a slow way freight train which has to work its way along the line such as in local freight, it is a variable factor, depends on type of work in which the man is engaged.

Mr. Jackman: You must have a figure which shows how long it takes the average individual to run up his hundred miles.

Mr. Walton: There are so many variable factors entering into it that I am afraid it will not be possible to give you any figure of the kind for which you have asked. However, I would say that in the passenger train service the average would be somewhere around three hours to run one hundred miles. In through freight service on double track lines where there are no meets to be made the miles would be made very quickly. And on single track operation on the other hand it would vary anywhere from four and a half to seven and a half hours, something like that. On way freight trains, those which do a lot of work at almost every stop, it would be anywhere from eight to nine or ten hours, and there would be odd cases where it would be more.

Mr. JACKMAN: Where you have a way freight picking up freight do you pay the man on any other basis than just on the mileage covered?

Mr. WALTON: Yes, the rule provides for payment on the basis of hours, or miles, whichever is the greater.

Mr. NICHOLSON: What about a man who works on one of these mixed trains where it takes twelve hours or more to make a run. How do you cover that? Does the mileage rate cover that?

Mr. WALTON: They have a regulation of mileage which applied except in wartime when special arrangements went into effect. Under that rule a maximum monthly mileage is fixed.

Mr. NICHOLSON: And that is in effect now?

Mr. WALTON: Yes. It is based on so many miles, or so many hours, and on these long runs he gets a layoff of so many days before he goes back on again.

Mr. NICHOLSON: And what are they paid for this overtime, regular rates or time-and-a-half?

Mr. WALTON: On some parts of the line overtime is paid pro rata while on other parts of the line it is paid on the basis of time-and-a-half. Whether it is paid pro rata on the basis of time-and-a-half, involves a number of other factors. For instance, on a local way freight run where it would normally take eight to ten hours to cover the distance no overtime would be paid until the average speed for doing the job had been made.

Mr. NICHOLSON: In other words, he would be expected to put in eight hours as his regular day, and then for anything over eight hours he would get time-and-a-half?

Mr. WALTON: Yes, if it is a hundred-mile run; and, similarly, if it was freight service it would take a certain rate while it would be different for a passenger service.

Mr. JACKMAN: I should think it would not take a man very long to put in his hundred miles on some of these fast passenger trains, they would get one hundred miles in in about two and a half hours. How could you help but pay men of that kind a large amount of overtime?

Mr. WALTON: On many of the long runs, runs over a hundred miles, there are a certain number of non-working days in the month for the men. For instance, in such a case as the one to which you referred, those trains which operate between Montreal and Toronto, the fast passenger trains; let us say that a man on that train comes from Montreal to Toronto, 334 miles.

Mr. JACKMAN: Will one crew take the train right through?

Mr. WALTON: Yes, not the engine crew, the conductor and the train crew. There is a certain schedule of crews worked out so that they have a proper rest in Toronto after they have made their run of 334 miles. Similarly, when they make the return run to Montreal they have a certain rest period of considerable length. A sufficient number of crews are in a pool of runs so that in a month they make approximately the regulated monthly mileage about which I spoke.

Mr. JACKMAN: So that if a man goes from Montreal to Toronto one day, and makes the return trip some time during the same week, he has put in 668 miles which would be about six days' work under this hundred mile schedule?

Mr. WALTON: The passenger mileage is one hundred and fifty, the one hundred miles refers to freight. He would make it in approximately two days.

Mr. JACKMAN: How far did you say it was, 330 miles?

Mr. WALTON: Yes, 334 miles.

Mr. JACKMAN: Then, as I say, it would be 660 miles for the round trip. He would make his full mileage schedule for the week in that round trip. In other words, he could not possibly work more than half a week on runs of that kind.

Mr. VAUGHAN: That is quite right.

Mr. JACKMAN: And he piles up his average very quickly.

Mr. WALTON: That is right.

Mr. JACKMAN: And what does he do then, nothing?

Mr. VAUGHAN: He does nothing.

Mr. WALTON: He does nothing, as far as we are concerned.

Mr. JACKMAN: Does that satisfy him?

Mr. WALTON: Apparently.

Mr. GIBSON: He is still paid the average anyway.

Mr. JACKMAN: And he isn't working half his time.

Mr. WALTON: Let us consider the mileage arrangement for a trip of that kind on that part of the line. Let us assume that the amount of mileage he is permitted to make on a run of that kind is 6,000 per month. A sufficient number of crews are put into the pool with respect to certain trains, we arrange the operation of that train so that each man gets in his 6,000 miles per month on the work with a sufficient number of days off during the month to give them rest between trips; short periods of rest for them when they are away from their home terminals, with longer rest periods at their home terminals. That is the way it is worked out.

Mr. JACKMAN: So he works 6,000 miles on that run; that may be an exceptional one, but he actually works ten days, puts in ten round trips to pile up that mileage.

Mr. WALTON: Just about that.

Mr. JACKMAN: And then I take it that any service he puts in beyond that mileage would be considered overtime, and would be paid for at the overtime rate. Would that be pro rata, or would that be time and a half?

Mr. WALTON: Arrangements are worked out so that they do not go beyond their mileage. A sufficient number of crews, or men, are kept in the pool so that it will take care of that.

Mr. JACKMAN: I realize that the matter is one which is not entirely in your hands as operators of the road, that the unions as well as the operating officials are concerned with the drawing up of rules such as the one which we have been discussing.

Mr. WALTON: Yes, it is an arrangement with the railway union, but it is not a hampering rule in so far as our expenses are concerned, if I make myself clear.

Mr. JACKMAN: Then, accepting the standard of one hundred and fifty miles as a generality, may I suggest that ten round trips between Montreal and Toronto, constituting a month's work, does not seem hardly right.

Mr. WALTON: The point that I am trying to make clear is that it imposes no penalty on the company, from the operating standpoint and it spreads the work. If there is any other objection to it, I do not see it at the moment.

Mr. JACKMAN: It is satisfactory to the government if they are willing to accept the rule of one hundred and fifty miles being a fair day's work on a run like that. What it really works out to is this, that you have a considerable number of running crews each of whom completes his monthly assignment in ten round trips between Montreal and Toronto.

Mr. WALTON: That is right.

Mr. JACKMAN: May I say that seems to me to be rather easy.

Mr. VAUGHAN: But, you don't have to collect fares.

Mr. LACROIX: Mr. Chairman, may I call attention to the item of fixed charges paid by the company. I see that their fixed charges amount to some $49,000,000, of which $26,000,000 odd is for interest on funded debt-public, and $20,306,000 is "interest on government loans". I see that the payments made on that account amounts to roughly twenty per cent gross revenue. That is a very important item, is it not?

Mr. VAUGHAN: Yes, sir.

Mr. LACROIX: I just wanted to ask the minister if there is any way of easing the burden of interest payments to the government so as to enable the company to improve their position in such a way as would place them in a more favourable position in comparison to other railways.

Hon. Mr. CHEVRIER: I can only say in reply to that, Mr. Chairman, that the question is one which is being studied very carefully and very earnestly. It is being studied with a view to the possibilities of refinancing; as a matter of fact only recently a refinancing scheme was put into effect which has meant a saving of a million dollars a year to the company. And another matter has been given some attention, the possibility of accepting income bonds in view of interest on demand notes on certain repatriated stocks. While no decision has yet been reached on that aspect of the matter the government is giving it very close, very serious consideration.

Mr. HAZEN: Did you say that a refinancing scheme has been put through?

Hon. Mr. CHEVRIER: No, what I meant by that was that certain issues of bonds are refinanced from time to time and the interest rate revised on the refinancing, thereby making a saving to the company of a certain amount.

Mr. HAZEN: And now, I would like to ask another question. You say in the statement which you first read to the committee, after referring to these recent costs of operation:—

> We are in the toughest kind of a squeeze play. Our selling prices are frozen but our production costs are mounting in ominous fashion. Even a continuation of traffic volume at wartime levels would not suffice to enable the railway to shoulder additional burdens of the magnitude I have outlined, without relief of some sort. Traffic volume is now falling.

Then you say that these conditions cannot go on, and you suggest that there must be some relief somewhere.

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: Have you in mind any particular form of relief?

Mr. VAUGHAN: The form of relief that we have in mind is an increase in freight rates.

Mr. HAZEN: What about passenger rates?

Mr. VAUGHAN: We have not given consideration, for the time being, to an increase in passenger rates. As you know, in the United States the railways have applied for an increase of 25 per cent in their freight rates. We have not submitted any application—and when I say we I mean the Canadian railways—yet to the government.

Hon. Mr. CHEVRIER: Does the American brief include passenger rate increases?

Mr. VAUGHAN: No, sir.

Mr. HAZEN: The Canadian Pacific Railway must find itself in the same position as your railway does?

Mr. VAUGHAN: Yes, they do.

Hon. Mr. CHEVRIER: Their annual report would indicate that.

Mr. HAZEN: Do you propose to make an application for an increase in freight rates? How does the matter stand at present?

Mr. VAUGHAN: Yes, we do propose to make an application for an increase in freight rates.

Mr. HAZEN: From the look of your statement it seems to me that that should be done in the near future.

Mr. VAUGHAN: That is now in the course of preparation by the railways in Canada, by all the railways in Canada.

Mr. HAZEN: Do you know when it will be made?

Mr. VAUGHAN: I could not say just at the moment. It is rather difficult for us to make up our mind as to just exactly how much we need. There are increases in expenses coming along almost daily: new labour awards are being made by the War Labour Board at Ottawa; increases in prices are being allowed almost daily on materials which railways use, and we do not know where the end is going to be; and we would not like to make an application and find we had not asked for enough.

Mr. HAZEN: When Mr. Reid was here he asked you if you had any suggestions to make for keeping the railway from going in the red—if I understood him correctly—and I suppose this would be one of the means?

Mr. VAUGHAN: That matter has been very actively under consideration.

Mr. HAZEN: Now, on page 1 of your report to the minister you say: "Competition between railway and highway services presents a problem of growing importance. It is desirable that this competition should be on a fair basis, having due regard to public convenience and necessity. To accomplish this, common regulatory control would seem to be necessary."

Mr. VAUGHAN: That is right.

Mr. HAZEN: Has your company taken any steps to recommend or to bring about some common regulatory control?

Mr. VAUGHAN: The railways of Canada have for some years recommended there should be a common regulatory control. Perhaps the minister could explain the question.

Hon. Mr. CHEVRIER: I can say something with reference to that. I do not recall the year, but the then Minister of Transport, who was Mr. Howe, including in a bill a section or sections whereby the Board of Transport Commissioners would have jurisdiction over transportation on certain highways, and I think, although I am speaking from memory now—I think it had to do chiefly with interprovincial travel; parliament refused to give the minister that authority. Then, again, I think there was a bill submitted to the Senate with the same end in view which was later withdrawn because of objection.

Mr. HAZEN: It was interprovincial?

Hon. Mr. CHEVRIER: Yes, of course, Mr. Hazen will realize immediately there is a difficult problem there, one having to do with provincial rights, and the government attempting to give to the Board of Transport Commissioners jurisdiction over highways would get into all sorts of difficulties.

Mr. HAZEN: For through freight going from one province to another, there might be something.

Hon. Mr. CHEVRIER: Yes, on the face of it that would seem to be in order, but my understanding of the law is that when a matter becomes interprovincial consent of the provinces is necessary before any legislation has effect.

Mr. HAZEN: Could the minister tell us whether this matter has been explored further; has anything been done about it?

Hon. Mr. CHEVRIER: It is under consideration all the time because of representations that are made by the railway, but so far as further exploration is concerned, unless the provinces consent to give up a part of their jurisdiction, I do not think we can proceed any further.

Mr. HARKNESS: Mr. Vaughan, in connection with these increases in rates which you people no doubt have been studying, are you thinking of a flat increase, or are you thinking of a revision of railway rates generally in that connection?

Mr. VAUGHAN: That has not been determined either. We will probably follow to some extent what has been done in the United States, not necessarily using the same percentages. They have asked for a flat increase of 25 per cent on most commodities with specific increases on other commodities such as coal, lumber, ore and things like that.

Mr. HARKNESS: What I was thinking of is this: you know that there is a great deal of dissatisfaction in some parts of the dominion over the freight rates the people have to pay, and I was wondering whether your proposals involve a revision of the freight rate structure in order to meet some of these inequalities.

Mr. VAUGHAN: No, sir; any application we would make for an increase in freight rates would not take those matters into account; we would only deal with the freight rate structure as it exists at the present time.

Mr. HARKNESS: I wonder if the minister could tell us whether anything is contemplated in the revision of freight rates?

Hon. Mr. CHEVRIER: Well, I think the president has answered that very well. It is not up to the government to make application in regard to freight rates.

Mr. HARKNESS: What I was thinking of is this: all kinds of bodies in western Canada particularly have made application for revision of freight rates——

Mr. MUTCH: Reduction.

Mr. HARKNESS: A revision to bring some of these freight rates in certain areas more in line with freight rates in other areas, and I was wondering if the government was exploring that situation at all or had contemplated doing anything along that line?

Hon. Mr. CHEVRIER: Perhaps the best way to answer that is to tell Mr. Harkness that the question of freight rates is one which is a difficult one, and perhaps one of the most difficult things to understand is the manner in which freight rates have been set up all across the country. The application, should it be made, would, I presume, be made by the railways to the ordinary court, namely, the Board of Transport Commissioners of Canada. Whether the application would be one for a flat increase or one for increases in various parts of the country, I do not know. The president says he is giving that some consideration; but if an application were made to the Board of Transport Commissioners I believe that anybody affected would have the right to reply, to put in a counter-submission, suggesting that in certain parts of Canada there is an unfairness created by the rates, and asking for revision downwards. It would then be up to the board to decide what decision to make under the circumstances. That is one method of dealing with the difficult and complicated question of freight rates.

Mr. VAUGHAN: Wartime prices control is involved.

Hon. Mr. CHEVRIER: As the president points out, there is that very important feature, namely, that under the regulations of Wartime Prices and Trade Board freight rates cannot be upped; they cannot be revised downward or increased; and until that regulation has been amended or taken away the freight rates could not be increased.

Mr. HAZEN: The total operating revenues are $433,773,000. Of that amount how much was obtained from freights, and how much from passengers?

Mr. VAUGHAN: You will find that on the opposite page, on the first page, marked No. 4 in the report. (Page 8 here)

Mr. GIBSON: Twenty-five per cent there would be about $80,000,000.

The ACTING CHAIRMAN: How would it do if we took this report page by page, starting on page 5?

Mr. NICHOLSON: Let us go back to the original statement of the president. I would like to follow up a statement made. He suggested that something should be done about reducing the interest paid to the government. I think we are all concerned about the problems raised by the president with regard to future earnings. I note that our fixed charges are 11.3 per cent, a ratio of nearly twice that of the Canadian Pacific Railway or of class one roads in the United States. I gather that this situation has existed ever since the Canadian National Railways System was incorporated. Could the president indicate how frequently representations have been made by the management to the government for some relief in this field and how recently the last representation has been made?

Mr. VAUGHAN: I have a statement here which I prepared with respect to fixed charges, and which I shall read to the committee with the permission of the chairman, if I may. It goes into all that matter in detail. There are copies of this statement which will be passed around to the members so that they can follow as I read it.

Mr. JACKMAN: In connection with Mr. Hazen's question with regard to interprovincial trucking, may I ask the minister whether the opinion he gave about the jurisdiction of the federal government in that field was a legal one?

Hon. Mr. CHEVRIER: No, I was speaking from memory, Mr. Jackman.

Mr. JACKMAN: Has the dominion not the right to regulate interprovincial traffic, as they do interstate traffic in the United States?

Hon. Mr. CHEVRIER: The situation in the United States is entirely different from that in Canada. In the United States there is an Interstate Commerce Commission which has jurisdiction over the whole country, whereas in Canada there is a provincial body in each province: in Ontario, it is the Municipal Railway Board; in Quebec it is the Public Services Board; and in other provinces it is some other board.

Mr. JACKMAN: But in each of the states of the union there will undoubtedly be a separate state board to regulate intrastate trucking; but where does the I.C.C. get its jurisdiction if it does not get it from the constitution of the United States, and have we not a similar provision—

Hon. Mr. CHEVRIER: I think the I.C.C. gets authority from the constitution, but we have no similar provision.

Mr. JACKMAN: Have we not any implied power in that regard?

Hon. Mr. CHEVRIER: Well, that is a matter—

Mr. JACKMAN: Surely it must have been up time and time again?

Hon. Mr. CHEVRIER: With reference to that question, it is a matter for legal opinion, and I would not like to give my opinion as being a legal opinion on the question.

Mr. VAUGHAN: It was up actively in the House.

Hon. Mr. CHEVRIER: Undoubtedly.

Mr. MUTCH: And before the committee.

Mr. JACKMAN: I am not asking for a political decision, which is guided by other considerations. Does the British North America Act give us power as a federal authority to regulate interprovincial trucking traffic if we so desire?

Mr. LACROIX: That is not a matter for us to decide; that is a matter for interprovincial conferences; and the way things go on now it is not going to be settled quickly.

Mr. JACKMAN: I am asking whether we have the power, because in interprovincial conference—

Mr. LACROIX: You have received the answer.

Hon. Mr. CHEVRIER: I am afraid, Mr. Jackman, that I cannot answer that question other than I have. I tried to say a while ago that so far as intraprovincial transportation is concerned, I think clearly it is within the provincial jurisdiction, but so far as the interprovincial matter is concerned I am not in a position to answer. I would think, however, that some consent of the provinces would be required. What makes me think that is this, that when a like section was introduced into a bill in the House, giving to the Board of Transport Commissioners of Canada jurisdiction over that kind of traffic, there was so much objection from certain members of the House on this very legal point that it was seen fit to withdraw that section.

Mr. HAZEN: Would it be in order to ask the Department of Justice for a ruling on that question which Mr. Jackman has just asked?

Hon. Mr. CHEVRIER: I shall be glad to get it.

Mr. HAZEN: I think it would be important to have that decision.

Hon. Mr. CHEVRIER: I shall be glad to get it.

Mr. JACKMAN: In the B.N.A. Act, as I recall it, there is a section which says that any railway in Canada, whether intra- or interprovincial can be declared to come under your department. There is some section which gives the dominion the right to declare any railway in Canada under your jurisdiction.

Mr. MUTCH: Aren't we getting a little ahead of ourselves?

Mr. JACKMAN: Where does the power derive from?

Hon. Mr. CHEVRIER: If you are referring to railways, there is no question that the federal government has jurisdiction; but I am not talking about railways, I am talking about competition of the railways with trucks and the like on the highways.

Mr. JACKMAN: Railways are specifically set out in the B.N.A. Act as within the province of the dominion.

Hon. Mr. CHEVRIER: Right.

Mr. JACKMAN: And once you declare a railway under this section it comes within your province, but no such section refers to interprovincial trucking?

Hon. Mr. CHEVRIER: No, but there is a section, section 92 of the B.N.A. Act, which clearly gives authority to the provinces so far as highways are concerned.

The Acting CHAIRMAN: Gentlemen, is it your wish that Mr. Vaughan shall read his statement, and afterwards we will go on with the report?

Mr. VAUGHAN: This is the statement with respect to fixed charges of the system:—

During the meetings of this committee in October last, attention was called to the disproportionate amount of gross revenues of the National System absorbed by fixed charges and there was some discussion of the matter, at which time I advised the committee we had up with the Department of Finance the question of certain adjustments in our fixed charges and suggested the matter might be more fully discussed at the next meeting of the committee. In anticipation of such discussion I have prepared a memorandum stating our views and indicating the necessity for remedial action. I might say that the negotiations with the Department of Finance to which I referred last year related to a recommendation of mine that the government accept income bonds of the Canadian National Railway Company in payment of the amount owing by the railway to the government for repatriation of British securities.

In a matter of this sort it is well to examine into the principles underlying the capitalization of railroads generally. In the United States the issuance of railroad securities is under the complete control of the Interstate Commerce Commission. Under section 20a of the Interstate Commerce Act it was made unlawful for any carrier to issue securities unless and until the commission by order authorizes such issue. In recent years the commission has exerted strong pressure on the railways to bring about a gradual reduction of funded debt and fixed interest charges. They have stated this is their policy and that it will be continued. One opportunity to effect a reduction is the utilization of surplus earnings. Another is afforded when bond issues mature and can be refunded at current lower interest rates. In approving 27 railroad refundings during the twelve-month period from June, 1944 to May, 1945, involving $1,081,415,000 of new securities, there was an annual saving in interest charges based on the differences in the coupon rates on the old and new issues in excess of 25 per cent. The main reduction, however, has been brought about under plans of reorganization under section 77 of the National Bankruptcy Act. Subsection (*b*) under which railroad reorganizations are effected, requires that the plan of reorganization shall provide for fixed charges in such amount that, after due consideration of the probable prospective earnings of the property in the light of its earnings experience and all other relevant facts, there shall be adequate coverage of such fixed charges by the probable earnings available for the payment thereof. Fixed charges, which is a term in general use by the railroads, it should be noted, comprises rent for leased roads and equipment, interest on funded and unfunded debt and amortization of discount on funded debt and, in the case of Canadian National, interest on government loans.

Attached to the memorandum you have before you is a statement "A" which shows as of September 30, 1945, the reduction in fixed charges under plans of reorganization approved by the commission. From this statement you will note that the debt of 32 railroads before reorganization was $4,300,521,178, and after reorganization was $1,833,543,264, a reduction of $2,466,977,914. This reduction is 57·36 per cent of the prior debt. The annual fixed charges were reduced from $148,865,539 to $40,113,369, a reduction of $108,752,170 or 73·05 per cent. I ask the committee to note that not only was there a very substantial reduction in total debt but also that the debt after adjustment included $824,441,464 or 45 per cent in the form of income bonds.

The procedure followed by the commission when making changes in the capital structure of American roads, after determining the total amount and the majority of each class of claims, is to ascertain what is the reasonable amount of net earnings which may be expected under all conditions to be available for fixed interest charges. Thereafter the total amount of fixed interest bearing debt and interest thereon is placed at a figure within the expected earning capacity, and the possibility of increased earnings over the minimum figure is used as a basis for allocating income bonds. If there is a possibility that contingent interest may be earned then provision is made for preferred stock.

The committee will also wish to refer to the funded debt and fixed charges of the Canadian Pacific Railway Company. The funded debt of that company at the end of 1938 was $232,188,724, whereas at the end of 1945 it was $93,669,000, a reduction of 59·66 per cent. The 1945 report shows that their fixed charges (which in 1938 amounted to $26,853,756) have been reduced to $19,547,129 in 1945, a reduction of 27·21 per cent. This reduction in fixed charges has been brought about by debt retirements out of surplus earnings and by refundings at lower interest rates, and also by putting their Soo Line through reorganization proceedings. There is an apparent disparity in the ratio between their funded debt and fixed charges. The explanation is that their fixed charges include not only interest on funded debt but interest on debenture stock, leased road rentals, and the interest guaranteed by the C.P.R. on the Soo Line Company's bonds, etc. They do not include the principal of their debenture stock in funded debt.

Now let us see how the Canadian National compares with American railroads and with the C.P.R. In the seven years referred to, 1938-1945, the funded debt of Canadian National Railways, including loans at interest from the government, was reduced from $1,298,141,226 to $1,247,381,610, a reduction of 3·91 per cent, and the fixed charges were reduced from $53,451,741 to $49,009,508, a reduction of 8·31 per cent. In our case the reduction has been brought about by the utilization of surplus earnings, repatriation proceedings and refunding at lower interest rates.

As I have mentioned, the Interstate Commerce Commission in their determination of permissible fixed charge debt place main reliance upon the carrier's ability to service such debt. It is one thing to talk about cost per mile of road, operating ratio, mortgage security, and so on, but if the earnings are insufficient to support the debt structure imposed upon the property, that structure is top heavy. Statement "B" attached to this memorandum shows the relationship of fixed charges to gross earnings for the larger U.S. roads, also for U.S. class 1 roads as a whole, and for the Canadian Pacific and Canadian National respectively. In 1939 which is taken for comparison as being the last pre-war year, the ratio of fixed charges to operating revenues for class 1 railroads was 15·21 per cent, for the C.P.R. 16·76 per cent and for the C.N.R. 26·24 per cent. For 1944, the latest year for which full comparison is available, the percentage for class 1 railroads was 6·00, for the C.P.R. 6·50 and for the C.N.R. 11·44.

May I interject here that the Canadian Pacific has a further advantage over the Canadian National in that a very large part of their interest charges is paid in sterling from which they receive an exchange benefit. Nearly $20,000,000 of our interest charges are payable in U.S. funds on which there is an exchange penalty. This exchange feature, so far as interest charges are concerned, penalizes the Canadian National by $1,937,000 a year whereas it benefits the Canadian Pacific to the extent of over $300,000 a year.

Even if our debt to the government with respect to repatriated securities were put on a contingent interest basis our percentage of fixed charges to operating revenues in 1944 would be 8·35 as compared with 6·50 for C.P.R. and 6·00 for U.S. class 1 roads. On any basis of comparision the C.N.R. is seen to be out of line in the relationship of its fixed charges to its gross revenues. This situation is inherent to the National Railway System. It follows from the policy adopted when the insolvent privately owned railways were taken over with all their debts. In the five years prior to 1923 (the first year of amalgamation) the railways comprising the amalgamated system lost $60 millions before providing for interest. Including interest (about $32 millions per annum) they lost $222 millions, an average annual deficit of $44 millions. That was before the Canadian National Railways came into being.

Now it may be said that the Canadian National Railways had its capital structure revised in 1937 and I think some explanation should be given as to what that revision accomplished as I think it is thought by some people that our capital structure was revised and put upon a satisfactory basis at that time. We had an adjustment it is true, but it was only a partial adjustment. The 1937 revision was confined to the relationship between the government and the railway and did not deal in any way with the large funded debt of the system in the hands of the public. It was considered at the time there was no possibility of the Minister of Finance taking up in public accounts a block of railway obligations so long as they were held by the public. It would have been impracticable to leave out of the railway accounts any of its outstanding securities in the hands of the public.

Among the things which were done under the Capital Revision Act was the removal from the railway balance sheet of all government loans to the railway on deficit account for the period prior to 1932. Of course, they should never have been there. It was wrong from the beginning to treat appropriations for deficits as interest bearing loans. The government was only restoring its impaired equity as proprietor of the National System. It was not adding to the capital in the enterprise and the payments were not represented in any way by income producing assets. These facts were recognized in 1933 as a result of criticism in the Duff Commission report. From 1932 forward any deficit in the operation of the railway has been met by vote of parliament. The Capital Revision Act of 1937 applied this principle retroactively in respect of deficit payments prior to 1932. That is to say, the 1937 revision treated deficit payments prior to 1932 similarly to the treatment which had been given to payments from January 1, 1932 forward.

With respect to government loans for capital purposes, prior to 1932, the Capital Revision Act changed the category of such loans to equity capital. The amount involved was $270,037,437. The Act benefitted the railway in that this amount of government capital in the railway became share capital and freed from any fixed charge against operations, but it is not a fact that this adjustment was considered a final adjusment or an adequate adjustment. The fact is, as stated above, the adjustment permissible at that time was restricted to the debts of the railway to the government and could not extend to the debts of the railway to the public. It was thought unwise to refuse the relief it was possible to secure on the grounds that it was not a final and complete solution. The evidence before the standing committee on May 28, 1935, pages 207-214, gave a clear indication that in the opinion of the trustees the proposals for capital revision then under consideration did not go far enough and that the annual interest on the funded debt in the hands of the public would continue to be greater than the railway could be reasonably expected to carry from net earnings. Later after the trustees had been superseded by a board of directors and the directors were asked for their views, in their minute of January 21, 1937 approving the policy of the bill they added to their resolution the directors "desire to add that they reserve the right to recommend additional measures when they have had time and opportunity for a more detailed study of the capitalization and general financial position of the system". The Capital Revision Act was made effective to the accounts of the railway as of December 31, 1936. It is worth noting that on their reduced basis the fixed charges represented 28 per cent of gross revenues. The Canadian Pacific ratio in 1936 was 17 per cent and for U.S. class 1 railroads the percentage was 16·12 per cent. Clearly no effort was made to put us on a comparable basis with such other railroads. As a result of the war however, a large block of railway securities previously owned by U.K. residents has been transferred under repatriation proceedings from public ownership to that of the government and had the present situation existed in 1937 it is fairly sure that the repatriated securities would have been retired as railway interest bearing obligations and the government's interest would have been put on an equity basis, as was done in 1937 as regards all the indebtedness of the railway to the government for capital purposes.

Another thought which may occur to you is why we are exercised about this matter at a time when the railway has been meeting all its interest charges, including interest payable to the government. I desire that there shall be no misconception as to the basic situation confronting the railway because of any prosperity created by wartime conditions. Using 1941 as a base year, our gross revenues in that year were $304 millions. Since then the railway payroll has been increased by reason of the cost-of-living bonus, increases resulting from awards of the National War Labour Board, allowances for holiday pay, etc. Prices for railway material have increased. It is estimated that had the 1945 level of operating costs been in effect during 1941 there would have been an additional charge to the 1941 operating expenses of $53·3 millions. In 1941 with gross revenues of $304 millions, and at the level of operating costs then prevailing we had an income surplus of $4 millions, but had the 1945 level of operating costs prevailed the surplus of $4 millions would have been turned into a deficit of $49 millions. We do not know to what level traffic volume will decline from its wartime level but we are concerned at the prospect of a substantial decline and at the same time to be confronted with these large additional operating charges. We also foresee increased bus and truck competition, and deepening of the St. Lawrence waterway, and increased air transportation. I am trying to put the Canadian National Railways on a sound basis, we want to show a satisfactory financial statement and we do not want to feel that we are a burden on the government. We do not want the "railway problem" to reappear. The Canadian National Railways is operating efficiently but it may very easily be made to appear a failure because it cannot achieve the impossible. In that event the effect on the railway organization itself will be one of discouragement. Moreover the comparison between state ownership and private enterprise is involved. State ownership should not be so handicapped as to preclude the possibility of a proper comparison with railways under private ownership.

In conclusion I should emphasize that the acceptance of our proposal would not increase or diminish the amount of our cash settlements with the government. We always pay them everything we earn, a part of such payments being in the form of interest and the remainder as surplus, and we shall continue so to do. The only effect it would have would be that in those years in which we failed to earn part or all of the interest on the loans in question, our book deficit would be correspondingly reduced and it would not be necessary for parliament to vote us a contribution in order to pay to the government the unearned interest.

STATEMENT "A"

CHANGES IN DEBT AND ANNUAL FIXED CHARGES UNDER PLANS OF REORGANIZATION APPROVED BY THE COMMISSION FOR RAILROADS IN REORGANIZATION PROCEEDINGS BEFORE THE COMMISSION AS OF SEPTEMBER 30, 1945

	Debt			Annual Fixed Charges		
(1)	Before Re-organization (2)	After Re-organization (3)	Reduction (4)	Before Re-organization (5)	After Re-organization (6)	Reduction (7)
Plans Approved by Commission						
Akron, C. & Y.	$ 8,309,858	$ 3,977,500	$ 4,312,358	$ 364,956	$ 170,965	$ 193,991
Alabama, T. & N.	5,024,257	1,904,663	3,119,594	237,763	10,472	227,291
Alton	70,248,635	29,192,612	41,056,023	1,689,613	328,807	1,360,806
Boston & Providence	2,821,000	....	2,821,000	....	....	....
Central of Georgia	88,850,319	33,499,852	55,350,467	2,907,201	644,448	2,262,753
Chicago & E. I.	50,250,476	28,071,500	22,178,976	2,248,798	662,869	1,585,929
Chicago & North Western	431,390,104	222,078,460	209,311,644	16,549,740	3,382,079	13,167,661
Chicago Great Western	48,050,452	27,190,268	20,860,184	1,898,783	849,000	1,049,783
Chicago, I. & L.	45,326,597	16,598,296	28,728,301	1,506,965	142,439	1,364,526
Chicago, M. St. P. & P.	670,259,024	208,595,327	461,663,697	13,924,316	3,481,903	10,442,413
Chicago, R. I. & P.	456,726,866	128,850,060	327,876,806	13,227,913	1,734,972	11,492,941
Chicago, S. S. & S. B.	5,604,447	1,553,800	4,050,647	334,117	50,870	283,247
Copper Range	2,280,000	....	2,280,000	107,975	600	107,375
Denver & R. G. W.	193,955,366	87,474,322	106,481,044	6,577,456	2,090,023	4,487,433
Erie (Incl. Chicago & Erie)	304,981,178	191,277,279	113,703,899	13,593,536	7,520,226	6,073,310
Florida East Coast	87,660,000	20,916,000	66,750,000	2,809,555	19,555	2,790,000
Fonda, J. & G.	8,381,334	1,249,755	7,131,579	150,311	26,158	124,153
Fort Dodge, Des. M. & S.	10,186,591	2,260,000	7,926,591	305,138	8,300	296,838
Kansas City, K. V. & W.	717,062	31,895	685,167	25,676	1,500	24,176
Louisiana & N. W.	2,319,394	968,980	1,350,414	112,413	34,822	77,591
Middletown & Unionville	432,671	20,000	412,671	7,400	0	7,400
Minneapolis, St. P. & S. S. M.	160,818,865	32,792,960	128,025,905	8,680,071	54,860	8,625,211
Missouri Pacific	679,025,516	352,683,131	326,342,385	27,759,356	7,289,735	20,469,621
New York, N. H. & H.	385,990,594	233,220,840	152,769,754	14,037,550	6,298,547	7,739,003
New York, Susquehanna & W.	18,871,374	9,452,844	9,418,530	628,983	209,623	419,360
Oregon, P. & E.	914,674	....	914,674	16,501	....	16,501
Reader	43,400	38,400	5,000	2,595	2,400	195
St. Louis-San Francisco	366,029,383	123,921,168	242,108,215	11,893,833	3,001,773	8,892,060
St. Louis Southwestern	83,243,643	37,499,827	45,743,816	3,023,893	1,527,275	1,496,618
Savannah & Atl.	8,106,805	1,388,000	6,718,805	251,968	74,946	177,022
Spokane Int.	7,996,994	2,846,400	5,150,594	273,155	....	273,155
Western Pacific	95,698,299	33,969,125	61,729,174	3,718,009	494,202	3,223,807
Total	$4,300,521,178	$1,833,543,264	$2,466,977,914	$148,865,539	$ 40,113,369	$108,752,170

Percentage reduction of debt, 57·4%.

Percentage reduction of fixed charges, 73·1%.

Debt after reorganization includes $824,441,464 of income bonds equal to 45·0% of reduced debt.

STATEMENT "B"

RATIO OF FIXED CHARGES TO REVENUES

		Miles of Road Operated	Operating Revenues	Total Fixed Charges	Ratio of Fixed Charges to Operating Revenues 1939	1944
Pennsylvania	1939	10,270	$ 430,930,778	$ 79,595,750	18·47	
	1944	10,098	1,010,015,912	75,539,810		7·48
New York Central	1939	11,008	341,086,708	48,103,444	14·10	
	1944	10,746	714,963,385	46,187,801		6·46
Southern Pacific	1939	13,069	217,572,889	30,007,291	13·79	
	1944	12,595	628,223,517	24,660,432		3·93
Atchison, Topeka & Santa Fe	1939	13,443	160,039,967	11,056,699	6·91	
	1944	13,103	528,080,530	10,080,425		1·91
Union Pacific	1939	9,901	164,253,371	14,221,976	8·66	
	1944	9,781	506,590,966	15,139,681		2·99
Baltimore & Ohio	1939	6,307	161,030,252	20,421,656	12·68	
	1944	6,144	387,193,036	17,742,199		4·58
U. S. Class I Roads	1939	233,277	3,995,004,251	607,740,479	15·21	
	1944	228,624	9,435,446,955	566,400,041		6·50
Canadian Pacific	1939	17,176	152,148,993	25,506,522	16·76	
	1944	17,030	320,262,132	20,831,149		6·50
Canadian National	1939	23,668	203,820,187	53,488,165	26·24	
	1944	23,496	441,147,510	50,474,480		11·44
	**1944*	*23,496*	*441,147,510*	*36,837,956*		*8·35*

*On basis of government accepting income bonds in repayment of advances for repatriation of securities.

Mr. NICHOLSON: I would like to ask President Vaughan about the statement made in evidence before this committee, made in 1935 which indicates that at that time there was a proposal for some sort of capital revision, and he said something to the effect that that did not go far enough, the interest on the funded debt made a considerable operating cost item for the railway, and so on. Again, in the evidence of the committee sitting in 1937, emphasis was placed on the fact that the management of the railroad was not satisfied with the financial arrangement as it then stood. I wonder if Mr. Vaughan would indicate what attempt has been made since 1935 to get some measure of relief, what recommendations have been made, and what he thinks now should be done in the way of getting some measure of relief?

Mr. VAUGHAN: There have been representations made at different times during the last few years, many representations have been made.

Mr. NICHOLSON: I wonder if the minister would indicate to us what they were.

Hon. Mr. CHEVRIER: I can confirm what the president has said, that representations have been made since I have been in office. They have been given consideration and they are still being considered.

Mr. NICHOLSON: I wonder if the minister would indicate his ideas as to what relief might be given. I note that President Vaughan, in the last paragraph of the statement which he read to the committee on opening this morning, states, very significantly I think, that it is unfair to place the Canadian National Railways forever in this position. We all recognize that the refinancing of the capital charges imposed on the railways was unreasonable. I am not suggesting that the public should suffer, but I think the burden should be placed where it belongs, on the government rather than on the railways.

Hon. Mr. CHEVRIER: All I can say in answer to your question, Mr. Nicholson, is that the matter is under careful consideration, but I can give you no assurance that a decision will be reached.

Mr. GIBSON: In the States where they made this capital rearrangement that loss of $2 billion had to be taken by the public generally?

Mr. VAUGHAN: The public paid for it, yes.

Mr. PICARD: When the reorganization took place in Canada, it was the government who took the loss, was it not?

Mr. VAUGHAN: Nobody was asked to take a loss. There was simply put into effect a change in the method of accounting. If we did not earn the interest on the government loans it would show as a loss in our accounts.

Mr. PICARD: But the way the matter stands now, the public own it?

Mr. VAUGHAN: I am not suggesting that it should be altered at all.

Hon. Mr. CHEVRIER: That is only in so far as the $400,000,000 repatriated from the United Kingdom is concerned.

Mr. PICARD: But if I understand the situation in the United States, their fixed charges have been reduced very much more than what you are suggesting be done here, and the loss on the revaluation has to be absorbed by the security holders, the public.

Mr. VAUGHAN: Yes.

Hon. Mr. CHEVRIER: Those lines went into liquidation.

Mr. PICARD: And at the time when the Canadian National Railways was formed it assumed the debts of the companies then taken over.

Mr. VAUGHAN: If the government of the day had not wished or desired to protect private capital, a number of the railways which now make up the Canadian National would have been forced into liquidation because of the fact that they could not meet the interest charges on their funded debt, and the result would have been that their funded debt would have been reduced to a point where they could earn interest charges on it.

Mr. PICARD: And they would then have taken the same step as is being taken now in the United States under the supervision of the Interstate Commerce Commission?

Mr. VAUGHAN: We feel now, in respect to this $400,000,000 of securities on which interest is still being paid, that the time has come for an adjustment.

Mr. PICARD: I agree with you, I think you should have a revision of your financial set-up.

Hon. Mr. CHEVRIER: This relates only to the $400,000,000.

Mr. PICARD: If I understand you correctly, there is no question of a conversion in which the public would assume the loss.

Hon. Mr. CHEVRIER: That is right.

Mr. PICARD: But had those roads which now make up the Canadian National continued to operate as private companies we would have been faced with the same situation as they have had in the United States where the public had to assume the loss. Had the government not guaranteed the investment of the public the same situation would have developed here as has developed over there during the last two years, and the public would have lost through the reorganization the same as they did there.

Mr. VAUGHAN: Or, take today; if we did not have the backing of the government we would have had to go through receiver's hands, not for the last five years, but before that, and the court or the liquidator, whoever looked after the matter, would have reduced our fixed charges to a figure that we could have earned interest on. We have never had that opportunity because it was considered that the credit of the government would be involved if we attempted to go through a form of receivership.

Mr. PICARD: Then, that $400,000,000 of charges there, while it may only be a book entry, still affects the ratio of fixed charges and income, and it would be still higher—if that were taken over as you suggest—your fixed charges in relation to income would still be higher than the fixed charges for similar roads in the United States?

Mr. VAUGHAN: That is correct.

Mr. MUTCH: What you are saying in effect is, that what we are doing is taking our money out of one pocket and putting into another pocket. It is just an interchange between government accounts, the payment of the fixed charges on this $400,000,000.

Mr. VAUGHAN: Exactly. It does not make one particle of difference to the government in any shape, manner or form. Any time we earn money we pay it to the government; and if we do not earn it we cannot pay it anyway. We are merely asking for an adjustment in our financial set-up.

Mr. MUTCH: I am not so much concerned by what happens to the government; is it not in effect to change the position so far as the taxpayers are concerned, but under the present system the taxpayer is given the impression that funds are being lost where in reality there is no loss at all. It is made to appear as a loss by reason of the fact that it shows as a deficit whereas all we are doing really is to turn it over from one account to another.

Mr. PICARD: That should have been done when the railways were taken over.

Mr. MUTCH: Well, whether it should have been done or not, we are stuck with it now.

The ACTING CHAIRMAN: Your idea is that the government should have cancelled that debt of $400,000,000.

Hon. Mr. CHEVRIER: No.

Mr. VAUGHAN: No. We say to them, instead of taking demand notes from us on which we are obliged to pay 3·5 per cent interest, you accept income bonds on which interest would be paid when earned. Such an arrangement would not change the position of the government in one particular, or the position of the public, but it would give us a little better bookkeeping set-up and one which we should have.

Mr. HAZEN: This $400,000,000 securities to which you refer is the amount which was taken over from the United Kingdom residents since the outbreak of the war?

Mr. VAUGHAN: Yes, sir.

Mr. HAZEN: And you want to have that set out separately in the statement? Where does that appear?

Mr. VAUGHAN: That is on page 2 of the report.

Mr. JACKMAN: May I ask, Mr. President, if you had this $400,000,000 transferred to income bonds in place of demand notes to the government, would that complete your demand for capital readjustment; or would you come along next year or in the years to come for further readjustments?

Mr. VAUGHAN: I would not make any promises in that regard, Mr. Jackman, because we still would not be in a proper position even after that $400,000,000 was dealt with; our fixed charges would still be higher than they should be in comparison with other lines in so far as the ratio of fixed charges to gross revenue is concerned.

Mr. JACKMAN: You would be in exactly the same situation as were the 1937 directors in accepting benevolence, if you want to call it that.

Mr. VAUGHAN: Don't call that benevolence, we do not like that.

Mr. JACKMAN: I know you don't like it. But you still reserve the right to come back and ask for further revision in your capital structure; and the first difficult year that comes along would find you seeking adjustment with respect to your fixed charges.

Mr. VAUGHAN: We would say that we should have a proper set-up, one which would make our fixed charges not more than twenty-five per cent of what they are today. If you do that, if you would make our fixed charges not more than twenty-five per cent of what they are, we would not come back again. But this would be only a partial remedy of the situation.

Mr. JACKMAN: What relationship would the interest charge on the $400,000,000 bear to the total fixed charges, approximately? Would that reduce them about twenty-five per cent of itself? What was the amount of the reduction made in 1937? I see that in your brief you make some mention of the amounts written off, and of interest charges on deficit, and also an amount which was spent on capital expenditures—how much was the total in 1937?

Mr. VAUGHAN: Mr. Cooper has those figures.

Mr. COOPER: There has been mentioned an amount of some $270,000,000 as having been transferred from the category of interest bearing debt to that of equity capital. That was the first adjustment. An then, in respect of loans by the government to the railway for deficits; which as the president said should not have been treated as loans; the amount involved was $373,000,000. Then there was the interest which had been accrued in favour of the government amounting to $530,000,000. There was the $270,000,000 which was transferred, from the category of debt to equity capital and $904,000,000 which was eliminated from the balance sheet.

Mr. JACKMAN: On page 5, of your statement, and I want to be clear on this, in respect of government loans for capital purposes, there was the capital revision act which changed the character of these loans. Is that included in the figure that you have given us?

Mr. COOPER: Yes, I have been speaking of that figure.

Mr. JACKMAN: May I ask the chairman, in his reference to the capital reorganizations of the railways in the United States, whether any of those railroads were unable to earn their fixed charges during recent years?

Mr. VAUGHAN: I cannot say as to that. Most of those railroads have been in receivership for six or seven, some of them for ten years, and they just came out of receivership during this last year. I believe that during the war years most of them probably have done fairly well, as nearly all railways have done. It must be remembered that during the war years, not only did operating incomes rise materially, but the character of the traffic varied so that our rates on such commodities were remunerative. And now, we will not have these commodities to move during peacetime and that is going to affect all railways. You probably have seen where the railroads in the United States, many of the larger railroads—take the Pennsylvania, for example, has been operating in the red during the first three months of this year—they have been grossing about a billion dollars a year.

Mr. JACKMAN: Did any of the Class one railroads in the United States go through receivership during the period you mentioned?

Mr. VAUGHAN: Yes, nearly all of them were class one roads. That includes practically all the big lines.

Mr. JACKMAN: What is the basis for classification of railroads over there?

Mr. COOPER: Any railway whose earnings are in excess of a million dollars gross per annum is class "I".

Mr. VAUGHAN: On the I. C. C. list—there is the Northwestern, the Great-western, the Soo Line, the Chicago-St. Paul-Milwaukee-Pacific; here is the Soo Line (which is owned by the Canadian Pacific Railway) before reorganization fixed charges were $8,680,000; after $54,860.

Mr. NICHOLSON: Before we go on with the printed report, if there is no other matter before the committee, I wonder if the president would care to make some statement on the present coal situation, and particularly with respect to the possibility of a suspension in whole or in part of rail services in Canada.

The ACTING CHAIRMAN: Is there any reference to that in the report.

Mr. NICHOLSON: Yes, Mr. Chairman, it is referred to in the statement presented to the committee.

Mr. VAUGHAN: In the United States, as you may have read, there was an order issued from Washington, I think it was on the 7th of May, that rail service be cut down 25 per cent, and another 25 per cent on the 15th of May. And now, as the result of the miners going back to work they have decided not to make the second cut of 25 per cent, but the original cut of 25 per cent remains until the coal emergency is over. We have had some discussion in Canada, and we had practically reached the conclusion that if they had to take drastic action of that kind in the United States it would only be fair that we take similar action in Canada.

Mr. HARKNESS: In connection with the coal supply I remember that you said last year that Alberta coal was only being used as far east as some place in Saskatchewan, whereas at one time it was used pretty well all the way east to the head of the lakes.

Mr. VAUGHAN: Yes.

Mr. HARKNESS: Have you moved that boundary back again as far as the supply of Alberta coal is concerned?

Mr. VAUGHAN: It is gradually being moved back.

Mr. HARKNESS: Where is it now.

Mr. VAUGHAN: We have been able to get considerably more coal from the mines in the west than during the war. We took every ton of Canadian coal we could get from Canadian mines that was suitable to burn in locomotives. We were better off in the west than we were in the east. Take for instance last year, it cost us over $2,000,000 to move to points east of Montreal American coal, down as far as Truro, Nova Scotia, a territory that was always before supplied by Nova Scotia coal; but there was such a demand for other purposes during the war that the Canadian National Railways was compelled to move American coal into territories which in normal times used Canadian coal. Unfortunately, that involved very high costs for us.

Mr. HARKNESS: How far east have you moved the boundary for Alberta coal now?

Mr. VAUGHAN: I cannot say offhand. I can say this, though, that we are taking very large quantities of Alberta coal.

Mr. WALTON: It is used as far east as the lake head, Fort William and Port Arthur.

Mr. HARKNESS: You are practically back to the pre-war situation?

Mr. WALTON: That is right.

Mr. HARKNESS: You anticipate you will be able to get sufficient coal from the Alberta mines to make it economical for you to extend the limit eastwards?

Mr. VAUGHAN: I doubt if we could extend its use very far east in the face of existing conditions.

Mr. HARKNESS: In the event that the coal strike had continued, would you have been able to get a sufficient supply of coal from Alberta, British Columbia and Saskatchewan to look after your needs and keep your railway running?

Mr. VAUGHAN: I feel reasonably certain that with the coal we can get from western and eastern Canada plus what we have in stock, we will be able to get through without difficulty.

Mr. MUTCH: Would you have been substantially cutting into the stock piles for the winter for the civilian population by having done that?

Mr. VAUGHAN: We have cut into a lot of stock piles. We have loaded a lot of coal into cars since this strike took place in the United States.

Mr. MUTCH: My question had to do not so much with the use of western coal, as to the extent to which you had to cut into civilian stock piles.

Mr. VAUGHAN: I do not think it will aggravate the situation unduly, during the last few months the situation has been very much improved.

Mr. HARKNESS: In the event of these United States coal mines coming back into full production, would you then consider using American coal in parts of Manitoba and in the lakehead area, and so on, or would you just continue to use western coal?

Mr. VAUGHAN: That would depend to a great extent on cost. We always give preference to Canadian coal where price and quality are equal. In fact, we go a little bit further than that in many cases. There is a large territory particularly in central Ontario in which it is much easier for us to obtain our requirements from the United States rather than from Canadian points, and I think that will always be the case. If there should be a policy adopted some time whereby the coal companies are placed in such a position that they can sell coal to us at competitive prices, that is another thing.

Mr. HARKNESS: Then there was no fixed policy on your part to continue to use Alberta coal east as far as the lakehead?

Mr. VAUGHAN: No. I think it is only fair to tell you so. I do not want to mislead this committee. It is fair for me to say that we have got to buy all our commodities at lowest cost to the railway, quality and other things being taken into account.

The ACTING CHAIRMAN: But in case of any preference, it would be given to Canadian coal?

Mr. VAUGHAN: Absolutely.

Mr. JACKMAN: This question of Alberta coal is a matter of great concern to Canada, particularly to the people of the west, because it relates to the development of national resources. I wonder if you can tell us how you find Alberta coal for burning in engines on the railways.

Mr. VAUGHAN: The Alberta coal from certain mines is satisfactory for locomotive use. As a rule it hasn't got the B.T.U's. that the better grades of American coal has, and it is a much finer coal. We would be delighted to use Canadian coal if we could buy it at a price.

Mr. JACKMAN: You have been using it for years, and you have found it economical to use it as far east as the lakehead.

Mr. VAUGHAN: Well, it must be remembered that we used it east to the lakehead during the time when the government provided a subvention.

Mr. JACKMAN: Of how much?

Mr. VAUGHAN: I don't remember just how much it was now, Mr. Jackman. They gave the mines a sufficient subvention to enable them to meet the competitive price. Likewise they gave the mines in Nova Scotia a subvention to enable them to meet competitive prices. And as I said, our present concern is cost. We have to take cost into account, but if Canadian mines can supply the coal at a competitive price we will buy it from them.

Mr. JACKMAN: Have you any idea of how much that subvention works out, per ton? Perhaps you could tell the committee just where the break-even point is between Ontario and Nova Scotia, and also the break-even point in the west with respect to American coal and coal available from the western mines.

Mr. VAUGHAN: I haven't talked that over recently because during the war it has been a question of getting all the coal we could from every source we could, but prior to the war that took into account the subventions. At that time the break-even point for western coal was about the Manitoba-boundary.

Mr. NICHOLSON: Manitoba and Saskatchewan.

Mr. VAUGHAN: Yes, the Manitoba and Saskatchewan boundary—and the eastern coal, depending upon how the coal was moved, was at Montreal. If the coal was brought up by water from Montreal by the coal companies in their own boats they could meet the prices there.

Mr. HARKNESS: You are getting a subvention on Alberta coal that you use east of the Manitoba border?

Mr. VAUGHAN: No, sir, we as a railway have not been involved in the subventions; the coal companies apply for subventions in order to enable them to meet competitive prices; but that has not been involved during the war because we have had to take American coal into Saskatchewan because Canadian coal was not available. The subvention is a matter for the coal companies to arrange.

The ACTING CHAIRMAN: Now, gentlemen, it is 1 o'clock. Shall we meet at 4 o'clock? There are a lot of officers of the Canadian National Railways here, and I hope we can facilitate these officials as much as possible to get back to their work and make a little further profit in their year's work.

Mr. GIBSON: Get them back to work.

Hon. Mr. CHEVRIER: It has been the practice, may I say, to sit twice a day, and I am told sometimes three times a day, to allow the officers to get through with their work before this committee and get back to their offices.

The Committee adjourned to meet again at 4 p.m. this day.

The Committee resumed at 4.00 p.m.

The ACTING CHAIRMAN: Order, gentlemen, please.

Mr. JACKMAN: I think we were on the subject of coal when we adjourned at noon, and Mr. Vaughan had just given us the break-even point on the pre-war conditions for western and eastern sources of coal. I recall having read somewhere this morning that coal had to be hauled, imported coal, for use on the eastern division. May I ask him just how far we have to take coal east to supply the eastern division. You were using coal on the eastern division?

Mr. VAUGHAN: Up to the end of last year we were using Canadian coal at various points in the maritime provinces, but we we were unable to get sufficient to bring much of it as far west as Moncton. As a consequence of that we were compelled to take American coal down east as far as Truro, Nova Scotia.

Mr. JACKMAN: You could not use Nova Scotia coal west of Moncton?

Mr. VAUGHAN: Because we could not get sufficient of it.

Mr. JACKMAN: Because of insufficiency of supply; and your further statement was—what about Truro?

Mr. VAUGHAN: We took American coal all the way down to Truro, Nova Scotia.

Mr. JACKMAN: Did that condition prevail before the war?

Mr. VAUGHAN: No, no; it did not.

Mr. JACKMAN: Why can't we use Nova Scotia coal around Truro and on the eastern division?

Mr. VAUGHAN: For the reason that we have not been able to get it. We have taken every ton of Nova Scotia coal we could get but we could not get a sufficient amount to meet our requirements.

Mr. JACKMAN: Then, it is a matter of production, it is not primarily a question of cost.

Mr. VAUGHAN: No. Cost was not involved in that at all. There were two reasons, production had gone down, and all during the war consumption in the maritime provinces increased and there was a big demand for bunkering ships.

Mr. WALTON: Quite a bit of Nova Scotia coal also went to Newfoundland during the war.

Mr. JACKMAN: Was there as much coal produced in that area during the war as in pre-war days?

Mr. VAUGHAN: I think during the last two or three years of the war production was going down each year. During the war we took all the Canadian coal we could get from all sources.

Mr. JACKMAN: It seems to me most unfortunate that we should have to have imported American coal and carried it as far east as Truro.

Mr. VAUGHAN: We regretted very much the fact that we could not get Canadian coal because there was a tremendous expense to us involved in the movement of American coal moved down there. We figure that it cost us around $12.99 to get the American coal down to the maritime provinces against an average cost of—well, to put it this way, it cost us $4.29 more to haul it down there than we would have had to pay for Canadian coal.

Mr. NICHOLSON: $4—what was it?

Mr. VAUGHAN: $4.29 per ton. It cost us over $2,000,000 to move American coal to the maritime provinces last year; that is, our operating expenses were added to by that amount of money because we could not get sufficient Canadian coal to meet our requirements.

Mr. HARKNESS: Has that situation improved?

Mr. VAUGHAN: Yes.

Mr. HARKENSS: Production has increased?

Mr. VAUGHAN: Yes, and there is not the demand for bunker coal now.

Mr. MOORE: Some reference was made to-day to the use of oil in connection with locomotives, and I think the statement was made that the railway owned two oil wells in Alberta.

Mr. VAUGHAN: We have been operating some oil wells near Vermilion.

Mr. HARKNESS: Would it be profitable to the railways to operate their own coal mines in Alberta to supplement the production of private mines?

Mr. VAUGHAN: We do not believe we would be any better off mining coal ourselves. We would rather leave the production of coal to privately owned mines.

Mr. NICHOLSON: But you do own coal mines yourselves, do you not?

Mr. VAUGHAN: We own mines in the state of Ohio which came to the Canadian National through the Grand Trunk. They were purchased many years ago by the Grand Trunk Railway to protect their supply of American coal. We still operate those mines and last year they produced 1,300,000 tons of coal.

Mr. NICHOLSON: Your experience does not indicate that you would be warranted in going into the coal mining business?

Mr. VAUGHAN: We would prefer to stay out of the mining business if we can purchase sufficient coal to meet our railroad requirements.

Mr. HARKNESS: I think you said something to the effect that more coal could be produced in Alberta than you could use?

Mr. VAUGHAN: That is correct in normal times.

Mr. HARKNESS: So there is no reason for the railway going into the coal mining business.

Mr. VAUGHAN: No, that is correct. That applies also to eastern Canada.

The ACTING CHAIRMAN: Are there any other questions on coal?

Mr. JACKMAN: I suppose it is a fair inference then, Mr. Vaughan, that it would not pay the railways, or that one could not move maritime coal to points farther west under the subventions to the coal companies during the recent years. If you could not get enough coal, then it is not likely that a subvention would help.

Mr. VAUGHAN: I do not think the question of subventions is involved at all, certainly not during the war, because there was a ready market for every ton of Nova Scotia coal produced during the war, I think, without subventions. There may have been certain cases where subventions were necessary, but generally speaking there was certainly a market for every ton of eastern—Nova Scotia coal or New Brunswick coal—that could be produced.

Mr. JACKMAN: So the railways were not engaged in hauling Nova Scotia coal down to Montreal or places like that?

Mr. VAUGHAN: No.

Mr. JACKMAN: If there was coal you got it. You did not take any coal from the eastern mines and bring it up here to central points at the same time as you were hauling American coal down to the eastern divisions?

Mr. VAUGHAN: No, there was no cross-hauling at all.

The ACTING CHAIRMAN: All right, gentlemen, we will now take page 5, are there any questions on that?

Mr. HARKNESS: Mr. Chairman, I would like to refer to the third or fourth paragraph there:

> "Post-war projects were studied during the past year and plans were advanced for the improvement of the company's service to the public, particularly in regard to accelerated schedules and the provision of equipment designed for more economical operation and greater convenience and comfort for passengers."

And some place further on I noticed a number of new cars of various kinds had been provided for, but I did not notice that that included sleeping cars or anything along that line.

Mr. VAUGHAN: We have not ordered any sleeping cars as yet. In fact, we were unable until recently to get any priorities for passenger cars from the Department of Munitions and Supply. That does not apply now. We are having specifications prepared now for sleeping cars of the most modern design.

Mr. NICHOLSON: Could you give us an idea about the design?

Mr. HARKNESS: What I have is this, that the last few times I have travelled on the C.P.R. they have some very much improved sleeping cars and compartments which are really comfortable. I wondered if the C.N. had gone in for the same sort of thing.

Mr. VAUGHAN: We are planning on the most modern type of sleeping car available. We have conducted much research in connection with it, and when these cars are produced they will be the latest and most up to date cars. In the meantime we are rehabilitating a lot of our present equipment and modernizing it to some extent and redecorating it. The cars will be made as comfortable as possible.

Mr. MUTCH: Is a good deal of that work being done on the western division?

Mr. VAUGHAN: Yes, some of it in our Winnipeg shops.

Mr. HARKNESS: Have you any of these new style sleeping cars in operation yet?

Mr. VAUGHAN: We have none of the Roomette or duplex types.

Mr. HARKNESS: How long will it be before you get any of these into operation?

Mr. VAUGHAN: I think it will be the best part of a year.

Mr. HARKNESS: I would think that the C.N. would suffer so far as attracting passengers in competition with the C.P.R. if they do not provide that type of service.

Mr. VAUGHAN: We are going to get the most modern type of car.

Hon. Mr. CHEVRIER: You have an order in for some at the present time, have you not?

Mr. VAUGHAN: Yes, for the most modern type of coaches. The car companies have orders from us now also for baggage cars and the combined baggage-express cars—there are thirty coaches, as well as mail and express cars and baggage cars on order.

Hon. Mr. CHEVRIER: And when will these be in operation?

Mr. VAUGHAN: This fall.

Mr. PICARD: Last year you told the committee that you were investigating the possibility of obtaining new rolling stock and equipment; what has been done during the year.

Mr. VAUGHAN: We have developed it to the extent that we will soon have our specifications completed. Our men have spent considerable time with the railroad men of the United States, and with the car builders, developing the latest type of equipment.

Mr. PICARD: In the United States they have already put many new type cars on the road, have they not?

Mr. VAUGHAN: To a certain extent they have a number of duplex cars and roomettes in operation.

Mr. NICHOLSON: Would Mr. Vaughan care to make a further statement with regard to post-war plans. Two or three years ago we had a rather extensive brief presented on that subject to the reconstruction committee. It has been over a year now since V-E day. Would President Vaughan care to make a statement as to what condition these plans would be in?

Mr. VAUGHAN: Those plans as they were presented at that time are still on paper. I think we outlined three different types of things to be done: one was works that were necessary and should be done; another was things that were on the border line; and others that would be useful but would not add anything to our net returns. We have not done anything on those plans as yet. Materials, as you know, are very scarce and very difficult to get. The housing programme requires materials of all types; and there does not seem to be any need at the present time for spending money on post war projects. That may come in a few years, but it does not seem to be here yet.

Mr. NICHOLSON: How about the employment situation? I saw something somewhere in your report—over twenty thousand Canadian National employees who had been on service during the war and of that number there were seven thousand who were back.

Mr. VAUGHAN: There are a few more returned than that, I think, as I recall it, something like nine thousand have returned to service with us at the present time.

Mr. NICHOLSON: You said, a little less than half of those who had joined; does that mean that there were not enough jobs available for those men who came back and wanted to resume their employment?

Mr. VAUGHAN: There will be jobs for every man who joined the forces who was in our service before the war, to the extent that our schedules provide work. They may have to replace some of the temporary help that was taken on in the last two or three years. We have obliged ourselves to give every man who was in our service and who joined up for active service at least his old job, or as good a job as he had when he went away, and to improve it to the extent that he would have had promotions while he was away, always of course in accordance with our labour agreements.

Mr. NICHOLSON: But less than half of those who joined up are now working with you?

Mr. VAUGHAN: They are gradually coming back. Many of these men, of course, have money in their pockets and don't want to go to work immediately they come back, but they are gradually coming back. There are still some to come back.

Mr. PICARD: Can it be said that the passenger service is now back to its pre-war standard? I mean during the war the inevitable results of the pressure on the system meant lowering of standards. Can it be said that now your line is fully back to pre-war standards in respect to passenger facilities?

Mr. VAUGHAN: Not quite. For instance, on our morning train between Toronto and Montreal we have no parlour car. We had them on those trains before the war, but that equipment is being rehabilitated in our shops and will before long be back in service again.

The ACTING CHAIRMAN: I noticed that the train which leaves Montreal for Ottawa at 4.30 does not carry a diner.

Mr. WALTON: Not at the present time.

Mr. JACKMAN: Do you build many of your own cars and locomotives?

Mr. VAUGHAN: We do not usually build new cars. Our locomotives, passenger cars and freight cars generally are built by commercial shops. We do build a few refrigerator cars in our Winnipeg shops from time to time.

Mr. JACKMAN: Do you have any car-building or locomotive building plants?

Mr. VAUGHAN: We have facilities where we could build cars and locomotives if we had the space in them. These facilities are fully occupied with the repairing of our equipment rather than with the building of new equipment.

Hon. Mr. CHEVRIER: You do all your own repairs, do you not?

Mr. VAUGHAN: Yes.

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

Mr. MOORE: Yes. There is that reference in the fifth paragraph as to competition between the railway and highway services presenting a problem of growing importance. The member for Skeena asked me to ask you a question in connection with that. He tells me that during the war years a highway was constructed by the Department of Reconstruction to provide a service to Vancouver. Since that time the highway has been closed off and representations have been made by various bodies in British Columbia to have this route opened up, but their effort has not met with any success so far.

Mr. VAUGHAN: That matter is now under negotiation with the British Columbia government. A portion of the highway runs on the right of way of the railway. We had an agreement with the Dominion government that it was to be used only for war purposes and that they would protect us against accidents by the users of the highway. The war is over now and our agreement with the Dominion has expired. One of the British Columbia cabinet ministers came to see me a few days ago and we explained to him our views on the further use of the highway on our right of way. I am hopeful that we will be able to make a satisfactory arrangement with the provincial government in regard to the matter.

Mr. PICARD: In connection with the coal shortage mentioned this morning, of the possibility of action along certain lines, has the company any definite plan on that, or is it just in the exploratory stages?

Mr. VAUGHAN: We have no definite plan as yet, Mr. Picard. We have the situation lined up so that we could very quickly formulate plans if we have to.

Mr. PICARD: Would there be any provision made for the public in respect to local train service on the main line east between Levis and Rivière du Loup? Supposing one of your advisers was to recommend that some of the local train services on that line be discontinued, would any consideration be given to the people of the district?

Mr. VAUGHAN: If we find it necessary to do anything of that kind, you may depend upon it that it would be done with the least inconvenience possible to the public. If we had to take trains off, we would take off some of the least important trains.

Mr. PICARD: Yes. But I have in mind the train service between Levis and points east in Quebec—for instance, Rivière du Loup. A lot of people are complaining nowadays that the maritime express does not stop except at two or three points along the route, and they say that if any train was removed in that district, any of the local trains, it would cause them great inconvenience and hardship because of the fact that the through trains do not stop at local points. No doubt it could be arranged, that service could be given by the maritime express and trains of that type by arranging for them to stop at the stations serving the district. It might take the express fifteen or twenty minutes longer to make the run between Rivière du Loup and Levis, but it would give a better service than is available at the present time.

Mr. VAUGHAN: We will at all times try to see that the various localities have an adequate train service for the time being, and they could have resource to a plan such as you suggest. If we took off a local train we would have to have the through trains provide a service, but of course our friends coming from the east would not like the delay.

Mr. JACKMAN: In connection with the $24,000,000 surplus from operations last year which your report shows was turned over to the federal treasury what kind of bookkeeping credit do you get for that? Do you get a reduction in the debt you owe the government?

Mr COOPER: Yes.

Mr. JACKMAN: On open account, or where does it show?

Mr. COOPER: On the balance sheet, on the right hand side, Dominion of Canada loans, $674,000,000. That amount would be reduced by the amount of the surplus.

Mr. JACKMAN: So when you pay this operating surplus or profit to the government it really goes to reduce a loan which they made to you in some former year?

Mr. COOPER: That is so.

Mr. VAUGHAN: That is correct.

Mr. HARKNESS: Just before that the interest on the funded debt owed to the public had decreased by something over $2,000,000, and the increased interest on government loans was only about $300,000. Was that due to a refunding operation financed by the government?

Mr. COOPER: There are two reasons. One is the reduction of debt through surplus, and the other is refunding at a lower interest rate.

Mr. HARKNESS: What was the first one?

Mr. COOPER: The first one is the reduction in the debt by the amount of the surplus earnings, and the second one is the refunding of debt at a lower interest rate. Those two things in combination account for the reduction in the fixed charges.

Mr. JACKMAN: In connection with refunding all such operations have been carried on with the government or have you endeavoured to refund any bonds held by the public?

Mr. COOPER: In recent years this has all been with the government.

Mr. JACKMAN: Have you bonds outstanding with the public—I have not checked the list at the back—in connection with which you have some refunding operations to put through as soon as you are permitted?

Mr. VAUGHAN: Yes, we have some. You have a list of those maturities; for instance, there is one big loan coming due during the year which will be refunded at a much lower rate of interest.

Mr. JACKMAN: What page is that?

Mr. VAUGHAN: Mr. Cooper will give you those.

Mr. COOPER: Look at the annual report, the next to the last item in the government guarantees is $2\frac{1}{4}$ per cent guaranteed bonds due on January 15, 1946, $15,000,000.

Mr. JACKMAN: They are out now?

Mr. COOPER: They were refunded by a government loan at $2\frac{1}{8}$ per cent.

Mr. JACKMAN: What maturity?

Mr. VAUGHAN: Ten years.

Mr. JACKMAN: Ten years at $2\frac{1}{8}$?

Mr. COOPER: Seven years.

Mr. VAUGHAN: Seven years for those retired, but I think it has been supplanted by a loan for ten years.

Mr. COOPER: Oh yes, I beg your pardon. Then, further up you see $6\frac{1}{2}$ per cent sinking fund debenture bonds issued by the Canadian Northern in 1921 which fall due on July 1, 1946. The total amount outstanding is $23,752,000. Arrangements have been made with the dominion government to take up that issue by a loan from the dominion, and we expect to get it at 2 per cent payable in United States funds.

Mr. JACKMAN: Is it United States now?

Mr. COOPER: Yes.

Mr. JACKMAN: And the maturity?

Mr. COOPER: July 1, 1946.

Hon. Mr. CHEVRIER: That will represent an annual saving of how much?

Mr. COOPER: There will be an annual saving of $1,068,000.

Mr. JACKMAN: The new maturity is what, Mr. Cooper?

Mr. COOPER: I think it is a ten-year loan.

Mr. JACKMAN: Of course, in both those cases maturity was almost upon you. You had to do something anyway, but are there no bonds with higher coupon rates that you can call and refund?

Mr. VAUGHAN: We call all the bonds we can. There are some bonds, of course, that are issued unfortunately without any callable features to them, but when they are callable from certain dates, we take advantage as soon as possible of the callable privilege.

Mr. COOPER: There are no further bonds callable until 1948.

Mr. JACKMAN: For instance, these 5 per cent thirty-year guaranteed bonds of 1954, $50,000,000, you cannot call those?

Mr. COOPER: They are callable in 1950 or thereafter. We cannot call them before 1950. You can call them on November 1, 1950 at 105.

Mr. JACKMAN: Most of your refinancing seems to be done by the government now, not only on capital account but also on equipment loans. During the war years I remember that I questioned whether or not you might not be better off if rather than having to do your financing through the government, which was required at that time owing to the victory loan demands, you were allowed to operate in the ordinary markets?

Mr. COOPER: Not necessarily. There is quite a possibility that we shall soon go into the market.

Mr. PICARD: I may not have followed this very well, but what about those 6½ per cent bonds in 1946? Are those the ones you mentioned?

Mr. COOPER: That is the one we were speaking of.

Mr. PICARD: That is the one you mentioned a minute ago.

Mr. JACKMAN: Do you feel that the system is getting as low rates from the government on rolling stock equipment bonds as it might get somewhere else?

Mr. VAUGHAN: There are still some 3½ per cent equipment issues out. We are now negotiating with the government to make a loan which would take care of those at a lower rate of interest. We have not completed our plans in that connection yet, but the government have expressed willingness that we should do that.

Mr. JACKMAN: From the standpoint of operating the system would you not feel better and freer if you did your financing through ordinary channels rather than through the government?

Mr. VAUGHAN: There are two ways to look at that. After all, in some respects we think it would be better if the government held all securities of the Canadian National Railways. At other times we think they charge us too high a rate of interest and that we could go out on the market and get money at a lower rate. Taking it by and large I do not think it is a bad thing for our financing to be done with the government, but we are considering making a public issue at an early date.

Mr. JACKMAN: It seems to me that during recent years the government have rather overcharged you, and for purposes of comparison with other systems it would be better if you were on your own feet.

Mr. VAUGHAN: The highest interest is 3½ per cent charged on the vested securities.

Mr. JACKMAN: What are the C.P.R. and other first class railroads borrowing at at the present time?

Mr. VAUGHAN: I have not seen any of the C.P.R. borrowings recently. Some of the American railroads are selling equipment issues at about 1⅝ per cent and $1\frac{3}{4}$ per cent. Some of them are making long term loans, such as the Southern Pacific. I saw where they and the Union Pacific made a 30-year loan at about $2\frac{1}{2}$ per cent the other day.

Mr. JACKMAN: Do you feel that apart from equipment certificates that The C.N.R. on its showing could borrow in the public market?

Mr. VAUGHAN: I think we could borrow in the open market at the present time perhaps at a little lower rate than we pay the government. How long that condition will continue I do not know.

Hon. Mr. CHEVRIER: On some of the principal payments on equipment and hire-purchase agreements the interest is as low as 2 per cent, is it?

Mr. VAUGHAN: We had an equipment issue last year at $2\frac{3}{8}$ per cent with the dominion government on equipments. That is the lowest rate we have with the dominion government. It runs from $3\frac{1}{2}$ per cent down to $2\frac{3}{8}$, $3\frac{1}{2}$ per cent in 1940 for $8,000,000; $3\frac{1}{2}$ per cent in 1941 for $16,500,000.

Mr. NICHOLSON: That is about 1 per cent more than the American railroads you mentioned are paying?

Mr. VAUGHAN: Yes.

Mr. COOPER: I think it would interest Mr. Jackman to know that taking into account the coupon rate, the exchange rate, and the proportion of discount suffered at the time of issue, our average interest rate to the public is 4·69, and to the government is 3·14.

Mr. JACKMAN: That is taking in your equipment certificates too?

Mr. COOPER: Yes.

Mr. JACKMAN: They are not quite the same type of security, of course, are they?

Mr. COOPER. No.

Hon. Mr. CHEVRIER: What is that again to the public?

Mr. COOPER: 4·69. On the whole debt, government and public, the average rate is 3·85.

Mr. JACKMAN: The figures are not quite comparable because if the government were to hold a great many equipment certificates which obtain a low rate in any market it would throw the balance out.

Mr. COOPER: Yes. It is just as a matter of information that I gave the rates. It seems to me that a 4·69 rate of interest today is a very high rate. We are stuck with it, and there we are.

Mr. PICARD: You mean you are stuck with it because there is no reconversion?

Mr. COOPER: There is no provision to call or redeem them before a certain fixed date.

Mr. JACKMAN: Do you happen to know what the average rate of your competitor is?

Mr. COOPER: No, but I could work it out, Mr. Jackman.

Mr. JACKMAN: Never mind unless you want to.

The ACTING CHAIRMAN: Are there any other questions on page 5?

Mr. JACKMAN: I am rather interested in Mr. Vaughan's statement in view of the suggestions he made in the morning session that the fixed charges were rather heavy on the railway. Yes we find that the financial record in his opinion and the outlook are sufficient to allow him to do his financing, not on equipment certificates but on the general credit and the mortgage credit of the railway, by getting money from the public at a fair price.

Mr. VAUGHAN: The public realizes, of course, that the government is behind the Canadian National Railways.

Mr. JACKMAN: You are not speaking of guaranteed bonds, are you?

Mr. VAUGHAN: Well, bonds that practically carry the government guarantee, implied if not otherwise.

Mr. PICARD: Do they not all except equipment issues carry a government guarantee?

Mr. COOPER: No.

Mr. PICARD: The ones outstanding on page 21.

Mr. COOPER: The first group there, $525,000,000, are all guaranteed by the dominion. Then you have the guarantees by the provinces and the unguaranteed issues. Out of a total of $573,000,000 $525,000,000 is directly guaranteed by the dominion.

Mr. PICARD: That is what I thought. A much larger proportion of it is guaranteed.

Mr. COOPER: Yes.

The ACTING CHAIRMAN: Gentlemen, will we turn now to page 6?

Mr. JACKMAN: At the bottom of page 5 you speak about operating revenues and expenditures. There was a news item giving the combined rail results for the first quarter of this year, and as I calculate it the combined net earnings of the C.P.R. are down 29 per cent this year in the first quarter and the C.N.R. are down 49 per cent. Why should that be the case in the first quarter?

Mr. COOPER: If you are speaking of the published figures of the Canadian Pacific of course you have to figure they have got taxes and other items in there. The figures are not comparable with ours.

Mr. JACKMAN: These are the combined net earnings. It talks about net operating earnings at the beginning. I will read this. The heading is "Combined Rail Net Drops." I think it is from the *Gazette*:

> During the first quarter of this year combined net operating earnings of the Canadian Pacific and Canadian National Railways showed a drop of $9,040,000, or 43·7 per cent compared to a year ago.

Then at the bottom of the article it refers to combined net earnings. I do not know whether that is the same. Yes, it is the same because the total is the same, $9,040,000. Therefore, that is before these itmes of taxation which are peculiar to the C.P.R. are taken into account. The two railways are down $9,040,000 in the first quarter. The Canadian Pacific is down $1,739,000 and the Canadian National is down $7,301,000. Comparing that with the corresponding quarter for the previous year it indicates that the C.P.R. is down 29 per cent and the C.N.R. is down 49 per cent.

Mr. COOPER: There is not any doubt that for the first quarter the earnings of the Canadian Pacific have stood up better than ours have. However, I noticed that in the month of April our decrease in gross was 12 per cent and theirs was 14·6 per cent.

Mr. JACKMAN: In gross. Of course, that is gross earnings after expenses.

Mr. COOPER: No, gross.

Mr. JACKMAN: What are the peculiar conditions that bring about a situation like that?

Mr. VAUGHAN: In the first place, of course, our earnings were down to a greater extent, and that means that we would not have the same reduction in expenses that they would have. One of the important reasons for that is, of course, that we have so much international business, so much more than they have. That has greatly affected both our gross and our net earning position.

There have been strikes in the United States at various places, in steel mills and automobile companies. That all affects our traffic much more than it does the Canadian Pacific Railway.

Mr. JACKMAN: You have a larger percentage of operations in the United States?

Mr. VAUGHAN: Yes, part of the Central Vermont and Grand Trunk Western are included in our figures, and there has been a very heavy drop in earnings both on the Grand Trunk Western and on the Central Vermont railway.

Mr. JACKMAN: I suppose that the Soo line comes into the C.P.R.?

Mr. VAUGHAN: No, they do not come into the C.P.R. figures at all.

Mr. COOPER: Their Soo line comes in on a dividend basis, Mr. Jackman.

Mr. VAUGHAN: They publish a separate statement for the American lines, the Soo line, the Wisconsin Central, the Duluth, South Shore and Atlantic. They do not come into the monthly figures. They would only come in if they declared a dividend.

Mr. JACKMAN: Yours is a consolidated picture and theirs is not?

Mr. COOPER: That is right. Theirs is a parent company set-up and ours is consolidated.

Mr. JACKMAN: On the overall picture, even though there may be some explanatory reason the difference is very great.

Mr. VAUGHAN: It is hardly fair to take three months as a basis because one company may start its track laying and its tie renewals much earlier in the season than the other company. There are a lot of conditions involved that make it rather difficult to make a comparison in only three months.

The ACTING CHAIRMAN: Are you ready for page 6, gentlemen?

Mr. JACKMAN: What I am really trying to get at is, is there anything inherent in the C.N.R. condition which would spell bad times ahead for us with a general lowering of the volume of traffic as compared with the C.P.R.? After all these figures come before interest charges, for instance.

Mr. VAUGHAN: I think the two railways in Canada will be affected very largely in the same way except, as I say, that we will be more affected by the international situation than they are. But the earnings of the two railways will be down pretty much in proportion in Canada. One year we may be down some, another year they may be down some. Included in our expenses for the first three months is a very substantial wage increase on our United States lines, which I think cost us about $750,000. An award was made in the States retroactive to the first of January, and that comes into the first three months. So that it is very difficult to make a comparison of that kind. I see the point you are trying to make, why should we have a greater decline in net earnings than they have in the first three months.

Mr. JACKMAN: And in operations.

Mr. VAUGHAN: Yes, and in operations; but, as I say, I do not think it is fair—for instance, our gross was down for the period of $8,484,000, and their gross was down for the same period only $2,437,000.

Mr. JACKMAN: That is for four months?

Mr. VAUGHAN: No that is for the first three months.

Mr. PICARD: Would the American lines be the only reason for that discrepancy?

Mr. VAUGHAN: That is one of the reasons, not the only reason.

Mr. PICARD: When you mentioned that three months was not a fair basis, do you figure that at the end of the year the difference will not be so great between the two railways?

Mr. VAUGHAN: I think the C.P.R. drop in gross and net, and ours, will be pretty much on the same basis by the end of the year.

Mr. PICARD: Do you think we should take the yearly picture?

Mr. VAUGHAN: Yes. That is by the fact that gross earnings show quite a difference. Their earnings did not show the same reduction as ours from the first of January to the end of April, but their gross earnings in April dropped considerably more than ours.

Mr. PICARD: So that you think it should be taken on the basis of the whole period, the whole year, and that they will be more or less along the same line?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: Have you any figures showing what proportion of the railway earnings is in Canada and what is in the States.

Mr. VAUGHAN: No. We can figure that out for you.

Mr. COOPER: The respective mileages are given in the report?

Mr. VAUGHAN: If you will refer to page 31, you will see that we had 21,695 miles of line operating in Canada and 1,839 in the United States. These figures are very interesting, Mr. Jackman. In the year 1945 our earnings in the United States were $49,873,404, and in Canada $383,899,990.

Mr. JACKMAN: It runs about the same basis, approximately nine per cent.

Mr. VAUGHAN: Yes, pretty much. Our reduction in net earnings on Canadian lines for the first four months was 8·8 per cent, and on the United States lines it was 13·9 per cent.

Mr. JACKMAN: But the profit there, the five per cent in relation to the ten per cent of the total—that is only two per cent—that is not going to affect the picture a very great deal.

Mr. VAUGHAN: I do not know the exact amount, but it is considerable.

The ACTING CHAIRMAN: Are you ready for page 6?

Mr. JACKMAN: May I just ask this. We have to compare results with something. The C.P.R. is the easiest and the most natural comparison for us to take. The lines which we have in the border states, taking the long and the short of it, are just as good lines as our Canadian lines. Then, too, the general situation in the United States and Canada is essentially similar, conditions which obtain there obtain here, so they would have relatively little affect on the general results. I can see your point in a case where you have a big wage award to make up; but there is not much reason to say that because the C.N. accounts are on a consolidated basis and the C.P.R. are on an individual company basis that comparisons cannot be made on the quarterly earnings for the respective companies.

Mr. VAUGHAN: It might be difficult to do that because the Soo Line, as you know, has not been doing very well for a great many years. I do not know what the C.P.R. picture would be if they include the result of the Soo Line in their consolidated picture.

Mr. COOPER: Would it not be fair to compare the full year 1945?

Mr. JACKMAN: Except that I wanted to see what effect the falling off in business is having on the two railways. It seems to me that it is hitting the C.N. harder than it is the C.P.R.

Mr. VAUGHAN: I didn't catch that.

Mr. JACKMAN: Mr. Cooper was suggesting that we take the 1945 results, that that would afford a more adequate comparison. The only reason for bringing in the quarterly report was that I wanted to see what the falling off in business was doing by way of assets on the activities of the two roads.

Mr. VAUGHAN: When we refer to the reduction on the American lines, it must be borne in mind that that carries through to our Canadian lines, because a good deal of the traffic originates on the Grand Trunk Western, is carried through Canada, and taken them back to the states, either at Buffalo, or perhaps via the Central Vermont railway to New England, so that our through business in Canada is very much affected by any recession of business in the States. I think about the only way to figure a comparison between the C.P.R. and ourselves would be to take the operating ratio for 1945,—that is the net after deducting expenses. Our ratio was 81·9, and theirs was 81·3—very little between them.

Mr. JACKMAN: Are those figures just for the railways, or do they include hotels, steamships and so on.

Mr. VAUGHAN: That is just for the railways. So it shows that our operating ratios were very close together.

The ACTING CHAIRMAN: Shall we turn to page six now, please?

Mr. JACKMAN: May I refer to the second last paragraph on that page:—

> The increased cost of moving traffic, not compensated by additional revenue, was related to the considerable empty movement of passenger equipment to the seaboard for troop repatriation, etc.

I presume that condition has now come to an end, and as a result you anticipate better returns?

Mr. VAUGHAN: I think that is a fair statement. We are still moving home the wives and children of those men. It is a much easier proposition from our standpoint to move troops overseas than to bring them back. When we were moving troops down to the seaboard, we delivered them to the vessels and we were through with them. Now, when the troops are coming home we have to gather up empty equipment from all over the system and move it down there. We are given specific dates for the arrival of boats and are expected to get our equipment down there on those dates, and then we would find that the boats might be anywhere from a day to two, three, four or five days late on account of weather or other conditions, with the result that we had that equipment tied up in Halifax during that time; That is very costly for the Canadian National Railways, and also I presume for the Canadian Pacific Railway.

Mr. MUTCH: Did you deadhead many cars back when you were taking troops down?

Mr. VAUGHAN: Not to the same extent.

Mr. MUTCH: Going down they didn't have as good equipment as coming back?

The ACTING CHAIRMAN: That is true.

Mr. HARKNESS: Now that you have got rid of the extra expense incidental to the movement of troops, how much of saving do you anticipate making?

Mr. VAUGHAN: It is very difficult to estimate that in dollars and cents, but we will have some saving, because there was a very heavy deadhead movement of equipment. With these men coming back from overseas, we might have a couple of trains for Vancouver, one for Calgary, one for Edmonton, one for Winnipeg, and these trains would have to be hurried deadhead to Halifax to meet another body of troops, and then they might have to wait there for several days pending the arrival of a ship, so that I think from now on much deadheading will be avoided.

Mr. HARKNESS: Will that reduced cost of moving traffic offset loss in traffic?

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

Mr. WALTON: This movement of dependents is far from over, that will continue for some months.

Mr. MUTCH: And another factor which enters into it will be the further use of equipment which has been tied up in the way you say waiting for the arrival of boats and on troop movements coming back, and all that prevented you from using that equipment for passengers whom you could have hauled had you had the equipment where you could use it.

Mr. WALTON: That is correct.

Mr. JACKMAN: You referred to the shortages of labour and material. Are you able to say now how much of your accumulated deferred maintenance reserve of $69,000,000 you will be using? Are you going to use any of that this year?

Mr. VAUGHAN: We expect to use some of that this year, yes; to the extent that we undertake what we may consider to be deferred maintenance. I am not able at the present time to say when that will be. We will have to wait until the end of the year until we see just what work we have done on deferred maintenance.

Mr. JACKMAN: I suppose it would be used to cushion to some extent, depending on the results?

Mr. VAUGHAN: Well, we put it aside for a purpose.

Mr. JACKMAN: If you do not need it, you will not use it?

Mr. VAUGHAN: If we do not need it, we will not use it.

Mr. PICARD: Are you talking about deferred maintenance now?

Mr. JACKMAN: Yes, the item of $39,000,000 there in the balance sheet. It is quite likely that it would have a cushioning effect on any decline in earnings should they come about—that will be done by all railways I suppose, the use of such a reserve in that way?

Mr. VAUGHAN: It is not our intention to use it for that purpose. If we find that we can get the materials and the men and there is something which we consider deferred maintenance which requires to be done, that fund will be used for that purpose, the particular money that we spend on deferred maintenance will come out of that fund, but general expenses will not come out of it.

Mr. MUTCH: Some part of that fund will be available to carry on the rehabilitation work in your own shops?

Mr. VAUGHAN: Exactly.

Mr. MUTCH: And to maintain the level of employment, is that being used to any extent that way yet?

Mr. VAUGHAN: There has been some already used that way. We have an unusually large number of men employed in our shops getting our equipment into shape, rehabilitating it. A certain amount of that expenditure will come out of the deferred maintenance fund.

Mr. MUTCH: I understand that the fund was created for that purpose, to raise the level of standard rolling stock and at the same time to cushion the employment situation by maintaining the level of employment to do the carrying out of certain kinds of deferred maintenance.

Mr. VAUGHAN: That is correct.

Mr. WALTON: We have had to proceed somewhat slowly on that so far because the material situation was such that we could not get the materials with which to keep all labour employed.

Mr. MUTCH: Would it be fair then to say, Mr. Walton, that in so far as there has been a let down on that point is concerned it has been due principally to a shortage of materials?

Mr. WALTON: And to a lack of traffic at line points. There may have been some confusion in regard to the level of employment, because while we are trying to keep full employment going in the repair shops, what I refer to as the line points, the roundhouses and repair tracks, the situation there must be regulated in respect to the amount of business that is moving, and if traffic drops away we cannot use as many men in our roundhouses and on our repair tracks as we could if higher level of traffic was being maintained.

Mr. MUTCH: But you are repairing just as many box cars and things of that kind?

Mr. WALTON: We have been able to increase the output to some extent.

Mr. PICARD: And your rehabilitation work on rolling stock would be an appropriate charge to regular maintenance and deferred maintenance. What proportion of the work you are now doing would you consider to be a proper charge under deferred maintenance, the work which should have been done, but which was put off on account of the war?

Mr. VAUGHAN: That would be difficult to figure out until the year is over. I may say that Mr. Cooper has a definite formula worked out for that. We have charged a little up to deferred maintenance so far this year.

Mr. COOPER: We have only used deferred maintenance reserves on equipment so far, not on maintenance of way or structures. In computing how much we should charge to the deferred maintenance reserve we figured that 57 per cent of maintenance of equipment expense varies with the traffic. We have taken the 1945 maintenance of equipment expense and we have equated it by the decrease in traffic in 1946 as against 1945. In that way we arrived at what the maintenance of equipment expense should have been in 1946 allowing for the decrease in traffic, and to the extent that figure is exceeded by the actual expenditures we have charged the excess figure to the deferred maintenance reserve.

Mr. JACKMAN: So that you actually have a fixed formula for it.

Mr. COOPER: Definitely, and I may say that this formula for measuring the variation of the expense with traffic is not something that we have pulled out of the air, it is the formula adopted by the engineering section of the American Railway Association. We have good authority for it.

Mr. JACKMAN: I notice in the C.P.R. balance sheet that they show $35,200,000, against your $39,000,000 maintenance reserve.

Mr. COOPER: Under that heading they took up $5,250,000 for deferred maintenance in 1945 and we took up $5,000,000. They took up a little more than we did in 1945.

Mr. PICARD: Do you include the cost of maintaining the right of way, the heavier traffic you put in during the war, against the charge of deferred maintenance, rather than as an item of regular maintenance on the road.

Mr. COOPER: It will be, but so far we have not included anything for maintenance of tracks as a charge against deferred maintenance.

Mr. PICARD: You have not used any of it that way?

Mr. COOPER: No, we have not used any of the reserve for maintenance of way.

Mr. PICARD: But it could be done, you could use it in that way, putting your road in good shape?

Mr. COOPER: Yes, and we expect to use some of it in 1946.

Mr. JACKMAN: Being a public company the C.N. is not subject to taxation of its surplus. Do you know whether or not this $35,200,000 the C.P.R. set up was taxed, was tax paid on that or were they allowed to set it up as a deferred maintenance fund without tax?

Mr. COOPER: That is a question, gentlemen, that I would not wish to answer. I do not think I should attempt to answer anything pertaining to the make-up of the accounts of the Canadian Pacific Railway.

Mr. JACKMAN: We are, of course, trying to make comparisons, and it is only fair that we should keep matters of that kind in mind in making our comparisons, particularly where one of these railways is government owned and pays no taxes and where the other one has to pay taxes.

Mr. COOPER: I can only say this, that had the Canadian Pacific been in the United States they would not have been permitted to take as a deduction for tax purposes charges to operating expense to create a maintenance reserve.

The ACTING CHAIRMAN: And similarly the C.N.?

Mr. COOPER: Yes.

The ACTING CHAIRMAN: Are there any other questions on page 6, gentlemen?

Mr. MOORE: Yes. In the last paragraph it says that the wages paid by the C.N.R. increased in 1945 over 1939 by some $43,000,000. I want to know if there was any difference in the number of employees in 1939 as compared to 1945, and if that accounts for the increase.

Mr. VAUGHAN: We had a great many more employees in 1945 than we had in 1939. Mr. Cooper might explain that for you.

Mr. COOPER: Yes. The amount has nothing to do with additional employees. It is an increase due only to the higher wage rates.

In 1939 we had 78,000 employees. In 1945 we had 105,000 employees, 27,000 more. Now, no portion of the $43,000,000 is due to the additional number. What we did was to take the 1945 number of hours worked and figure what it would have been had we been paying the 1939 hourly rate, and that deducted from the actual wages paid amounted to $43,000,000.

The ACTING CHAIRMAN: Shall we take page 7?

Mr. MOORE: I would like to ask one more question, please. I have made several trips across Canada and it seems to me that on both the C.P.R. and C.N.R. that the porters had an extremely difficult job to perform. Have any complaints been made about the working conditions of these men, specially with respect to hours of work? They work very long hours.

Mr. VAUGHAN: Their hours of labour are all covered in the schedule. If they work overtime they get paid for it. We have not had any complaints recently from the men as to conditions.

Mr. WALTON: I think that is the only answer we can make, sir; the hours and the wages and the working conditions are all subject to the wage agreement between the porters and their duly accredited representatives and the railway, just as in the case of other departments of the railways.

Mr. MOORE: They have a union of their own?

Mr. WALTON: Oh, yes.

The ACTING CHAIRMAN: Page 7, gentlemen.

Mr. JACKMAN: In connection with that very arresting charge showing the increase of the various commodities used in one of the railways. I suppose that if we had not taken the 1939 price level, say we had taken the price level for October 1941, the day on which the price fixture came into effect, the line if anything would be steeper, which would seem to indicate the price ceiling,—of course you are not responsible for them—has been shot pretty well through with holes—49·4 per cent, 47·3 per cent—and steel 12 per cent. You had price ceilings on during that period, and your wage rates were stabilized.

Mr. VAUGHAN: Except where the labour board granted very substantial increases in wages.

Mr. JACKMAN: That is labour, but you also had an increase in the volume of traffic, yet there is a decrease shown there.

Mr. COOPER: Due to the change in traffic characteristics the rate per ton mile decreased in 1945. Military traffic also had a bearing.

Mr. JACKMAN: As a matter of fact, you received less for carrying more.

Mr. VAUGHAN: Less for carrying a ton of freight one mile.

Mr. NICHOLSON: Where do you get those figures?

Mr. COOPER: They are shown there; the reduction in average revenue rates per ton mile and per passenger mile are equivalent to a reduction in operating revenue of $10,742,000.

The ACTING CHAIRMAN: Are there any more questions on page 7? If not, we will turn to page 8.

Mr. JACKMAN: Just one thing in connection with the line on page 7, where you mention $24,756,130; on what capital investment, or equity of the government, is that a return?

Mr. COOPER: That, Mr. Jackman, is shown on page 14. The government is there shown to have an equity account of $777,000,000.

Mr. JACKMAN: And in effect that is a return of?

Mr. COOPER: A return of better than three per cent on the amount.

Mr. JACKMAN: In fact that money simply went to the government to reduce that loan.

Mr. COOPER: Yes.

Mr. PICARD: That is what you say in the statement at the bottom of the page there:

> "Net income available for payment of interest was $71,084,272; approximately 3·5 per cent earned on total capitalization."

Mr. COOPER: That shows that the return on the total capitalization was approximately at the same rate as on the equity capital.

Mr. PICARD: You mean by that that the figures would not vary very much?

Mr. COOPER: Not a great deal. On the total capitalization it worked out at 3·5, and on the equity capital it is 3·2 per cent.

The ACTING CHAIRMAN: Are there any questions on page 8; gentlemen?

Mr. NICHOLSON: In connection with the capital expenditure amount, is there any special policy which was followed in connection with the construction of new stations? A great many communities in Canada apparently are of the impression that they require new stations as a part of the post-war building programme. Who decides whether they ought to be built?

Mr. VAUGHAN: The construction of new stations is something which is studied very carefully. A great many municipalities take pride in the appearance of their towns, and consider that they ought to have a new station. Our policy is formed by the need, by the condition of the station, by the population they have to serve, and the traffic that is available. All these factors are taken into consideration when we build a new station. We only build them where they are most needed. Naturally, we cannot give every one a new station who wants one.

Mr. GIBSON: Better not build any new stations until we get more houses.

Mr. JACKMAN: Hear, hear.

The ACTING CHAIRMAN: Are there any other questions on page 8?

Mr. PICARD: The bulk of that amount in the capital expenditure account would be for rolling stock?

Mr. COOPER: The details of that are shown on page 10.

Mr. PICARD: When you mention equipment purchases would that be rolling stock or new cars?

Mr. COOPER: Yes.

Mr. PICARD: That would be mainly freight cars?

Mr. COOPER: Yes, we mention that in the narrative. We say: "The major portion of the total expenditure was for new equipment acquired under hire-purchase agreements with the Dominion Government, consisting of 1,980 box cars and 146 refrigerator cars costing $10,078,911."

Mr. PICARD: I did not see that.

Mr. JACKMAN: Some years ago I asked a question about rolling stock predicated on this basis, that if the railway was able to handle such an increased volume of traffic during the war years and we expect some decrease in the post-war years would the demand for new rolling stock equipment be extraordinary or just be as it was in pre-war years to carry the volume of business you expect?

Mr. VAUGHAN: I do not think that there is going to be any great demand for new equipment. I think that our situation would be pretty much as it was before the war. We will add to our equipment as the need arises to take care of obsolesence and if there is new business in the offing or our earnings increase and any particular class of traffic requires new equipment we will buy it.

Mr. JACKMAN: You are not expecting any very heavy outlay beyond the scale that you had in 1939?

Mr. VAUGHAN: No. We will have some sleeping cars to order and perhaps a few freight cars in the next two or three years, and perhaps a few locomotives, but our requirements are not going to be very heavy in the line of new rolling stock.

The CHAIRMAN: Page 9, gentlemen.

Mr. JACKMAN: I should like to ask a question in connection with the Canadian National Express. Does it operate at a profit or a loss? Can you tell?

Mr. VAUGHAN: I think it may be said that it operates at a profit. They pay a certain amount to the railway for the use of the facilities. Have you got the figures there?

Mr. COOPER: Yes.

Mr. JACKMAN: Is it treated as a separate company in your accounts?

Mr. VAUGHAN: Just a department of the railway.

Mr. JACKMAN: Do you charge them for all haulage?

Mr. VAUGHAN: Yes. Mr. Cooper can give you just what they paid the railway last year for the use of the facilities.

Mr. COOPER: The gross revenue is $18,898,000, and their operating expense, which does not include the hauling of the cars is $10,565,000. There is a net of $8,332,000. That is what they paid to the railway for hauling the cars.

Mr. WALTON: Whatever they make goes to the railway anyway, so that if you try to work out a charge it is always questionable whether you have included everything that should be there. All of their results go to the railway in any case.

Mr. NICHOLSON: I have had some complaints from the travelling public because of the large volume of goods being carried as L.C.L. on western lines, goods that normally should be moved by freight trains. I was informed in February that a rake that will be used next summer was transferred from one express car to another while a passenger train was held up, ond that twenty bags of flour are unloaded at a single station while a passenger train is held up. Are there many complaints about that?

Mr. WALTON: There have been very few complaints reaching me. It may be that in some cases we are attempting too much on trains of that kind. The handling of L.C.L. freight on certain passenger trains was undertaken with a view to meeting truck competition. It was the intention to expedite freight that might otherwise go by truck and generally to give good movement to less than carload freight. It may be, as you say, that in some cases we have gone too far with it. I will be glad to take it up with our people and see. There may be a few cases of that kind where undue delay to a passenger train has occurred.

Mr. NICHOLSON: If the people were going hungry you could very well ship a bag of flour by a passenger train but when that is not the case it should hardly be necessary when there is a freight train the next day.

Mr. WALTON: Perhaps it was not separated properly.

Mr. JACKMAN: The rates are much higher by express than by freight.

Mr. VAUGHAN: It may be that somebody was urgently wiring for that particular commodity and they put it on the passenger train.

Mr. WALTON: It is the moving of certain merchandise by passenger trains. It was undertaken some years ago because of truck competition.

Mr. NICHOLSON: Yes, but you were not supposed to handle heavy commodities that would hold up a train.

Mr. JACKMAN: Despite the competition with the trucks and the fact you have to be competitive in your rates the cost of transporting twenty tons of flour by freight must be infinitely lower than transporting it by express.

Mr. WALTON: I do not think there would be anything like twenty tons.

Mr. NICHOLSON: I said twenty bags.

Mr. HARKNESS: Under wages I see that you have applications which would cause an increase of $32,000,000 per annum. Would not all these applications if granted by the tribunals that are now looking into them be retroactive to 1945 and thereby reduce the surplus that you have shown?

Mr. VAUGHAN: It is very difficult to say what award will be made by the War Labour Board. We have no idea. A number of unions now have their applications before the War Labour Board. Whether or not they will make any awards retroactive we cannot say.

Mr. HARKNESS: The applications are to have them made retrospective?

Mr. VAUGHAN: In the past they have made some of them retrospective, yes.

Mr. HARKNESS: Until those are settled you will not know whether this $24,000,000 surplus is the correct figure or not?

Mr. VAUGHAN: Yes. If they are settled they will have to go into the 1946 accounts now. That is if there is any retroactive feature.

Mr. HARKNESS: Under the heading "Back Pay" or something like that.

Mr. PICARD: That would be mainly on the American lines, would it? I refer to these applications for increases that are pending.

Mr. VAUGHAN: No, that is on Canadian lines. We have applications on Canadian lines from various unions, and they are not all in yet, amounting to over $30,000,000.

Mr. PICARD: Is your problem on the American lines with the American unions fairly well settled now? Do you know now exactly where you stand?

Mr. VAUGHAN: There has been an increase of 16 cents an hour granted in the last month which was made retroactive to the 1st of January. You have probably seen in the newspapers that the men are not satisfied with that. They are demanding another 14 cents an hour. They are threatening to go on strike if they do not get it. What will be the result I do not know.

Mr. PICARD: You do not figure that would be made retroactive prior to January?

Mr. VAUGHAN: No.

Mr. HARKNESS: As a result of the wage increases which have been given in the United States what difference is there in the rates generally paid in Canada to your employees as compared with employees on the same job in the United States? Is there much of a differential?

Mr. WALTON: There is a considerable differential. As to one or two classes I have in mind it is in the neighborhood of 20 per cent, somewhere around 20 per cent, speaking from memory.

Mr. HARKNESS: I presume that the applications from Canadian employees are to bring their wage rates up to the level of the American employees in many cases?

Mr. WALTON: In the past they have asked that on a number of applications.

Mr. VAUGHAN: I think it is fair to say that in Canada some of our employees have more favourable conditions than obtain in the United States railroads, and that makes up for quite a little percentage of the difference.

Mr. NICHOLSON: What, for example, have you in mind?

Mr. VAUGHAN: Well, in our schedules there are things like preparatory and and terminal time, and I do not think they are in the American schedules.

Mr. WALTON: That is true.

Mr. MUTCH: Is there a contractual obligation that there shall not be more than a certain percentage of spread between the American and Canadian rates?

Mr. VAUGHAN: No, there is nothing of that kind in the schedule at all.

Mr. HARKNESS: Generally speaking it would be true to say that as long as the American rates are above the Canadian rates you will have pressure from your Canadian employees to get up to the same rate?

Mr. VAUGHAN: That has not altogether been a factor with the unions in the past. It undoubtedly is a talking point for them, but that disparity has existed for many years, and usually applications of Canadian railroad men are for about the same percentage of increase as are given in the United States.

Mr. MUTCH: Is it correct to say that there is less spread in the case of the running trades than the other railway employees?

Mr. WALTON: Yes, I think it would be less in the case of the running trades.

Mr. MUTCH: They most closely approximate the American rates.

Mr. PICARD: Would not that difference in wages be more or less related to the cost of living index in the United States and in Canada?

Mr. VAUGHAN: That is correct.

Mr. JACKMAN: It might also be pointed out that American congressmen are much better remunerated than members of parliament.

Mr. VAUGHAN: Nearly everyone in the United States is better remunerated.

Mr. HARKNESS: If any large proportion of these wage applications is granted it will mean even if the traffic is maintained that you will probably go in the red next year?

Mr. VAUGHAN: It all depends upon the increases that are granted. Our showing at the end of this year will depend very largely not only upon the rate at which traffic is maintained but upon the rate at which wages are maintained.

Mr. HARKNESS: If the whole thing were granted you would certainly go in the red?

Mr. VAUGHAN: No doubt about it, no doubt about that at all, and if only a percentage of it is granted we will go in the red.

Mr. MUTCH: On that one score alone.

Mr. HARKNESS: Assuming even that you keep your traffic up, so that the picture is not very good from that point of view?

Mr. VAUGHAN: That is correct. I would say that if any further increases are granted with traffic as it is we are almost sure to go in the red. That is after taking into account the payment of our full interest charges to the government.

Mr. PICARD: I see an item about fish traffic moving in greater volume. Is there anything being done toward having better facilities for transporting fish from the Atlantic coast inland by way of refrigerator cars in larger number, and so on, so as to provide the central market with the eastern products?

Mr. VAUGHAN: I think we have plenty of refrigerator cars available for that service.

Mr. PICARD: Are you meeting that demand at the moment?

Mr. VAUGHAN: Yes, we are.

Mr. PICARD: Then it is the fishermen who are not providing the fish in sufficient quantities to have it available on the markets.

Mr. MUTCH: They are getting a better price in the United States for it.

Mr. NICHOLSON: In connection with the paragraph on hotel operations what sort of a contract is there with the C.P.R. in connection with the Hotel Vancouver and how long does the contract last?

Mr. VAUGHAN: That is a rather involved contract. As you know, there was a new hotel company formed in which each railway, the C.P.R. and ourselves, have an equal interest. This hotel company rents from the Canadian National Railways the Vancouver Hotel at a specific rental per annum. What is the exact amount?

Mr. COOPER: $280,000.

Mr. VAUGHAN: $280,000 a year. Then after taking care of that whatever profits there may be are divided between the two railways.

Mr. GIBSON: Did the C.P.R. invest capital funds in there?

Mr. VAUGHAN: No, they have no capital funds invested at all in the hotel.

Mr. NICHOLSON: What was the idea of enternig into an arrangement with the C.P.R. after building a hotel?

Mr. VAUGHAN: As you know, the hotel was closed down for some years. It was not completed because business was so very bad. The C.P.R. was losing money on their hotel and it looked at that time that we would lose money if we opened up our hotel and operated it in competition with the Canadian Pacific Railway hotel. Ours was a much more modern hotel and could be operated more economically so an arrangement was made between the two railways under which they would close their hotel and would get an interest in the new hotel company that was formed to operate our hotel.

Mr. NICHOLSON: For how many years?

Mr. VAUGHAN: Twenty one years with the option of renewal. They have the option of renewing that for another 21 years.

Hon. Mr. CHEVRIER: It was done pursuant to the C.N.-C.P. Act, under the authority of the C.N.-C.P. Act.

Mr. NICHOLSON: In what year was that?

Mr. VAUGHAN: The hotel was opened in 1939.

Mr. MUTCH: I do not know whether this is exactly the point at which to introduce it. I do not want to pursue it very far, but in all your hotel service, and specifically in the Vancouver Hotel. I think that the service to the public could be improved by a little cracking down on the private graft in connection with them. I refer to some of the employees in these hotels. It is a fact that at the present time, of course, accommodation is much less than public demand but without saying any more than that I think that some of your lower officials around that place are making almost as much money as the railways out of that hotel.

Mr. VAUGHAN: You are referring to the Vancouver Hotel?

Mr. MUTCH: Specifically.

Mr. VAUGHAN: Well, certainly if there is anything of that kind we will investigate it.

Mr. MUTCH: I do not mean anything essentially corrupt, but I do not think that the public are getting the service that they are entitled to. I think that the people who are flush are getting better service than the people who are not.

Mr. VAUGHAN: We will check up the service there, although I have not seen any complaints along that line, and we have had a great many compliments about the operation of the Vancouver Hotel.

Mr. MUTCH: The Amercian tourist as an individual is a very profitable man for this business, but they have habits with respect to getting service.

Mr. VAUGHAN: I suppose the inference is that some of the hotel employees are accepting money for providing accommodation.

Mr. PICARD: That is general hotel procedure throughout Canada and the United States now.

Mr. MUTCH: I think it is a little bit more than an inference, and I think it is worse there than at any other hotel in the system.

Mr. HARKNESS: One of the things that is being referred to is along this line. You order a jug of ice and give the boy that brings it up a dollar. Then you want another jug of ice in a few hours and you get one, but if you give the boy 25 cents, and particularly if you give him nothing, you will wait for a dickens of a time before you get another jug of ice.

Mr. MUTCH: If you go in there and want a room and you know whom to see and how to talk to him you will get a room although you come in much later than other people who rely on seniority rather than subsidizing somebody. I do not suggest that it is a national scandal or anything of that description, but I do suggest that it has not been entirely helpful.

Mr. VAUGHAN: If anything of that kind is going on we will very soon correct it because it should not be.

Mr. PICARD: I think that it cannot be corrected anyway, because I have dealt personally with the president of a private hotel company and as you have said he has said, "I will investigate", but he admits frankly that it cannot be proven, it cannot be established. It is a practice that may be worse in Vancouver Hotel, but I know that it exists everywhere.

Mr. GIBSON: We need more accommodation in Vancouver worse than anywhere else.

Mr. PICARD: Are we going to be given a printed statement as to your hotel operations, or is that all we are going to get? We get one for the steamships.

Mr. VAUGHAN: You can get anything you want.

Mr. PICARD: Of course, by asking, and we will get a very fair answer, I am sure, but I mean are we not entitled to a more elaborate statement as to these different hotels taking them one after the other, a perfect statement as to your hotel system?

Mr. VAUGHAN: We will be glad to give you a copy of this statement. We do not make it public, but it is always available for any members of this committee who want it. We have a broken down statement here showing earnings and expenses of each hotel. We do not put it in the report because we do not want to advise our competitors of everything we are doing.

Mr. PICARD: I remember that is the answer that has been given before. I do not object to that, but I think we should be entitled to have it in our hands in order that we may see what opinion we should form on the management of the hotels.

Mr. VAUGHAN: In the past, strange to say, that statement has always been asked for by somebody.

Mr. PICARD: Yes, and the same answer has been given.

Mr. VAUGHAN: We have always filed it, and we will file it now.

Mr. PICARD: I wish we could get that report in our hands for more than five minutes.

HOTELS

Year 1945	Revenues	Expenses	Taxes	Net
Charlottetown	$ 188,015 66	$ 149,932 48	$ 5,739 23	$ 32,343 95
*Pictou Lodge	....	2,000 43	289 04	*2,289 47*
Nova Scotian	846,356 37	604,314 63	19,592 84	222,448 90
Chateau Laurier	2,317,341 16	1,688,436 94	71,231 81	557,672 41
Prince Arthur	283,753 15	231,532 32	5,812 53	46,408 30
*Minaki Lodge	1,010 25	9,194 20	60 75	*8,244 70*
Fort Garry	762,641 54	567,697 03	31,081 71	163,862 80
Prince Edward	201,097 52	169,925 81	4,668 71	26,503 00
Macdonald	743,778 99	594,202 20	17,194 89	132,381 90
*Jasper Park Lodge	....	61,500 66	5,378 56	*66,879 22*
Bessborough	606,429 39	471,063 29	3,723 03	131,643 07
Total	$5,950,424 03	$4,549,799 99	$164,773 10	$1,235,850 94

*Closed during the year.

Capital Investment	Des. 31, 1945
Charlottetown	$ 863,682 74
*Pictou Lodge	215,577 87
Nova Scotian	2,489,478 99
Chateau Laurier	8,978,855 07
Prince Arthur	1,194,997 90
*Minaki Lodge	1,104,704 91
Fort Garry	2,936,135 30
Prince Edward	538,344 07
Macdonald	2,291,164 70
*Jasper Park Lodge	2,722,912 51
Bessborough	3,566,080 71
Total	$26,901,934 77

* Closed 1943, 1944 and 1945.

Mr. MUTCH: Since I raised the issue a moment ago about the service in the hotels I want to exclude specifically the management of that or any of the other hotels from any complicity in the sort of racket which I suggest. It is at a much lower level than that. I think I should say that in fairness.

Mr. VAUGHAN: I am sure that the management is watching that feature but as has been explained here it is difficult to watch every move. One of the greatest difficulties is with the client himself. He comes to the hotel and he is willing to pay more money for service. He sees lots of fellows standing around and he goes to Bill Jones and he says, "Here is $2 or $3 or $5. Get me a room", and he gets it for him. The management may not know anything about it. He goes to the room clerk. Perhaps he knows him. He says, "Bill, here is a fellow I would like to get a room for". That is the way it is arranged, but every man should be dealt with on the same basis.

The ACTING CHAIRMAN: Would you go to page 10, gentlemen?

Mr. JACKMAN: In connection with the report of these hotel operations I wonder if you would be good enough to put down the capital investment in each one, and since you do not charge depreciation on the hotels would you put in the amount of capital expense, not just repairs but the item which takes the place of depreciation. Do you call that capital expense? For instance, you informed me one year that if you did build a wing on the Chateau that would be charged to the current year's operations. I should like to know how much was charged last year for that type of work.

Mr. PICARD: You do not want to go back to 1930 and the remodelling of the Chateau Laurier, do you?

Mr. JACKMAN: I am just giving an example of what I want. If you had a depreciation account it would all be there. I would know what all the items were. As it is now you simply give the difference between the gross and the net without any item for depreciation.

Mr. COOPER: What rate do you think we should have for depreciation?

Mr. JACKMAN: It must be well established in the income tax department. If you will refer to Mr. Elliott he will probably tell you. In place of depreciation under the old system on the whole railway accounting the practice was to charge renewals against current operations. I think that is the right term to use. Now, how much have you been charging in the last year against these various hotel properties by way of renewal which is in lieu of depreciation?

Mr. COOPER: We will have to analyze that. I would very much sooner take the results as we have given them and charge in depreciation at whatever rate you wish.

Mr. JACKMAN: Then that would upset the operating figures.

Mr. COOPER: I just want to say this. Take the Chateau Laurier, the hotel was built in 1912. It is now 1946. It has been in operation for thirty-four years. The Canadian Pacific use a 2½ per cent rate. A 2½ per cent rate for thirty-four years would mean that the Chateau would be 85 per cent depreciated. The Chateau Laurier under depreciation accounting would be supposed to be 85 per cent depreciated, but you could not rebuild the Chateau Laurier for the amount at which it stands on our books today.

Mr. JACKMAN: I appreciate that but we have to use some basis for accounting. We use cost as a rule, to that the 2½ per cent would be considered the rate for the life of the building, and if that is a reasonable rate that would be quite satisfactory.

Mr. COOPER: I think it is excessive.

Mr. JACKMAN: All I want to arrive at is the true profit, and I am quite content to take 2½ per cent on the building and 10 per cent on fixtures and furniture, whatever it might be.

Mr. COOPER: I certainly think that would be excessive.

Mr. JACKMAN: 10 per cent?

Mr. COOPER: 2½ per cent on the building is excessive.

Mr. JACKMAN: You say that is what your competitor charged and probably was allowed by the income tax department.

Mr. COOPER: Yes, but we have no income tax problem.

Mr. JACKMAN: No, but we have to find out how your hotel properties are doing, and I would like to have a figure.

Mr. COOPER: Suppose we put in a $1\frac{1}{2}$ per cent rate just to see what the results would be.

Mr. JACKMAN: I will take your judgment as to what you think is a fair rate on the depreciation.

Mr. COOPER: I think that $1\frac{1}{2}$ per cent would be enough. Our investment in hotels is $26,000,000. $1\frac{1}{2}$ per cent would make $400,000. That would be added to the expense figures we have charged in our accounts.

Mr. JACKMAN: Then you have been doing something all along in lieu of depreciation.

Mr. COOPER: I do not think we have done very much replacement during the war. As a matter of fact, we have not been able to secure the labour and material.

Mr. JACKMAN: What I am getting at is a statement of the profits of the hotel system because you have not been charging off wastage of capital during the last year anyway.

Mr. COOPER: All I am arguing in the case of the Chateau Laurier is that there is appreciation as well as depreciation, and I am satisfied that the appreciation in the case of the Chateau Laurier overtakes the depreciation which theoretically may be deemed to exist.

Mr. JACKMAN: Yes, but we could say that about any physical asset in the country, and you would not get anywhere unless you have something arbitrary. We can frame our own judgment as to what the replacement value may be, but you have just told me now—

Mr. COOPER: To meet your point of view I would agree that you should add $400,000 additional into the cost of operating our hotels to get the result as you would like to have it.

Mr. GIBSON: Have you only $26,000,000 invested in hotels?

Mr. COOPER: Yes, sir. That is apart from the Vancouver Hotel.

Mr. GIBSON: That cost half that much itself.

Mr. VAUGHAN: It cost around $11,000,000, did it not?

Mr. GIBSON: I think more than that.

Mr. COOPER: $11,000,000 to $12,000,000.

The ACTING CHAIRMAN: Is there anything on page 10?

Mr. VAUGHAN: I think what Mr. Jackman is trying to drive at is he wants to know if we have been setting aside any specific amounts for deferred maintenance.

Mr. JACKMAN: I want to know whether or not you actually made half a million dollars in the Chateau Laurier last year as you have reported. Mr. Cooper tells me that this year you have not made any capital replacements, and the assets are becoming physically older and older. Any private company would have to make allowance for that by steady amortization of the hotel property, but you tell me that you have not set up depreciation. We know that. There has been no capital improvement in lieu of it, and the $500,000 is to my mind—and I think to the mind of any accounting person—a complete overstatement of the profit situation for 1945.

Mr. COOPER: If you want to put in depreciation at $1\frac{1}{2}$ per cent you could reduce it by $135,000 and you would still have over $400,000.

Mr. MUTCH: And you would have no more accurate a picture.

The ACTING CHAIRMAN: Page 10, gentlemen.

Mr. POULIOT: Do we continue tonight, Mr. Chairman?

The ACTING CHAIRMAN: It has been brought to my attention that we might meet tonight at 8 o'clock in order to help the officials to get through. I was wondering if that was the wish of the committee.

Mr. JACKMAN: We have already had two meetings today, and it is pretty hard going. We have a lot of other committees and we have parliament itself and correspondence.

The ACTING CHAIRMAN: It is so much easier for them to meet tonight than in the daytime because there are so many committees in the daytime. I should like an opinion on this.

Hon. Mr. CHEVRIER: Unless there is unanimity I do not think we should press it.

Mr. JACKMAN: I think that two sessions a day are pretty hard going, except in exceptional circumstances.

Mr. POULIOT: What about tomorrow night?

The ACTING CHAIRMAN: Tomorrow is Wednesday night. I suppose you would sooner meet tonight than Wednesday night.

Mr. HARKNESS: I have made other arrangements.

Hon. Mr. CHEVRIER: If the committee wishes to meet tonight I am all for it.

Mr. PICARD: Two sittings a day are enough.

Hon. Mr. CHEVRIER: I would have thought so, but I think we should sit tomorrow from 11 until 1, and then from 4 to 6.

Mr. PICARD: That is right.

The ACTING CHAIRMAN: And not tomorrow evening.

Hon. Mr. CHEVRIER: No.

The ACTING CHAIRMAN: I think it will take some time to get through this.

Mr. PICARD: We are going quite fast. We are up to page 10.

The ACTING CHAIRMAN: What about pages 10 and 11? Can we pass them?

Mr. MOORE: In connection with that I should like to ask a question. Over the past year I have noticed that both Halifax papers have continually complained about the smoke nuisance in the city of Halifax. They have asked from time to time that facilities be provided for hauling in the trains with electric or diesel locomotives.

Mr. VAUGHAN: That is correct. They have asked that we put some diesel locomotives down there. We have some more on order. Perhaps at some time we may be able to put one or two more down there, but that is a rather anomalous situation in Nova Scotia. They depend for their livelihood to a large extent on the production of coal and yet they want us to take away the coal burning engines and put in oil burning engines.

Mr. PICARD: We might say, Mr. Chairman, that we will approve up to and including page 11. We can always come back to any of the items later on. I would suggest that we approve up to page 11 inclusive and then have all our questions on the different items.

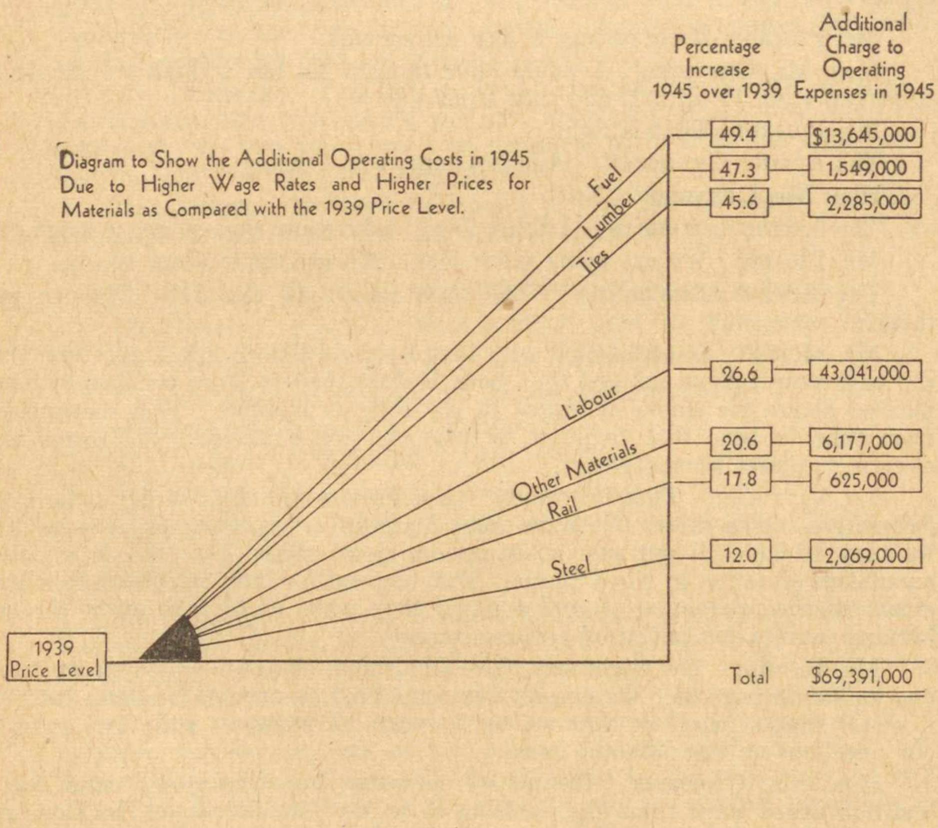
Hon. Mr. CHEVRIER: Before we adjourn, Mr. Chairman, there was a question asked some time this morning as to the jurisdiction of the Dominion government with respect of interprovincial transportation. I have asked the legal officers of the department for their opinion and I am informed that in 1937 when the Transport Bill was up before the House, Justice had given an opinion with reference to the point, and they then stated that the Dominion government has jurisdiction so far as interprovincial and international transportation was concerned; but the provinces took strong objection to that and they challenged, notwithstanding the statement of Justice, the jurisdiction of the federal government on even interprovincial transportation, and the control section of the bill was withdrawn because of the opposition of the provinces. They made representations so strong to the effect that their revenue would be curtailed substantially, that in view of those representations it was decided to withdraw that portion of the Transport Bill. I think that will answer your question.

The ACTING CHAIRMAN: Gentlemen, shall we adjourn until to-morrow morning at eleven o'clock?

Some Hon. MEMBERS: Agreed.

The committee adjourned at 6.05 o'clock p.m. to meet again tomorrow, Wednesday, May 15, at 11.00 o'clock a.m.

APPENDIX A



SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

WEDNESDAY, MAY 15, 1946

WITNESSES:

Mr. R. C. Vaughan, Chairman of Board of Directors and President, Canadian National Railways.

Mr. N. B. Walton, C.B.E., Executive Vice-President, Canadian National Railways.

Mr. T. H. Cooper, Vice-President and Comptroller, Canadian National Railways.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,
WEDNESDAY, 15th May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 o'clock a.m. Mr. McCulloch (Pictou) in the Chair.

Members present: Messrs. Chevrier, Emmerson, Gibson *(Comox-Alberni)*, Harkness, Hazen, Jackman, LaCroix, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid.—14.

In attendance: the same officials as on Tuesday, 14th instant.

The Committee resumed consideration of the Anuual Report for 1945 of the operations of the Canadian National Railways.

The Consolidated Balance Sheet as at December 31, 1945, was considered in detail and Mr. Cooper, Vice-President and Comptroller of the C.N.R. answered questions in connection therewith.

The Committee adjourned at 1 o'clock p.m., to meet again at 4 o'clock p.m. to-day.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m. Mr. McCulloch (*Pictou*) presided.

Members present: Messrs. Chevrier, Emmerson, Gibson *(Comox-Alberni)*, Hazen, Kuhl, Jackman, McCulloch *(Pictou)*, Moore, Mutch, Nicholson, Picard, Pouliot, Reid.—13.

In attendance: the same officials as were present this morning.

The Committee resumed consideration of the 1945 Report of the Canadian National Railways.

Messrs. Vaughan, Walton and Cooper replied to questions.

Mr. Picard broached the matter of the publication of a breakdown of the item under operating expenses: "salaries of general officers." Mr. Vaughan expressed the opinion that it would be unfair to the officers of the System to publish details. The Minister of Transport (Hon. L. Chevrier) pointed out that it had not been the practice to publish this information but that the Committee, should it decide to exercise it, has the power to ask for the production of details. Discussion followed.

On motion of Mr. Picard, it was

Resolved,—That the Committee adopt the 1945 Report of the operations of the Canadian National Railways System.

The Committee then took up consideration of the 1946 Budget for the Canadian National Railways. Messrs. Vaughan, Walton and Cooper were questioned thereon.

The Committee adjourned at 6 o'clock p.m., to meet again at 11 o'clock a.m. on Thursday, 16th May, 1946.

T. L. McEVOY,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 15, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'colck a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The ACTING CHAIRMAN: I will ask Mr. Vaughan to read the balance sheet or have it read.

Mr. VAUGHAN: I think Mr. Cooper might deal with the highlights of the balance sheet.

Mr. COOPER: The balance sheet as at December 31, 1945, is on pages 12 and 13. The form of balance sheet is one which is standard to all railroads on the North American continent. On the assets side the assets are divided between investments, current assets, deferred assets and unadjusted debits. Under the heading of investments the first item is investment in road and equipment property. That is our recorded cost of all the railway property which is comprised in the Canadian National Railways system. It includes the old Grand Trunk and all its subsidiary companies, the Canadian Northern and all its subsidiary companies, the Grand Trunk Pacific and all its subsidiary companies, and also the government railways, that is, the Intercolonial Railway, the National Transcontinental Railway and all other smaller railways which were previously known as Canadian government railways.

Mr. VAUGHAN: And some of which have been added since.

Mr. COOPER: Yes. That includes everything except the Hudson Bay railway and the P.E.I. car ferry.

Mr. REID: Is it increasing year by year?

Mr. COOPER: Yes.

Mr. MUTCH: That is on the equipment side, property.

Mr. COOPER: In 1945 the account increased by $12,709,000 principally with respect to equipment which was referred to yesterday. Taking the equipment account by itself the account includes $522,000,000. Road property totals $1,447,000,000. The average investment per mile operated works out at $83,739, per mile.

The next item, improvements on leased property—

Mr. NICHOLSON: Have you a breakdown of this total for road and equipment? How about hotels? Do they come in that?

Mr. COOPER: No. We will come to that. They are in the third item, as a matter of fact. The first item comprises what we call railway property or transportation property.

Mr. NICHOLSON: You gave one figure of $1,444,000,000. Have you any further breakdown of that? What is included in that?

Mr. COOPER: That would include our track, track structure and all stations, shops, bridges, and that sort of thing. As to improvements on leased railway property the investments there are similar to the first item except that we do not own the property itself. We have certain lines which are under long term lease, and any improvements which we make as lessee to those properties are carried in the second account. The principal railways included in that would be the New London Northern, $1,373,000 and the Northern Pacific line in Manitoba, $982,000. With respect to that second line there is an item in the 1946 budget for its acquisition.

CONSOLIDATED BALANCE SHEET

ASSETS

INVESTMENTS:			
Road and Equipment Property	$1,970,804,554 19		
Improvements on Leased Property	3,019,853 95		
Miscellaneous Physical Property	63,814,189 89		
		$2,037,638,598 03	
Sinking Funds:			
System Securities at par	$ 542,862 06		
Other Assets at cost	296,587 20		
		839,449 26	
Capital and Other Reserve Funds:			
System Securities at par	$ 471,500 00		
Other Assets at cost	3,514,132 98		
		3,985,632 98	
Deferred Maintenance Fund		39,000,000 00	
Investments in Affiliated Companies		41,342,143 68	
Other Investments:			
System Securities at par	$ 80,000 00		
Other Assets at cost	907,167 14		
		987,167 14	
			$2,123,792,991 09
CURRENT ASSETS:			
Cash		$ 18,487,984 21	
Temporary Cash Investments		9,519,425 00	
Special Deposits		10,916,724 53	
Net Balances Receivable from Agents and Conductors		13,891,322 87	
Miscellaneous Accounts Receivable		14,972,723 42	
Material and Supplies		49,979,114 57	
Interest and Dividends Receivable		712,971 41	
Accrued Accounts Receivable		7,171,287 49	
Other Current Assets		39,049 13	
			125,690,602 63
DEFERRED ASSETS:			
Working Fund Advances		$ 371,660 64	
Insurance Fund:			
System Securities at par	$ 4,651,502 06		
Other Assets at cost	7,774,266 90		
		12,425,768 96	
Pension Contract Fund		29,671,000 00	
Other Deferred Assets		3,072,290 74	
			45,540,720 34
UNADJUSTED DEBITS:			
Prepayments		$ 92,845 74	
Discount on Funded Debt		5,702,293 05	
Other Unadjusted Debits		2,535,563 91	
			8,330,702 70
			$2,303,355,016 76

CERTIFICATE

We have examined the books and records of the companies comprising the
and subject to our report to Parliament, we certify that, in our opinion, the above
view of the affairs of the System as at the 31st December, 1945, and that the
stated.

15th March, 1946.

AT 31st DECEMBER, 1945.

LIABILITIES

STOCKS:		
Capital Stocks of Subsidiary Companies held by Public		$ 4,643,040 00
LONG TERM DEBT:		
Funded Debt Unmatured:		
Held by Public	$ 567,434,133 42	
Held by Special Funds	5,745,864 12	
		573,179,997 54
DOMINION OF CANADA (Accounts treated as assets in Public Accounts of Canada):		
Loans	$ 674,201,612 83	
Canadian Government Railways—Working Capital	16,771,980 54	
		690,973,593 37
CURRENT LIABILITIES:		
Traffic and Car-Service Balances—Credit	$ 8,176,116 46	
Audited Accounts and Wages Payable	14,997,372 19	
Miscellaneous Accounts Payable	6,473,852 86	
Interest Matured Unpaid	7,012,029 29	
Unmatured Interest Accrued	6,299,297 10	
Accrued Accounts Payable	3,944,228 13	
Taxes Accrued	2,088,574 35	
Other Current Liabilities	7,825,253 21	
		56,816,723 59
DEFERRED LIABILITIES:		
Pension Contract Reserve	$ 29,671,000 00	
Other Deferred Liabilities	6,173,842 13	
		35,844,842 13
RESERVES AND UNADJUSTED CREDITS:		
Insurance Reserve	$ 12,425,768 96	
Accrued Depreciation—Canadian Lines—Equipment only	70,790,188 60	
Accrued Depreciation—U.S. Lines—Road and Equipment	22,400,749 89	
Accrued Amortization of Defence Projects	3,818,935 41	
Deferred Maintenance Reserve	39,000,000 00	
Other Reserves	8,313,612 60	
Other Unadjusted Credits	7,821,037 05	
		164,570,292 51
DOMINION OF CANADA—PROPRIETOR'S EQUITY—(*See* Note)		
Represented by:—		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000 00	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	381,711,556 78	
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	
		777,326,527 62
CONTINGENT LIABILITIES:		
Major contingent liabilities, as shown on statement attached.		$ 2,303,355,016 76

NOTE:—The Proprietor's Equity is included in the net debt of Canada and is disclosed in the historical record of Government assistance to railways as shown in the Public Accounts of Canada in accordance with The Canadian National Railways Capital Revision Act, 1937.

T. H. COOPER,
Vice-President and Comptroller.

OF AUDITORS

Canadian National Railway System for the year ended 31st December, 1945.
Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct
relative Income Account for the year ended the 31st December, 1945, is correctly

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

Miscellaneous physical property includes our investment in non-transportation property. The principal item would be our hotels, including the Vancouver hotel, and the amount would be $38,935,000. Then we have grain elevators and warehouses, $3,992,000 and subsidiary land companies, Rail and River Coal Company, and companies of that nature amounting to some $17,587,000.

Mr. JACKMAN: Who owns the leased properties after the expiration?

Mr. COOPER: The lessor will, and the improvements would revert to the lessor, but 999 years is a long time.

Mr. JACKMAN: All the leases are 999 years?

Mr. COOPER: Yes. I do not think we need to worry about what will happen at the termination of the lease.

Mr. EMMERSON: Mr. Cooper, would that property include any section of the road that is under lease to other companies?

Mr. COOPER: No, sir, that would be in the first item.

Hon. Mr. CHEVRIER: Some of these 999 year leases give the railway the right to purchase, do they not?

Mr. COOPER: In the case of the Manitoba Railway, yes. We have an option to acquire that railway at any time for $7,000,000, and we propose in 1946 to get authorization for the acquisition of that railway.

Mr. MUTCH: I understand that none of these leases are near expiring.

Mr. COOPER: No.

Mr. HAZEN: I notice there is a decrease of over $1,200,000 in the value of the miscellaneous physical assets compared with 1944. What is that decrease due to?

Mr. COOPER: Principally sales of land in western Canada and the abandonment of one of the mines of the Rail and River Coal Company.

Mr. HAZEN: One of what?

Mr. COOPER: One of the mines belonging to the Rail and River Coal Company.

Mr. HAZEN: Where was it situated?

Mr. COOPER: In Belmont county, Ohio. The next item there is sinking funds. In our bond issues we have two issues which have sinking fund provisions. One is the 6½ per cent sinking fund debenture bonds issued by the Canadian Northern in 1921 and which matures in July, 1946. Under the terms of the trust deed we are required to keep on deposit with the trustees $250,000 which is used by the trustees to acquire those securities in the open market if they should fall below par, but there is no possibility of a dominion government guaranteed bond with a 6½ per cent coupon falling below par these days. The other issue to which there is a sinking fund provision is the St. John & Quebec Railway. The trust deed requires that each year we pay into the trust account 2 per cent of the issue which is used by the trustees to acquire these particular bonds on the market.

Then we have capital and other reserve funds, $3,985,632.98. That represents proceeds from the sale of property which is under mortgage and by the terms of the trust deed we are required to keep the proceeds on deposit with the trustees for the security of the bond holders.

The deferred maintenance fund represents the investment of our deferred maintenance reserve. We invested the entire amount set aside for deferred maintenance in victory bonds, and at the end of 1945 we had $39,000,000 of victory bonds as against our reserve.

Mr. JACKMAN: I think yesterday you stated that $5,000,000 had been added to this deferred maintenance.

Mr. COOPER: In 1945.

Mr. JACKMAN: Could you tell us this, generally; how the $5,000,000 is calculated? If you have a fund of $39,000,000 intact against that deferred maintenance you must have withdrawn the earnings either as one item of $5,000,000 from your operating surplus, or as I think was said in a previous year, the deferred maintenance fund is built up by individual specified items and not just a general allocation from surplus. May I ask you here specifically, was any of that $5,000,000 taken from hotel earnings and put into deferred maintenance, or how did you build that fund up last year?

Mr. COOPER: We charged $2,500,000 to operating expenses under the heading of maintenance of way. You will see that item on page 15; and we charged $2,500,000 to operating expenses under the heading of maintenance of equipment; and you will find that item, the last item on page 15, under the heading of maintenance of equipment. In other words, Mr. Jackman, the entire $5,000,000 was charged as an operating expense in 1945; one half to maintenance of way, and one half to maintenance of equipment.

Mr. JACKMAN: You take it as a general item. It is not built up of through specified items such as was suggested last year; certain stations would ordinarily have been painted but were not because the paint was not available. It is taken up by general allocation?

Mr. COOPER: That is correct.

Mr. JACKMAN: And nothing was taken from hotel earnings to build this up due to the fact that actual work was deferred; for instance, take the Chateau Laurier, you didn't do any renewals or replacements.

Mr. COOPER: I might mention there that we have set aside in addition to this $39,000,000, $364,000 with respect to deferred maintenance on hotel property. That is carried in another account, and we will come to that later. Over and above the $39,000,000 with respect to railway fixed property and equipment we have set aside $364,000 with respect to deferred maintenance on our hotel properties.

Mr. JACKMAN: Was there any subdivision of the system where a similar procedure was followed?

Mr. COOPER: No.

The ACTING CHAIRMAN: Did you ever think of selling these $39,000,000 of bonds and getting $105 for them?

Mr. COOPER: What would we do with the proceeds?

The ACTING CHAIRMAN: Re-invest it.

Mr. COOPER: You can't show much of a profit that way, you would have to pay $105 to re-invest it.

Mr. JACKMAN: How much is the accumulated total maintenance, total deferred maintenance on hotel properties or on other accounts over and above the $39,000,000.

Mr. COOPER: $364,000.

Mr. JACKMAN: That was for the one year?

Mr. COOPER: No. That is accumulated.

Mr. JACKMAN: How much was taken off last year?

Mr. COOPER: One-third of that. Then we come to investment in affiliated companies—the details of which are given on page 23.

Mr. HAZEN: Did you make any investments in affiliated companies during the year?

Mr. COOPER: In respect of the Northern Alberta Railway, the Toronto Terminal Railway and the Chicago-Western Indiana Railway, yes; we did increase our investment.

Mr. HAZEN: I notice there is about a $620,000 increase, something like that I think, in that account as compared to last year.

Mr. COOPER: We purchased $400,000 of the bonds of the Northern Alberta Railway. That was to finance their capital expenditures and the two railways, the Canadian Pacific and the Canadian National, had to put up the funds, for which we received Northern Alberta bonds in settlement. We also advanced $100,000 to the Toronto Terminal Railway with respect to their capital expenditures. We also advanced $125,000 to the Chicago-Western Indiana, which was a requirement under one of their bond issues of which we are a joint and several guarantor.

Mr. HAZEN: The Northern Alberta bonds pay interest?

Mr. COOPER: Yes, sir, 5 per cent.

Mr. GIBSON: What price did you pay for that?

Mr. COOPER: Par.

Mr. JACKMAN: For what would that line need extra capital?

Mr. COOPER: For their expenditures on capital account.

Mr. JACKMAN: When you paid it out you received bonds in exchange and they are your assets. You received $400,000 in bonds. That is what you did?

Mr. COOPER: Yes, of the Northern Alberta.

Mr. JACKMAN: Does that increase your equity in that account somewhere?

Mr. COOPER: No, I would not think so. It increases our investment in the company, but our equity account would remain as it was.

Mr. JACKMAN: You and the C.P.R. are the proprietors?

Mr. COOPER: Yes.

Mr. JACKMAN: That is shown in your account $5,000,000?

Mr. COOPER: $500,000.

Mr. JACKMAN: $500,000 increase in your—

Mr. COOPER: In the bonds of that company, not in the stock of that company,

Mr. JACKMAN: All right.

Mr. COOPER: Other investments; they are miscellaneous investments in various companies which we have made from time to time, and includes system securities at par and other assets at cost.

Mr. HAZEN: Other assets at cost, are they listed, or is that just a lump sum?

Mr. COOPER: No, we have a list of them.

Mr. HAZEN: The reason I asked that is because I noticed that they only amount to $907,000, last year they amounted to $1,837,000. They are just about one-half of what they amounted to last year and I was wondering what the explanation of that was.

Mr. COOPER: Well, it is really because in that account last year we carried temporarily a million dollars which we had purchased for the deferred maintenance fund, we purchased more than we needed for that purpose; that is to say, we believed we were going to set up $6,000,000 as deferred maintenance and we acquired $6,000,000 victory bonds against that, but when we completed our accounts we limited our deferred maintenance provision to $5,000,000, so we moved $1,000,000 of victory bonds from the deferred maintenance fund down to this account of which we are speaking, and during this year we moved it back. It was simply a transfer between the deferred maintenance fund and the other investment account.

Cash $18,000,000—no explanation is needed there.

Temporary cash investments—$9,500,000.

Mr. JACKMAN: Why the difference in terminology in these two items?

Mr. COOPER: Cash, of course, is cash in the bank, but temporary cash investments means that the cash has been invested in securities; and the amount of $9,000,000 represents the reserve that we had created in respect of inventories and war projects. Cash for the amount which we had in reserve was invested in Dominion of Canada bonds and is so held until it is required. The differentiation there between cash, and temporary cash investments, is that one is in the form of cash at the bank which we can draw on, and the other is in the form of investments which we would have to sell before we could use it.

Special deposits: That represents amounts at the bank to take care of interest as it falls due for payment. Most of the interest comes due for payment on January 1, 1946, At the end of the year it is a special deposit at the bank, earmarked for the redemption of coupons falling due on January 1st.

Mr. JACKMAN: Do you get any allowance of interest on that?

Mr. COOPER: We get the ordinary bank rate, it is very, very small.

Mr. JACKMAN: These are for the most publicly held bonds, government bonds, are they?

Mr. COOPER: It is all held against publicly held bonds. Under the heading of other current liabilities you will see there is interest matured unpaid $7,000,000. Of the $9,000,000, $7,000,000 is for such interest.

Mr. MUTCH: The money would not necessarily be in the bank for any considerable period of time?

Mr. COOPER: No, it is put in there two or three days before January first. It had to be there December 31st.

Mr. JACKMAN: So bank interest is not really a factor in the account at all.

Mr. COOPER: Not at all.

Mr. JACKMAN: The point I was getting at is that the bank does not allow you anything on the money that you owe to the government.

Mr. COOPER: It was not owed the government.

Mr. JACKMAN: Is was not?

Mr. COOPER: No, it was in respect of bonds which are held by the public, the coupons being due on January first.

Mr. JACKMAN: The suggestion that I was going to make was that if it were government bonds you might as well turn the money over to the government, a few months' interest on $10,000,000 would amount to something, it very quickly runs into substantial figures.

Mr. COOPER: That is right, but this is not payable to the government.

Mr. JACKMAN: How do you pay your interest on indebtedness to the government?

Mr. COOPER: We write a cheque and send it to them. The amount is agreed to between the officials of the Department of Finance and the railway, and we send them a cheque for the amount. Last year we sent them a cheque for over $20,000,000.

Mr. JACKMAN: I thought if you were embarrassed for cash or the government were, that you could always arrange payment between yourselves.

Mr. COOPER: We are not embarrassed for cash, we have $18,000,000 of it.

Mr. JACKMAN: Yes, I am not suggesting that you would be. The position is different where you have to meet payments on coupons falling due on bonds held by the public, but otherwise there would not be much use in holding money in the bank pending settlement.

Mr. COOPER: Net balances receivable from agents and conductors: I do not think any explanation of that is needed. Miscellaneous accounts receivable, $14,000,000; there is no explanation of that needed. These figures, of course, are so large that we speak in millions of dollars. Very few companies, if any, in Canada have figures of this magnitude. I should like to say to the committee that while these figures are in large denominations, we account for them as meticulously as if they were the size of an ordinary commercial corporation.

Mr. JACKMAN: We are used to dealing in large figures here in Ottawa.

Mr. NICHOLSON: I notice that in the Canadian Pacific's balance sheet they have an item of $15,000,00 for agents and conductors balances.

Mr. COOPER: A similar figure.

Mr. NICHOLSON: Yes.

Mr. COOPER: The next is material and supplies. That represents the stocks of material on hand at the end of the year. During 1945 we reduced our material supplies by some $5,500,000, and as business declines that account should reduce. Prior to the war it was in the neighbourhood of $26,000,000 or $27,000,000. Our business doubled and our stock of material doubled. In 1945 we took a physical inventory of our stocks. It was our practice to take an inventory once a year, but under war conditions, due to lack of personnel, we had to give that up. It is a requirement of the Interstate Commerce Commission that the railroads in the United States take a physical inventory once a year, but they waived that requirement because the railways were not in a position to make a stocktaking during the war period. However, with the war over we took the first opportunity we could for seeing that our ledger balance for stores and material was in accordance with the actual physical units of material on hand.

Mr. MUTCH: What was it?

Mr. COOPER: I have the figure here. The excess value of stores on hand over the ledger balance, after writing off the obsolete material, was $471,000, which is less than 1 per cent of our inventory.

Mr. MUTCH: Did I understand you to say the excess?

Mr. COOPER: The excess. The actual amount of material exceeded the ledger balance by $471,000, which was less than 1 per cent; and considering the fact that we have not been able to take inventory during the war, I think that is a testimony to the effectiveness of our stock control methods.

Mr. REID: What would the purchase of your material and supplies ordinarly run per year?

Mr. VAUGHAN: I am sorry, but I did not catch that question, Mr. Reid.

Mr. REID: What would the total of your material and supplies purchased for the year ordinarily run at?

Mr. VAUGHAN: Depending on the amount of new equipment bought; it runs from about $80,000,000 to $100,000,000 a year in normal times.

Mr. MUTCH: Would any of that surplus inventory be the result of accrual of value of the equipment or supplies held over a period of time?

Mr. COOPER: Yes. We have to price our inventories at the end of the year at the current values. Generally, on a rising price market there is an advantage to the inventory, but when prices fall it acts in the reverse direction.

Mr. MUTCH: There was a margin of error, if you could call it that—I suppose you could hardly call it that—of even less than the actual figures indicated.

Mr. COOPER: That is true. Actually, we have almost a daily inventory system in effect. We have bin cards which show the actual number of units of material there should be on a particular shelf or in a particular bin, and from time to time the storekeepers go over that and verify it.

Mr. MUTCH: Over a period of five years, I would say that is a remarkable performance.

Mr. COOPER: I think it is.

Mr. JACKMAN: Do I understand, Mr. Cooper, that when you list the inventory you naturally do it at the cost price?

Mr. COOPER: No; at the prevailing price.

Mr. JACKMAN: I do not mean when you check it, but rather when you set up your books to begin with.

Mr. COOPER: It is charged into the store account at cost.

Mr. JACKMAN: At cost?

Mr. COOPER: Yes.

Mr. JACKMAN: Then when you check that up, even after a period of years such as the war years when you could not make a physical inventory, you price it then at the going value?

Mr. COOPER: That is so, except with respect to ties, fuel, rail and things of that sort. From time to time we establish average prices. The figures which the president used in saying what the present price of material was, say for coal, was the average stock price. The current buying price would be in excess of the figures which he quoted.

Mr. REID: Have you experienced any great difficulties over the past year in obtaining supplies? I think it is a splendid thing to have that material on hand, and I am just wondering what the experience has been?

Mr. VAUGHAN: It has been quite a struggle, Mr. Reid, to get our entire requirements in various lines during the year, and it is necessary under existing conditions that we keep our stock well ahead, as far as we possibly can.

Mr. JACKMAN: If you use a price inventory such as you suggested and not a physical unit inventory, how do you really get a check on it? It is quite true that none of this stuff probably was five years old, although you did mention obsolescence. But if you take even six months' turnover in your stores, there would be in these days a considerable price increase. It does not seem to me that is a check on the carefulness of the system. I think you would have to do it on the physical unit basis. How did it work out on that basis?

Mr. COOPER: Well, I could not tell you that. We have hundreds of stores. I could not tell you just how the number of units match; that is, the actual count as against the number of units shown in the ledger.

Mr. JACKMAN: But if you inventory, say, bolts at 9 cents and then when you come, after years, to check what you actually had in hand, and they are selling for 12 cents, that is an awful difference, and it does not tend to accuracy. What I want to know is, if you put 100,000 bolts in there, have you got vouchers for 90,000 taken out and 10,000 remaining?

Mr. MUTCH: How else could you determine how many bolts you had at 12 cents? You cannot compare bolts with dollars. It has got to be translated into the same commodity.

Mr. VAUGHAN: Your point is covered. There is an actual physical count made of every one of those bolts.

Mr. JACKMAN: But Mr. Cooper said that the result was within 1 per cent of what was shown on the books, but the bolts in the meantime have appreciated in price. Therefore if they have appreciated from 9 cents to 12 cents, 25 per cent less bolts physically in number would be your actual figure, whereas you would in fact have lost through disappearance or somehow, 25 per cent of your units.

Mr. COOPER: I appreciate your point, Mr. Jackman; but you have overlooked the fact that these older purchases have been charged out. We charge out the older prices first, and what remains in stock at an actual stocktaking is the material which has been purchased in the last two or three months, and there is not any sizable increase in the price.

Mr. JACKMAN: You do not feel that the lag would be more than two or three months? It would not be six months?

Mr. COOPER: Not as to the bulk of the material. There may be some special units that have been in for some time. They would probably go in the inventory at their original price.

Mr. REID: I may be duplicating this question owing to the fact that I was not here yesterday morning, but I was wondering if the price of materials such as ties and steel has increased very much in the past year

Hon. Mr. CHEVRIER: Yes.

Mr. VAUGHAN: That was given in the statement which I read. They have increased very materially.

Mr. JACKMAN: There is a chart on that. (Appendix "A" No. 1).

Hon. Mr. CHEVRIER: There is a chart on page 7. You will see ties particularly.

The Acting CHAIRMAN: Will you go on now, Mr. Cooper, to the next item?

Mr. COOPER: Yes. The next item is interest and dividends receivable. I think that speaks for itself. The next is accrued accounts receivable. They are accounts, the audit of which has not been completed. When it is completed, it would move up into the item miscellaneous accounts receivable. Generally that account refers to government warrants which have not gone through the complete process of audit, but we accrue the revenue and we take up a debit in this accrued accounts receivable.

Mr. HAZEN: Where are rents receivable shown?

Mr. COOPER: Rents receivable are in miscellaneous accounts receivable.

Mr. NICHOLSON: Was there any special reason for breaking down this miscellaneous accounts receivable this year? I notice it was not done last year.

Mr. COOPER: That is a change which was made by the Interstate Commerce Commission and we followed suit. They are always making changes in both their operating and balance sheets and income accounts, and we follow then as a rule. The next item is other current assets, $39,000, which is a small amount.

Mr. HAZEN: Pardon me, but before you go on I should like to ask a question about the Interstate Commerce Commission. Do you come under that body?

Mr. COOPER: No. We come under it with respect to our United States companies. The Interstate Commerce Commission is a body that is very well qualified to prescribe the form in which railways shall keep their accounts. The American Railway Association, which comprises all the railroads in the United States, has a number of committees. I am speaking now of accounting. They have other committees with respect to operation, engineering and all the other branches of railroading. But with respect to accounting they have a number of committees. They have a general accounts committee of which I am a member, and so is Mr. Leslie of the Canadian Pacific. There are 24 members on that general committee representing the principal railroads in the United States. Then they have other committees. They have a committee on freight accounts, one on passenger accounts, one on overcharges, one on express accounts, and a number of others. When a railway official has an idea with respect to an improvement in railway accounting, he generally submits that suggestion to the association and it is considered in committee. If the committe approves of it, they refer it to the Interstate Commerce Commission. If the commission approves of it, they issue an order making it mandatory. Because their accounting regulations have that degree of authority, and experience behind them and because of our operations in the United States, we as a matter of accounting policy follow the rules and regulations of the Interstate Commerce Commission, not by compulsion, but because we do not know of any other system which is as satisfactory and which would afford comparable comparisons with other American railways.

Mr. HAZEN: Mr. Cooper, does the Canadian Pacific Railway follow the same rules?

Mr. COOPER: Again I hesitate to speak with respect to the accounting for the Canadian Pacific Railway; but I venture the opinion that they do substantially as we do. I would imagine that the Canadian Pacific Railway adheres to the I.C.C. form of accounting. Mr. Leslie is a member of the general committee, and Canadian Pacific officers are members of the subcommittees, they are active like our officers are, in the affairs of the association. Two years ago Mr. Leslie was chairman of the general accounting committee and from my knowledge—I see their detailed reports to the Dominion Bureau of Statistics—I think I could say that they, like we, follow the general accounting practices of the Interstate Commerce Commission.

Deferred assets, these are advances to employees of the railway to enable them to make business trips and to operate small working funds.

Insurance fund, $12,425,768.96. That represents the investment of our insurance reserve.

Mr. JACKMAN: Do you carry your own insurance?

Mr. COOPER: Yes sir, we carry our own insurance.

Pension Contract Fund, $29,671,000. That too represents the investment of the reserve for pension contracts which have been issued.

Other deferred assets, $3,072,290.74. That is a miscellaneous collection of accounts. The items which go into the group of current assets are supposed to be those which can be realized upon within one year from the date of the balance sheet. Anything about which we have doubt as to its collection, or the collection of which may be deferred beyond one year, is moved down to the category of deferred assets.

Mr. HAZEN: Your insurance fund is less this year than last year by over $300,000. What is that due to?

Mr. COOPER: It is the first time, I think, since 1923 that our loss experience exceeded the income of the fund. We had three serious disasters. We lost the Prince George. She was insured for something like $500,000. Then we lost the sheds at Point Edward; and we lost the sheds at Depot Harbour. Those three items together amounted to about $1,500,000, the three things coming in the one year had the effect of reducing the fund during that year. But there is no doubt that, over the years, the fund is sufficient. It meets all the risks which the railway elects to carry.

Mr. NICHOLSON: How do you arrive at your rate; how do you build up this fund?

Mr. COOPER: We do not charge ourselves a premium any more. We feel the income from this fund is sufficient to cover the losses which occur. It was originally built up at underwriters rates; but the fund has been built up to a point where it can absorb all the losses which take place so there is no use in going on and building it up any further.

Mr. JACKMAN: I suppose you carried war risk insurance from the government during the war days?

Mr. COOPER: Not on the railway. We did, however, on the West Indies service with respect to our steamships; but we did not go into the government scheme of war risk insurance.

Mr. NICHOLSON: Could you give us the details in connection with the building of this fund?

Mr. COOPER: It really started in 1923. There was a small carry over from the Grand Trunk to the Canadian National. The amount would be about $1,500,000, although I speak from memory. But from 1923 until now we have built it up to about $12,500,000.

Mr. NICHOLSON: How long has the interest been carrying your losses?

Mr. COOPER: For at least ten years; in fact it has more than carried our losses. There has generally been an addition or profit in the fund each year. The income from the fund, over the years, has more than met the losses which we have experienced.

Mr. NICHOLSON: You do not recall how your fund stood ten years ago?

Mr. COOPER: Ten years ago it was $11,000,000.

Mr. NICHOLSON: You have added over $1,000,000 to it?

Mr. COOPER: Yes.

Mr. JACKMAN: The government itself carried insurance on the Park Steamship Company for instance, in connection with that explosion in Vancouver harbour. There is a claim against the underwriters. Your experience has, no doubt, been very profitable to the company, but I wonder why it would be that the government would see fit to insure, with the credit of the whole of Canada behind it, whereas the railway company, a very large corporation, sees fit to carry on virtually all its own risks?

Hon. Mr. CHEVRIER: In connection with the Park Steamships, they are a separate corporation. It is true, it is an operating company which has made charters with various other companies, under various conditions.

Mr. JACKMAN: But this is also alleged to be a separate corporation. I do not see any difference; that just proves my point.

Hon. Mr. CHEVRIER: But you raised the question why the government would not act in like manner?

Mr. JACKMAN: Why should not this company act in like manner to the government?

Hon. Mr. CHEVRIER: Yes, but there is a distinction between the two.

Mr. JACKMAN: But both, in fact, are Crown companies.

Hon. Mr. CHEVRIER: That is true; but there are various kinds of Crown companies; for example, those Crown companies that act in the manner of agents for the Crown. I think that is what the Park Steamships are. But I think the Canadian National Railways are on a different basis.

Mr. REID: Is it not a fact that the Canadian National Railways only adopted this system after some years, and that formerly they were insured?

Mr. MUTCH: In any case the discussion is extraneous to the purpose of this committee.

The ACTING CHAIRMAN: Next item.

Mr. COOPER: Prepayments, $92,845.74. That is a very small item. Discount on funded debt $5,702,293.05. That represents the balance of discount suffered at the time of the issue which we are amortizing. On the liability side—funded debt. The details are given on pages 21 and 22 of this report.

Mr. HAZEN: What is the amount?

Mr. COOPER: Pages 21 and 22.

Mr. JACKMAN: That first item, stocks, capital stocks of subsidiary companies held by public $4,643,040. Does that refer to those small lines which operate out of Montreal?

Mr. COOPER: You will find all the details on pages 24 and 25.

Mr. JACKMAN: Have you made any further progress in acquiring those minority interests?

Mr. COOPER: Not in 1945; but we have given the matter a great deal of study, although I cannot say we have made a great deal of progress, but we are working on it.

Mr. JACKMAN: You are making use of those properties and you are improving gratuitously the equities of those minority stock holders?

Mr. COOPER: No. For any improvements we make to those properties the companies are held indebted to the Canadian National Railways.

Dominion of Canada loans; they are shown on page 22 of this report of the total of $674,201,612.83. $391,179,395.36 was for the repatriation of United Kingdom securities; $195,264,135.50 was for debt redemption; and $73,851,082.26 was for new rolling stock. $13,906,999.71 was for working capital.

Mr. JACKMAN: Can you set out how much of that long trend debt was outstanding at the time of the formation of the Canadian National system?

Mr. COOPER: In 1923?

Mr. JACKMAN: If that is the date?

Mr. COOPER: At the end of 1922, December 31st, the funded debt held by the public was $804,000,000.

Mr. JACKMAN: And how much was owed to the Dominion of Canada at that time, if anything?

Mr. COOPER: I do not have that figure, Mr. Jackman; but whatever it was, it was washed out in the Capital Revision Act.

Mr. JACKMAN: In the Capital Revision Act of 1937. $904,000,000 was transferred from the debt to the proprietorship.

Mr. COOPER: No sir, $270,000,000.

Mr. JACKMAN: You gave me that $270,000,000 yesterday for that account, and $373,000,000, loaned by the government for deficits.

Mr. COOPER: They were washed out.

Mr. JACKMAN: Washed out entirely; yet, there was $904,000,000 owing?

Mr. COOPER: But the $904,000,000 owing had to do with deficits which, in our opinion, were not proper as interest bearing loans. Some of them existed in 1922. The Canadian government began to assist the Canadian Northern in 1914 and it certainly started to assist the Grand Trunk in 1919; and they also assisted the Grand Trunk Pacific. There was a sizable figure due to the government in 1922.

Mr. JACKMAN: That was what I was trying to get at when I asked how much was owed to the Dominion of Canada at the time of the formation of the Canadian National system?

Mr. COOPER: I have not got that figure here.

Mr. JACKMAN: But have you any idea of what it would run to?

Mr. COOPER: I will give it to you at the next meeting.

Mr. PICARD: Do you mean that those deficits should be wiped out on account of the financial structure of the company?

Mr. COOPER: They were deficits, and it was thought that they should not appear in the capital statement.

Mr. PICARD: Were they deficits?

Mr. COOPER: They were; they represented the amount by which the railway failed to earn its interest.

Mr. PICARD: They were not operation deficits? You made more money than you spent on the operation of the railways?

Mr. COOPER: Never since 1923 has the Canadian National Railways failed to earn its operating costs.

Mr. PICARD: That is what I thought. So you mean this: accumulated deficit for which loans were made. You had to meet some interest on your obligations?

Mr. REID: On page 22, speaking of interest, I note at the top of the page it gives the principal outstanding and then the interest accrued as at 1945. In looking at the items I see that most of them are four per cent. There is one $4\frac{1}{2}$ and one five per cent, but most of the issues are at four per cent. When you take the principal outstanding it seems to be correct. I am only speaking from a cursory glance, but there is one figure that has intrigued me. That is the five per cent indebtedness to the province of New Brunswick. There you have a principal outstanding of $380,022.60 at five per cent. That would amount to $19,000 odd. I notice that it states the interest accrued is $24,192. It is the only one that does not seem to correspond with the interest rate.

Mr. COOPER: During the year some of that indebtedness was paid off. This interest item is not interest on the balance at the end of the year. It is the interest accrued for the year. In other words in the early part of the year the amount of indebtedness exceeded $380,000.

The ACTING CHAIRMAN: Shall we go on with page 13 and get that in?

Mr. COOPER: Current liabilities; traffic and car service balances, audited accounts payable, miscellaneous accounts payable, interest matured unpaid, unmatured interest accrued, accrued accounts payable, taxes accrued, and other current liabilities, $56,000,000. I do not think they call for any comment.

Mr. JACKMAN: As to the taxes accrued are those mostly municipal taxes or sales taxes or what?

Mr. COOPER: They would be municipal taxes and taxes in respect of our United States subsidiaries.

Mr. REID: Could we have an explanation regarding the Dominion of Canada loans for repatriation of securities, or have we reached that point? If not, that question can wait until we come to it.

Hon. Mr. CHEVRIER: We went into that very thoroughly yesterday.

Mr. REID: If that was gone into yesterday I will accept the record.

Mr. COOPER: It was thoroughly gone into yesterday.

Mr. JACKMAN: In regard to municipal taxation on the old Intercolonial railway and some of these other railways which were formerly Crown companies do you pay taxes to the municipalities there?

Mr. COOPER: We do in one or two cases on non-transportation property, yes.

Mr. JACKMAN: On non-transportation property?

Mr. COOPER: Non-transportation property.

Mr. JACKMAN: You pay taxes on the non-transportation property?

Mr. COOPER: We have some property at Halifax which was purchased in anticipation of future use. It was not devoted to railway purposes and it was agreed that we should pay municipal taxes.

Mr. JACKMAN: But as to railway properties within municipalities?

Mr. COOPER: On railway property, no, although we have an agreement with the Maritime provinces whereby we paid them $250,000 a year.

Mr. JACKMAN: In lieu of any municipal taxes?

Mr. COOPER: In lieu of provincial taxes.

Mr. JACKMAN: I understand that there was some agitation in Halifax, and I think perhaps Saint John, to assess you for municipal taxation. What are the pros and cons of that? You do not pay any at the present time apart from the grant to the province of New Brunswick and the province of Nova Scotia.

Mr. COOPER: We do not, and they are bringing or threatening to bring action against us. The case has been in suit for at least two years. I do not know where it stands at the present minute.

Mr. JACKMAN: On other divisions of the railway do you pay taxes to the municipalities?

Mr. COOPER: Yes, we pay, for instance, in the city of Montreal, Toronto and, in fact, in all cities we pay municipal taxes.

Mr. VAUGHAN: Take, for instance, Montreal. We are by far the largest taxpayer in Montreal. I think our assessment is $10,000,000 more than the assessment of any other company.

Mr. MUTCH: You pay taxes on the Fort Rouge yards?

Mr. VAUGHAN: Yes. I think there is some agreement with the city there. I do not recall just what it is but there is some special arrangement.

Mr. MUTCH: There is a special arrangement.

Mr. VAUGHAN: I do not remember it offhand but there is a special arrangement there.

Mr. MUTCH: Has that been challenged or has there been any request for reconsideration of that?

Mr. VAUGHAN: No, that matter has not been up recently at all. We do pay some voluntary taxes down east. For instance, we pay taxes on our hotel in Halifax voluntarily.

Mr. JACKMAN: You pay the full rate?

Mr. VAUGHAN: We pay practically the same taxes on our hotel as are paid on the C.P.R. Hotel, the Lord Nelson, in Halifax. We did that as a voluntary act on our own part.

Mr. JACKMAN: Did this exemption from municipal taxation which is peculiar to the maritimes arise because the railways which were incorporated in the system in 1922 were formerly Crown companies?

Mr. COOPER: They are still Crown companies. So far as the Canadian government railways were concerned they were exempt from taxation. The other parts of the system, the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific, are not exempt from taxation.

Mr. VAUGHAN: The C.P.R. has certain exemptions from Winnipeg to the Rocky Mountains. They do not have to pay municipal taxes on the main line. They have just as much advantage in exemptions out west as we have down east.

Mr. JACKMAN: That is in their charter, is it?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: How about the Fort Garry hotel in Winnipeg? Do you pay taxes on that?

Mr. VAUGHAN: Yes.

Mr. REID: The C.P.R. does not pay taxes on the tracks through the municipalities.

Mr. VAUGHAN: They have a special exemption under their charter. I do not recall what it is. They pay some voluntary taxes, I think, the same as we do in the east. There is a somewhat similar situation on a portion of their lines in the west as we have in the east on the Canadian government railways.

Mr. JACKMAN: Would both railways pay taxes on their hotel properties, the Palisser in Calgary and the Macdonald in Edmonton?

Mr. VAUGHAN: I could not say whether they pay taxes there or not. We do pay taxes on all our hotels in western Canada.

Mr. HAZEN: Do you pay taxes to the city of Montreal on the station in Montreal?

Mr. VAUGHAN: Yes. We are the largest municipal taxpayers in Canada.

Mr. COOPER: Then we have deferred liabilities, and the first item is pension contract reserve, $29,671,000. That is the reserve set up against pension contracts which are outstanding at the end of the year. Then there is the item of other deferred liabilities.

Under reserves and unadjusted credits we have insurance reserve;—we have depreciation on the Canadian lines, equipment only, of $70,790,188.60;—accrued depreciation on the United States lines with respect to both roadway property and equipment of $22,400,749.89. We have set up a reserve for the amortization of defence projects of $3,818,935.41, a deferred maintenance reserve of $39,000,000, other reserves of $8,313,612.60, and other unadjusted credits of $7,821,037.05.

Mr. JACKMAN: What year was it that we set up that depreciation on the Canadian lines, equipment only, two years ago?

Mr. COOPER: We started in 1940.

Mr. JACKMAN: Is it likely to be the policy of the C.N.R. to extend that depreciation policy as you must do in the United States? For instance, as I recall it it was said yesterday only 10 per cent or less of the trackage was in the United States and yet we find that their accrued depreciation is $22,000,000 and in Canada it is $70,000,000 in place of about ten times what it is in the United States which would be comparable to the trackage. Is there any tendency or disposition on the part of the C.N.R. to adopt the American practice of depreciation on the Canadian lines?

Mr. COOPER: I do not think so. It would not be my recommendation.

Mr. VAUGHAN: We have the same practice on the depreciation of equipment.

Mr. JACKMAN: I realize that, but you were mentioning on the whole you think that the I.C.C. rules are worthy of adoption not because of compulsion but because of the inherent soundness of them.

Mr. COOPER: Yes. However, with respect to depreciation on road property I do not go along with them. They only adopted this policy in 1943. For 50 or 60 years they have contended to the contrary.

Mr. JACKMAN: There is no reason why they should not improve with time.

Mr. COOPER: No, but if you realize the change-over had to do with excess profits taxes I do not believe that is a sound argument for reversing the policy.

Mr. JACKMAN: Depreciation does not only have to do with excess profits taxes. It has to do with a true statement of your earnings, whether or not you are allowing for the gradual wear and tear of your capital equipment.

Mr. COOPER: I am pointing out that for 60 years they argued to the contrary, and even to-day taking track structure, rails, fastenings, ties, ballast, they refuse to recognize depreciation on what is called track structure. They will recognize depreciation on the fences and the telegraph posts and the station buildings and things of that sort. What logic there is in a contention of that sort is beyond me. If there is anything subject to depreciation it is the track, but they do not follow through as far as their theory is concerned to accrue depreciation on the track.

Mr. JACKMAN: Of course, stations and some other facilities become pretty dilapidated, but you cannot let your track go for very many months, I should think.

Mr. COOPER: You must admit that depreciation is accruing on the track just as it is on the stations. It may accrue a little quicker. The service life may be shorter but nevertheless depreciation is as much a fact on the track as it is on buildings.

Mr. JACKMAN: I should be inclined to agree with you on that except that track of necessity must be maintained from day to day at a high rate. You cannot allow any substantial dilapidation to occur there whereas you may allow it with your buildings. I presume that must be the reason behind the I.C.C. ruling. As I recall some years ago when I spent a good deal of time on the depreciation policy of the railway we decided that nothing would be pressed then because of the shortage of labour and the inability to get people to make a physical inventory of all the assets, track and telegraph poles if you like, and all the rest. Therefore I thought it was your opinion also that consideration should be postponed, but as far as the principle was concerned I felt that it had been in part adopted at least, not only as to rolling stock but as to railway equipment, and that after the war you would perhaps implement the I.C.C. regulations?

Mr. COOPER: I have given it a lot of consideration and have pondered it a great deal. My belief is we should not adopt it. I am curious to see what the American railroads will do when they begin to find themselves in the red, which they are going to find themselves in, and when excess profits taxes are cancelled.

Mr. JACKMAN: If they are in the red for a justifiable purpose, namely, wear and tear of their equipment, it is another argument why fair freight rates and fair passenger rates should be charged.

Mr. COOPER: If they have to suspend dividends because of bookkeeping entries for depreciation they are going to have to scratch their heads.

The next item is Dominion of Canada proprietor's equity. That is the shareholders' account. Up above we have the Dominion of Canada in its relation to the railway as a creditor. In the proprietor's equity account we have the relationship of the Dominion of Canada as a shareholder. They have an equity capital of $777,000,000, and on the next page you see the makeup of that item and the change from 1944.

Mr. JACKMAN: Can you give the committee the amount of the shareholders' equity at December 31, 1922 at the time of the acquisition of the various railways?

Mr. COOPFR: Their real equity?

Mr. MOORE: Yes.

Mr. COOPER: They had about $18,000,000 invested in the Canadian National, other than the Canadian governed railways. Answering your question a little more exactly, I would say offhand that the $18,000,000 and the $377,000,000 for the C. G. Rlys. would represent the dominion's equity as of 1923.

Mr. MOORE: That would be the amount owed the Canadian government?

Mr. COOPER: $377,000,000 was the cost of the Canadian Government Railways, $18,000,000 was cash they paid to acquire the stock of the Canadian Northern. They did not pay any cash to acquire the stock of the Grand Trunk or the Grand Trunk Pacific.

Mr. JACKMAN: So the $377,000,000 would represent the book value of the government account which you took over, I presume, and would include all the other railways which were Crown owned railways.

Mr. COOPER: That is so.

Mr. JACKMAN: And since 1922 the government investment on equity account has mounted to approximately $400,000,000.

Mr. COOPER: Yes, of which $112,000,000 represents the surplus earnings of the railway which have been allowed to increase the proprietor's equity. That would not be money put into the railway by the government.

Mr. JACKMAN: The $112,000,000 does not; but was the $112,000,000 not paid to the government as interest on the government obligation?

Mr. COOPER: No, it was paid as a reduction of debt.

Mr. JACKMAN: So you get a compensating factor in that item of $112,000,000 in the lessened bond investment to the government.

Mr. COOPER: True; but that affects their position of a creditor rather than their position as a shareholder.

The ACTING CHAIRMAN: Pages 14 to 17.

DOMINION OF CANADA—PROPRIETOR'S EQUITY ACCOUNT

	Balance at 31st Dec., 1944	Transactions Year 1945	Balance at 31st Dec., 1945
CAPITAL STOCK OF CANADIAN NATIONAL RAILWAY COMPANY	$ 18,000,000 00	$ —	$ 18,000,000 00
CAPITAL STOCK OF THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST:			
Initial stated value	$270,037,437 88	$ —	$270,037,437 88
Surplus earnings	87,745,931 64	24,756,130 00	112,502,061 64
Capital gains	19,105,651 38	—	19,105,651 38
Capital *losses*	*17,808,505 59*	* *2,125,088 53*	*19,933,594 12*
	$359,080,515 31	$ 22,631,041 47	$381,711,556 78
CAPITAL EXPENDITURES BY DOMINION OF CANADA ON CANADIAN GOVERNMENT RAILWAYS	$377,614,970 84	$ —	$377,614,970 84
	$754,695,486 15	$ 22,631,041 47	$777,326,527 62

*Loss on abandonment of 27·62 miles of St. Lin subdivision *$1,167,121 47*
Loss (applicable to period prior to 1940) on retirement of rolling stock equipment *957,967 06*

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

		Balance at 31st Dec., 1945	Per cent of Total
EQUITY CAPITAL:*			
Capital Stock of Canadian National Railway Company	$ 18,000,000 00		
Capital Stock of The Canadian National Railways Securities Trust	381,711,556 78		
Capital Expenditures by Dominion of Canada on Canadian Government Railways	377,614,970 84	$ 777,326,527 62	38·4%
FIXED INTEREST DEBT:			
Held by the public	$573,179,997 54		
Dominion of Canada—Loans	674,201,612 83	1,247,381,610 37	61·6%
		$ 2,024,708,137 99	100·0%

*Excluding shares of subsidiary companies held by public—$4,643,040.

RESULT OF 1945 OPERATIONS

Consolidated Income Account

	1945	1944
Railway Operating Revenues:		
Freight	$316,533,328 90	$321,588,728 39
Passenger	65,199,923 28	69,776,256 67
Mail	4,204,835 42	4,204,761 03
Express	19,209,446 01	18,008,142 96
Commercial Telegraphs	7,554,813 82	7,012,442 34
All other	21,071,046 13	20,557,178 96
Total Operating Revenues	$433,773,393 56	$441,147,510 35
Railway Operating Expenses:		
Maintenance of Way and Structures	$ 70,311,162 19	$ 76,503,925 59
Maintenance and Depreciation of Equipment	76,784,609 37	80,215,292 75
Traffic	6,046,603 02	6,058,693 52
Transportation	179,119,172 42	177,889,699 03
Miscellaneous Operations	6,282,609 09	5,922,378 37
General	16,749,892 39	15,957,054 27
Total Operating Expenses	$355,294,048 48	$362,547,043 53
Net operating revenue	$ 78,479,345 08	$ 78,600,466 82
Taxes	6,476,981 25	7,341,513 86
Equipment Rents—Net Debit	3,567,783 92	2,956,314 10
Joint Facility Rents—Net Debit	556,641 66	577,994 85
Net railway operating income	$ 67,877,938 25	$ 67,724,644 01
Other Income:		
Income from Lease of Road and Equipment	$ 58,960 79	$ 61,578 31
Miscellaneous Rent Income	930,962 20	954,858 42
Income from Non-transportation Property	643,859 61	598,717 23
Results of Separately Operated Properties—Profit or *Loss*	*54,478 00*	767,528 37
Hotel Operating Income	1,235,850 94	1,188,802 92
Dividend Income	543,514 50	659,726 10
Interest Income	3,863,692 01	3,923,760 98
Miscellaneous Income	298,490 98	2,367,210 34
Total Other Income	$ 7,520,853 03	$ 10,522,182 67
Deductions from Income:		
Rent for Leased Roads and Equipment	$ 1,109,929 74	$ 1,163,904 38
Miscellaneous Rents	652,343 81	539,891 47
Miscellaneous Taxes	121,027 01	90,839 21
Interest on Unfunded Debt	387,514 73	304,644 93
Amortization of Discount on Funded Debt	1,183,920 48	936,291 03
Miscellaneous Income Charges and Appropriations	1,104,234 99	4,142,362 79
Profit and Loss Items—*Net Credit*	*244,452 22*	*27,671 41*
Total Deductions from Income	$ 4,314,518 54	$ 7,150,262 40
Net income available for payment of interest	$ 71,084,272 74	$ 71,096,564 28
Interest on Funded Debt—Public	26,021,784 56	28,135,938 36
Interest on Government Loans	20,306,358 18	19,933,701 57
Surplus	$ 24,756,130 00	$ 23,026,924 35

OPERATING REVENUES

	1945	1944
Freight	$313,013,450 06	$317,735,454 78
Payments under Maritime Freight Rates Act (20%)	3,519,878 84	3,853,273 61
Passenger	65,199,923 28	69,776,256 67
Baggage	159,084 91	156,989 88
Sleeping Car	4,580,963 69	4,564,393 26
Parlour and Chair Car	271,537 54	226,215 49
Mail	4,204,835 42	4,204,761 03
Railway Express Agency	534,662 43	632,953 99
Express	18,674,783 58	17,375,188 97
Other Passenger-Train	61,942 53	28,720 17
Milk	469,169 82	429,094 53
Switching	3,358,414 26	3,294,605 94
Water Transfers	183,272 66	190,916 37
Dining and Buffet	4,608,534 74	4,471,567 77
Restaurants	301,391 10	272,862 79

OPERATING REVENUES—*Conc.*

	1945	1944
Station, Train and Boat Privileges	570,327 56	582,179 49
Parcel Room	150,749 63	153,319 74
Storage—Freight	116,214 52	75,808 82
Storage—Baggage	117,651 20	97,881 62
Demurrage	1,840,217 42	1,886,518 72
Telegraph Commissions (U.S.)	14,314 32	14,281 72
Telegraph—Commercial	7,540,499 50	6,998,160 62
Grain Elevator	513,618 04	539,617 91
Rents of Buildings and Other Property	898,493 41	779,617 34
Miscellaneous	2,165,022 58	2,179,313 58
Joint Facility—Credit	822,641 49	736,613 73
Joint Facility—*Debit*	*118,200 97*	*109,058 19*
	$433,773,393 56	$441,147,510 35

OPERATING EXPENSES

Maintenance of Way and Structures

Superintendence	$ 3,944,226 92	$ 4,100,491 88
Roadway Maintenance	8,705,847 73	8,660,168 89
Tunnels and Subways	35,459 50	38,050 80
Bridges, Trestles and Culverts	2,715,192 03	2,424,967 38
Ties	7,599,421 14	8,294,237 25
Rails	3,183,715 56	4,026,706 50
Other Track Material	3,025,663 44	3,229,879 48
Ballast	1,803,873 16	1,502,041 15
Track Laying and Surfacing	18,150,434 30	18,979,235 81
Fences, Snowsheds and Signs	660,415 74	561,071 48
Station and Office Buildings	2,956,783 30	2,779,798 12
Roadway Buildings	352,973 30	310,629 38
Water Stations	517,550 95	561,950 03
Fuel Stations	290,714 31	278,713 86
Shops and Enginehouses	2,210,765 77	2,077,034 31
Grain Elevators	49,693 94	49,880 56
Wharves and Docks	217,414 67	227,927 51
Telegraph and Telephone Lines	1,078,893 03	1,074,642 24
Telegraph—Commercial	1,389,630 12	1,257,556 44
Signals and Interlockers	1,137,962 58	1,172,196 40
Power Plants	9,262 96	24,669 57
Power Transmission Systems	170,753 66	194,408 10
Miscellaneous Structures	3,193 01	4,824 63
Road Property—Depreciation—U.S. Lines	853,390 97	764,133 41
Road Property—Retirements	1,231,167 29	1,564,321 77
Deferred Maintenance	2,500,000 00	6,500,000 00
Roadway Machines	594,557 02	540,607 28
Dismantling Retired Road Property	81,071 66	90,363 99
Amortization of Defence Projects	2,284 68	1,002,284 68
Small Tools and Supplies	887,741 95	884,498 50
Removing Snow, Ice, and Sand	3,540,663 13	2,829,113 49
Public Improvements—Maintenance	369,035 18	370,190 41
Injuries to Persons	661,012 09	670,295 76
Insurance	28,140 76	24,666 53
Stationery and Printing	70,819 65	66,657 97
Other Expenses	63,059 99	39,742 94
Maintaining Joint Tracks, Yards, etc.—Debit	1,015,097 95	794,153 26
Maintaining Joint Tracks, Yards, etc.—*Credit*	*1,942,157 33*	*1,727,321 52*
Right of Way Expenses	75,431 46	68,484 40
Protective Services	70,004 62	190,650 95
	$ 70,311,162 19	$ 76,503,925 59

Maintenance of Equipment

Superintendence	$ 1,539,394 18	$ 1,631,670 35
Shop Machinery	2,083,485 62	1,994,656 93
Power Plant Machinery	115,858 50	108,904 48
Machinery—Retirements	200,386 19	89,900 85
Machinery—Depreciation—U.S. Lines	65,986 47	65,993 10
Dismantling Retired Machinery	2,963 50	2,849 50
Steam Locomotives—Repairs	22,780,691 45	23,100,702 73
Other Locomotives—Repairs	379,394 25	300,952 75
Freight-Train Cars—Repairs	16,879,507 30	16,673,746 56
Passenger-Train Cars—Repairs	9,358,057 50	9,126,776 80
Floating Equipment—Repairs	361,454 04	437,205 04
Work Equipment—Repairs	2,187,604 46	2,172,248 56

OPERATING EXPENSES—*Con.*

	1945	1944
Express Equipment—Repairs	207,157 24	188,324 36
Miscellaneous Equipment—Repairs	201,051 70	167,614 95
Miscellaneous Equipment—Retirements	1,798 53	6,923 44
Dismantling Retired Equipment	56,308 77	52,492 63
Equipment—Depreciation	16,974,015 87	19,853,984 95
Express Equipment—Depreciation	167,252 45	160,026 91
Injuries to Persons	579,957 56	510,255 63
Insurance	35,089 17	21,570 70
Stationery and Printing	60,202 15	53,460 21
Other Expenses	2,667 17	11,032 95
Joint Maintenance of Equipment—Debit	250,211 17	209,053 73
Joint Maintenance of Equipment—*Credit*	*205,885 87*	*225,055 36*
Deferred Maintenance—Equipment	2,500,000 00	3,500,000 00
	$ 76,784,609 37	$ 80,215,292 75
Traffic		
Superintendence	$ 2,145,109 43	$ 2,210,788 63
Outside Agencies	2,853,589 00	2,829,028 45
Advertising	341,215 04	331,246 72
Traffic Associations	121,328 18	122,579 63
Stationery and Printing	267,094 28	262,000 71
Other Expenses	225 00	233 44
Industrial Bureau	115,414 99	111,648 49
Colonization, Agriculture and Natural Resources	202,627 10	191,167 45
	$ 6,046,603 02	$ 6,058,693 52
Transportation		
Superintendence	$ 3,765,343 35	$ 4,009,532 29
Dispatching Trains	2,271,473 15	2,266,139 69
Station Employees	25,073,729 27	24,540,076 41
Weighing, Inspection, and Demurrage Bureaus	101,453 06	108,434 83
Coal and Ore Wharves	15,236 45	....
Station Supplies and Expenses	1,830,272 84	1,812,688 60
Yardmasters and Yard Clerks	4,912,250 62	4,713,325 42
Yard Conductors and Brakemen	8,518,726 18	8,493,169 31
Yard Switch and Signal Tenders	854,640 08	881,830 24
Yard Enginemen	5,364,395 97	5,385,722 59
Yard Motormen	666,539 83	628,486 59
Yard Switching Fuel	6,661,625 37	6,643,950 27
Yard Switching Power Produced	16,203 75	16,571 72
Yard Switching Power Purchased	95,393 59	98,296 02
Water for Yard Locomotives	215,453 80	209,572 15
Lubricants for Yard Locomotives	79,906 67	80,098 41
Other Supplies for Yard Locomotives	58,692 35	53,522 20
Enginehouse Expenses—Yard	2,101,901 21	2,075,708 61
Yard Supplies and Expenses	202,198 84	183,169 35
Operating Joint Yards and Terminals—Debit	1,828,166 68	1,771,465 75
Operating Joint Yards and Terminals—*Credit*	*2,031,612 59*	*2,056,723 75*
Train Enginemen	15,501,769 73	15,723,643 52
Train Motormen	121,351 22	122,442 39
Train Fuel	35,698,139 57	36,685,000 61
Train Power Produced	7,038 71	12,686 19
Train Power Purchased	43,019 07	44,177 83
Water for Train Locomotives	1,363,258 83	1,352,320 18
Lubricants for Train Locomotives	582,271 77	566,191 83
Other Supplies for Train Locomotives	326,289 07	309,738 45
Enginehouse Expenses—Train	6,031,058 67	5,949,232 39
Trainmen	17,902,623 65	18,061,650 85
Train Supplies and Expenses	11,108,584 78	10,987,421 68
Operating Sleeping Cars	2,157,966 96	2,003,564 87
Signal and Interlocker Operation	564,925 05	582,601 02
Crossing Protection	846,625 97	854,335 45
Drawbridge Operation	131,636 51	132,389 16
Telegraph and Telephone Operation	434,880 56	436,578 56
Telegraph—Commercial	5,418,338 96	5,371,875 16
Operating Floating Equipment	1,231,744 64	1,245,491 30
Express	9,905,469 86	9,415,564 85
Stationery and Printing	761,103 05	698,296 38
Other Expenses	1,307,751 13	1,244,142 92
Operating Joint Tracks and Facilities—Debit	880,785 07	833,207 47
Operating Joint Tracks and Facilities—*Credit*	*421,589 49*	*483,333 47*
Insurance	16,976 80	14,366 29

OPERATING EXPENSES—*Conc.*

	1945	1944
Clearing Wrecks	500,501 25	481,578 18
Damage to Property	78,515 34	119,443 07
Damage to Live Stock on Right-of-Way	77,005 86	76,521 27
Loss and Damage—Freight	2,050,234 82	1,772,776 52
Loss and Damage—Baggage	15,744 26	20,115 25
Injuries to Persons	1,873,160 28	1,340,642 16
	$179,119,172 42	$177,889,699 03
Miscellaneous		
Dining and Buffet Service	$ 5,615,717 45	$ 5,325,339 60
Restaurants	278,591 80	272,580 27
Grain Elevators	351,532 81	287,379 59
Other Miscellaneous Operations	36,767 03	37,078 91
	$ 6,282,609 09	$ 5,922,378 37
General		
Salaries and Expenses of General Officers	$ 493,631 92	$ 502,657 22
Salaries and Expenses of Clerks and Attendants	6,197,145 02	6,590,951 86
General Office Supplies and Expenses	308,283 54	300,660 92
Law Expenses	393,064 75	392,428 05
Relief Department Expenses	27,500 00	27,500 00
Pensions	8,864,923 03	7,641,801 74
Stationery and Printing	247,722 64	235,468 17
Valuation Expenses	15,987 70	15,793 89
Other Expenses	165,347 34	211,902 55
General Joint Facilities—Debit	47,948 29	49,294 41
General Joint Facilities—*Credit*	*11,661 84*	*11,404 54*
	$ 16,749,892 39	$ 15,957,054 27

Mr. REID: On page 15, regarding operating expenses, I wonder if I can have a statement regarding passenger revenues. I see there is a drop there from $69,000,000 to $65,000,000, while on the sleeping car, parlour car and dining car service there is an increase of almost $3,000,000; no, there is an increase of almost $3,000,000 in passenger revenue, but there is a very considerable increase in the sleeping, parlour car and dining car revenue.

Mr. COOPER: The decrease in the passenger revenue is due to the fact that we had about 5,600,000 less passengers carried—if the members of the committee will turn to page 29 they will see towards the bottom of that page the number of passengers carried was down 5,000,000. They will also see that there was a considerable decrease in the number of passengers carried one mile, and there was a corresponding decrease in passenger revenue, due to fewer passengers having been carried.

Mr. REID: But on your sleeping car, dining car and parlour car services you show an increase.

Mr. WALTON: The sleeping car and dining car equipment was very extensively used on these movements back from overseas.

Mr. MUTCH: It was standard sleepers only, wasn't it?

Mr. WALTON: Yes. When they went overseas they used coaches or colonist cars, but on the return trip they had sleeping car equipment; and the use of that type of equipment is extending to the movement of dependents as well.

Mr. EMMERSON: And would you be paid a transportation charge on that?

Mr. WALTON: Oh, yes, but of course at a lesser rate.

Mr. MUTCH: And the lowered rate compared with the greatly increased use would be a minus factor?

Mr. WALTON: Yes.

Mr. MUTCH: Then I think in connection with both the sleeping car and the dining car service that represents to a certain extent at any rate a luxury service.

Mr. WALTON: The most lucrative passenger traffic is the movement of passengers on the regular passenger trains. These overseas movements are usually less than normal rates.

Mr. MUTCH: We have had enough military personnel running back and forth across the country using dining cars, sleeping cars and parlour cars, to make them pay.

Mr. NICHOLSON: I wonder if we could have a statement about passenger traffic.

Mr. WALTON: You are speaking now of passenger revenue?

Mr. NICHOLSON: Yes.

Mr. VAUGHAN: I think we will come to that when we are presenting our budget.

Mr. NICHOLSON: I want to get what you estimate your revenue will be for the current year.

Mr. VAUGHAN: I think our budget will show the estimated earnings for 1946.

Mr. MUTCH: Was the biggest decrease in coach or better quality cars?

Mr. VAUGHAN: Chiefly coaches.

The Acting CHAIRMAN: Any more questions on page 15?

Mr. NICHOLSON: I want to get an answer about the estimate on passenger revenue.

Mr. COOPER: The estimated revenue is $48,957,000, which is a decrease of 24·9 per cent—25 per cent of a decrease estimated in 1946 as compared to 1945.

Mr. NICHOLSON: When did you arrive at that estimate?

Mr. COOPER: That estimate was dated December 3, 1945.

Mr. NICHOLSON: And as a result of your experience for the first quarter would that indicate that you are very close to your estimate?

Mr. VAUGHAN: That estimate was the result of a study made by our passenger traffic department, what they estimate our passenger earnings will be in the year 1946.

Mr. NICHOLSON: You have returns for the first quarter of the year now. I was wondering if the results are close.

Mr. VAUGHAN: They are running pretty close to the estimate.

Mr. GIBSON: Mr. Vaughan, I have been requested by Mr. Isnor, the member for Halifax, to ask you as to whether you have any knowledge of a statement having been made at the time of the expropriation of land, a matter which was before the Exchequer Court in 1914-15, to the effect that the movement of trains in the Halifax area would be done by electrification? If so, has this been carried out; if not, would it be carried out in the near future?

Mr. VAUGHAN: I do not recall what that agreement provided for. Certainly, we have done nothing about the electrification of the line down there because we have not considered it necessary. There have been requests made to us to reduce the smoke nuisance, the alleged smoke nuisance, if possible in the city of Halifax. We do not think it is any greater there than in any other city. But as we get more of these diesel engines, some of them may be used in Halifax in switching service, which may improve the situation there.

Mr. MUTCH: Is not Nova Scotia a coal producing province?

Mr. VAUGHAN: Yes, it is. On the one hand we are being urged to eliminate the smoke nuisance by using oil burning locomotives while on the other hand we are being urged to use more Nova Scotia coal.

Hon. Mr. CHEVRIER: Have you given any consideration to the cost of electrification, Mr. Vaughan?

Mr. VAUGHAN: No, we have not.

Mr. JACKMAN: Is the difficulty in connection with the electrification of lines, whether on main lines or at terminals, the cost of electrification or the cost of capital equipment and installation?

Mr. VAUGHAN: Both are involved. The cost of the equipment is very high, and in most cases the cost of the power itself is high; and the two combine to make a much higher cost than operation by coal.

Mr. JACKMAN: I was just wondering in connection with the surplus of power, particularly in the Montreal district—perhaps they will be getting Saguenay power down there and a much lower rate than obtained before the war—whether or not you are within a reasonable, practical distance of thinking about electrification in the Montreal area.

Mr. VAUGHAN: The cost is not yet down to a point to enable us to give it serious consideration. Our department of research and development has been going into it very carefully and are making a study of it with a view to ascertaining whether there are any points where it would be economical for us to use electricity instead of the present method. We have our passenger terminal in Montreal electrified, as you know, but in our freight terminals we use either diesel switchers or steam switchers.

Mr. WALTON: In connection with the situation at Halifax, the complaint with regard to the smoke nuisance was naturally at its worst when these heavy movements from overseas were at their peak. We have had occasions when as many as thirty passenger trains left their straight away on the hour, every thirty hours; and, leaving from the ocean terminal as they do and passing certain residential sections on a grade getting up out of Halifax, the smoke condition was at its worst. We do not think it will be that bad from now on. We have two diesel switch locomotives working in Halifax to mitigate the condition which has been complained of. I do not think it will be as bad from now on as it has been in the past.

Mr. GIBSON: Thank you very much.

Mr. HAZEN: In what cities do you use electrification?

Mr. WALTON: Just in Montreal, and also through the St. Clair tunnel between Sarnia and Port Huron.

Mr. HAZEN: Do you use diesel engines at many places?

Mr. WALTON: We have a certain number of diesels spread around at certain points. We have some additional ones on order for switching service this year. It has been a gradual development.

Mr. HAZEN: In what cities do you use them for switching service?

Mr. WALTON: We have some in Montreal, two in Halifax, some in the United States terminals; and, as I said, we have additional ones coming forward this year.

Mr. REID: With regard to the use of fuel and coal on the western division, are you using coal from the mines of Alberta and British Columbia out in that part of the country?

Mr. WALTON: It is all western coal that is used in that part of the country.

Mr. GIBSON: With respect to telegraph lines I see you show what appears to be a tremendous profit, $7,500,000, and against that you have expense account amounting to $2,400,000; are those true figures?

Mr. COOPER: On page 17, under the heading of transportation expenses, you will see the operating cost of telegraphs, $5,418,000.

Mr. REID: A short time ago a question was asked about cost of materials, ties, and so on. I notice under the heading operating expenses, maintenance of way and structures, under roadway maintenance there is an increase; and then, further down, when you come to ties, and rails, there is a considerable decrease, how do you account for that?

Mr. VAUGHAN: That would be because we have put in fewer ties than we did the previous year. We are gradually putting in creosoted ties on most of our system and those ties have a longer life than the ordinary green ties, and the more creosoted ties we get in, the fewer our renewals will be each year.

Mr. EMMERSON: Mr. Walton, referring back to Halifax, is it the poinion of the railroad that these two switch engines, diesel electric engines, will take care of the shunting?

Mr. WALTON: It was thought that these two would take care of the greater part of the shunting at Halifax ocean terminal and up toward Young avenue and in that vicinity which creates the greater part of the smoke nuisance. I do not think there is any great complaint from the Rockingham area or at Fairview. The climb up the hill out of the ocean terminal and this residential section was undoubtedly the cause of the complaint.

Mr. REID: What is the difference between right of way expenses and roadway maintenance?

Mr. VAUGHAN: That is an accounting classification.

Mr. WALTON: Are you speaking of the two separate items?

Mr. REID: Yes, the two separate items under operating expenses; roadway maintenance and, at the bottom, right of way expenses.

Mr. WALTON: That small item, or comparatively small item, of right of way expenses has to do with surveys and things of that nature whereas roadway maintenance, well over $8,000,000, is the ordinary work of maintenance of the track, bridges and so on.

Mr. PICARD: You have an item of $18,000,000 for track laying and surfacing, yet we still have ties, rails, ballast and so on. Would that $18,000,000 be just for labour?

Mr. WALTON: That is labour.

Mr. PICARD: That is just the labour of surfacing?

Mr. WALTON: Yes. The labour is the big part.

Mr. PICARD: By far the biggest amount is just for the work?

Mr. WALTON: That is right.

Mr. NICHOLSON: With reference to this parlour and chair car item, it occurs to me that the revenue received from this class of operation is not very great. Take the operation between Ottawa and Montreal, for example. The revenue for a chair is pretty small in comparison with what it costs to maintain it. Have you any information as to how profitable this type of operation is?

Mr. VAUGHAN: We do not think it is very profitable, but the chair car has been in use for a long time and there is a demand for it.

Mr. NICHOLSON: Should not those who demand it pay a little more for the service than they do now? How many passengers do you carry in a chair car as compared with a coach?

Mr WALTON: Roughly, the average car runs about 25 to 26 passengers, and the coach would possibly have an average of 66 or something like that.

Mr. NICHOLSON: What is the chair fare from Ottawa to Montreal?

The ACTING CHAIRMAN: 75 cents.

Mr. WALTON: Yes, 75 cents.

Mr. Nicholson: It would not appear that that would be a very profitable operation.

Mr. Walton: No. The operation of a parlour car in itself is not very profitable, but it is one of the advantages over the buses.

Mr. Jackman: And the T.C.A.

The Acting Chairman: The public demand it.

Hon Mr. Chevrier: You could not increase it whether you wanted to or not. The ceiling is still on.

Mr. Nicholson: Yes, I know. But even before the ceiling was put on, I think the fare was not high enough. What representations could be made to have this service cost what it is really worth?

Mr. Walton: The first consideration would be whether a raise in the parlour car seat fare would drive traffic away not only from the parlour car but from a train, and those considerations are all taken into account pretty carefully in furnishing services of that type.

Mr. Gibson: What would be the cost of pulling a car up from Montreal, say? I mean, what would the extra cost be?

Mr. Walton: Of course, that is one of the things that is debatable.

Mr. Gibson: I was wondering how much coal it would take, because that must be the extra cost.

Mr. Walton: There is the wear and tear on the car, and the shopping of it.

Mr. Vaughan: And the wear and tear on the tracks.

Mr. Walton: And the cost of the porter's wages.

Mr. Vaughan: We find it impossible to apportion the cost as between running a freight train and a passenger train.

Mr. Mutch: Parlour car service eliminates a lot of wear and tear on your passengers.

Mr. Nicholson: How about the original cost of the car as compared with a passenger coach?

Mr. Vaughan: A parlour car costs a little more money.

Mr. Walton: But not a great deal.

Mr. Vaughan: Not a great deal, no. In the modern coach, seats are expensive. But our parlour car rates are in line with the parlour car rates charged all over the continent; and that was considered, at the time they were put into effect, about as much as we would be warranted in charging..

Mr. Reid: Are those cars under a patent?

Mr. Vaughan: Not the parlour car, no. Most of the seats we buy in coaches are patented seats.

The Acting Chairman: Will you turn now to page 16?

Mr. Picard: Oh, no, not that fast, Mr. Chairman.

Mr. Harkness: You have an item for insurance on page 15 under maintenance of way and structures. I thought you carried all your insurance yourselves? How about that?

Mr. Cooper: On the Grand Trunk Western, which is one of our United States subsidiaries, we charge them an insurance premium. When I was speaking before, I was speaking broadly of the system; but on the American line we do assess a premium charge against them for insurance.

Mr. Harkness: Do you place that in an ordinary insurance company?

Mr. Cooper: No. It is insured in our own account.

Mr. Harkness: It is just charged up?

Mr. COPPER: Yes.

Mr. REID: May I just ask this question before you turn the page? I am speaking now for a minority group in this country, the non-smokers. In the early days in travelling across the country and travelling in trains, there used to be a smoking compartment for those who smoked. But as a non-smoker, I can tell you it is not pleasant nowadays, since the tobacco companies have induced all the ladies to smoke, to sit there all day in a parlour car where you can hardly see the passengers across the way. I am wondering—and I am speaking for the minority who do not smoke, like myself—whether a small compartment should not be provided for non-smokers. As I say, it is not very pleasant to sit in these parlour cars in the midst of all that smoke.

Mr. PICARD: Why not have a compartment for the non-smokers?

Mr. REID: I think some consideration should be given to the non-smokers.

Mr. VAUGHAN: They are not supposed to smoke in the body of parlour cars.

Mr. REID: But they do so.

Mr. VAUGHAN: It is imposing quite a problem on our conductors and trainmen to prevent that. We do put signs up. Occasionally, if someone complains that he has a smoker next to him, to the conductor or to the porter, he will ask that person to cease smoking. But I am afraid if we threw out all those who smoked where they are not supposed to smoke, we would not have many passengers.

Mr. REID: I am not suggesting that. I am suggesting that in the development of cars in the future, we go the other way and protect the non-smoker by giving him a small compartment by himself.

Mr. VAUGHAN: A great many of our new coaches have a partitioned space at the back, right in the body of the car, for smokers; and we are hoping they will use it.

Mr. WALTON: In our next lot of new coaches we propose to increase the amount of space where smoking is allowed, in the hope that it will help this situation. Also we will continue, instead of having a small room reached by a passage, to have simply a portion of the coach partitioned off so that you can see right through to the smoking portion, with seats just as comfortable as those in the rest of the car.

Mr. REID: In modern coaches they are taking that very point up, because in modern coaches for long distance travel they protect the non-smoker. I can tell you that when travelling a distance, and sitting there day after day as you do if you come from British Columbia, under the conditions I have described, for a non-smoker it is not very pleasant.

The ACTING CHAIRMAN: It is pretty hard for the conductor.

Mr. REID: Oh, yes.

The ACTING CHAIRMAN: I have been in a chair when the conductor has come through and stopped people from smoking, but the minute the conductor went out they would start up again.

Mr. MUTCH: So far as chaircars are concerned, the practice is established by right that you can smoke in a chair car. You provide a multitude of ashtrays. In my experience in the last ten years, I have seen no restrictions on parlour cars.

Mr. WALTON: That was in response to popular demand, contrary to the one expressed by Mr. Reid, that in view of air conditioning and the smoke getting away fairly well, the ban on smoking in parlour cars should be removed. We had 10 to 1 representations in that direction.

Mr. MUTCH: Perhaps the minister could give Mr. Reid a pass on the T.C.A. and that would solve the problem.

The ACTING CHAIRMAN: Get Mr. Reid a good pipe, and I think it will satisfy him.

Mr. REID: I have nothing against the pipe. It is the cigarette. I am afraid the tobacco companies will induce the children to smoke next, and there will be nothing but the babies left.

Mr. GIBSON: I am rather curious to know if you are looking after your officials properly on the line, Mr. Vaughan? I am just wondering how many private cars the system has for the use of officials and how much was spent in renovating those cars last year. Have you a figure on that, Mr. Vaughan?

Mr. VAUGHAN: I do not think we have a figure. We can probably find that out. That all goes into our repairs to passenger equipment.

Mr. GIBSON: Have you any idea how many cars you have? You naturally give one to each of your superintendents.

Mr. VAUGHAN: Not to all of our superintendents. To the superintendent in an isolated territory, who has to be away from home a good deal or travel a particular course, we give a car of a kind. Some of them can hardly be dignified as private cars, in fact some of them are converted cabooses. We do not waste any money on private cars. I think if you compare the condition of the private cars of the officials with the condition of the private cars of the officials of some other railroads, you would see that we have not been extravagant in that regard.

Mr. GIBSON: I am glad to hear that.

Mr. PICARD: How many private cars would there be on the C.N.R. for officials?

Mr. MUTCH: Are you lumping work cars as private cars?

Mr. PICARD: I am speaking of private cars, not work cars.

Mr. VAUGHAN: We do not call them private cars; we call them business cars.

Mr. PICARD: Let us say luxury business cars. I do not say they are so comfortable, because I have travelled in government ministers' cars in the past, and often times I would go in the regular train because the lighting would be better in the regular coaches or the regular parlour cars than it was in the private car, because they were old cars that had probably been in use so long and every government one after the other—I mean, every new government—would hesitate about putting in the estimates the cost of a new car. So the ministerial cars are very poor. But on the other hand, I think there are only 5 of them in Ottawa at the disposal of 20 cabinet ministers; and they are not full time. How many would there be for the officials of the C.N.R.?

Mr. VAUGHAN: It would be easy to figure that out. Some of the superintendents—not all of them; about ten superintendents; all general managers have cars. In certain regions certain officials will share a car. For instance, the chief engineer and perhaps the chief mechanical officer will share a car. They all have not got individual cars. I think it must be 25 years since we bought a new private car.

Mr. PICARD: I know. It is the same thing with government cars; I mean, government private cars.

Mr. VAUGHAN: Yes.

Mr. PICARD: Would there be 100 on the whole system?

Mr. VAUGHAN: No.

Mr. WALTON: I think probably the total would be about 60. That includes a couple of government cars and includes everything down to the smallest car we have, outlying superintendents' cars and so on.

Mr. PICARD: You mean none has been bought in the last 25 years?

Mr. VAUGHAN: We have not bought a new private car for over 25 years.

Mr. GIBSON: I understand that a new steel car is worth about $80,000.

Mr. VAUGHAN: A new private car today would cost a lot more than that. One of our new coaches will cost approximately $80,000, plus sales tax, yes.

Mr. HAZEN: How many elevators do you own?

Mr. VAUGHAN: We operate two elevators, but we own a large elevator at Port Arthur which we lease; and at Portland, Maine, we have an elevator; also one at Transcona.

Mr. HAZEN: Do I understand you to say you own two?

Mr. WALTON: Five all told: one at Transcona, one at Fort William, one at Saint John, New Brunswick, one at Portland, Maine and one at Tiffin, which is near Midland, Ontario.

Mr. HAZEN: The Saint John elevator does not come under the Board of Harbour Commissioners?

Mr. VAUGHAN: No, sir.

Mr. HAZEN: Do all these elevators pay, or did they pay last year?

Mr. COOPER: As regards the one at Saint John, the net result was a loss of $31,000; for the one at Portland there was a loss of $126,000; for the one at Tiffin there was a profit of $257,000, making a net profit for the three elevators which we operate of $99,000.

Mr. HAZEN: What about the other two elevators?

Mr. COOPER: They are leased.

Mr. HAZEN: You lease them?

Mr. COOPER: Yes.

Mr. HAZEN: You get a rental for them?

Mr. COOPER: Yes.

Mr. HAZEN: Who do you rent them to?

Mr. COOPER: One is the Saskatchewan pool.

Mr. WALTON: The Saskatchewan pool, and the Dominion Malting at Transcona. In connection with the three on which Mr. Cooper gave you the figures, of course there is a traffic advantage in having an elevator so that the grain moving over our line is taken care of. It is the Dominion Malting Company at Transcona, at an annual rental of $12,900; and the one I spoke of at Port Arthur, an annual rental of $153,800.

Mr. NICHOLSON: Is there any reason why the revenue should be down last year as compared to 1944?

Mr. WALTON: That would be due to the fluctuation in the grain handled. It will vary from year to year.

Mr. PICARD: While we are on the subject of expenses, I would like to say a word of two about stations because I am very much interested in stations. In fact, I know that the acting chairman expects me to speak on the subject.

In October, 1945, I brought to the attention of the committee three cases of discomfort at stations in my own district, and I was told to bring those cases to the attention of the local superintendent. I did so, but I am still of the same opinion and again I want to bring forward the grievances of some of my own people.

The Acting CHAIRMAN: Are these the same ones?

Mr. PICARD: They are the same ones that I spoke about last fall. At one particular station there are no toilet facilities and, during the previous winter, they had quite a hard time about it when trains would be as late as six or seven hours, as occurred at one point on the old Intercolonial road between Rivière-du-Loup and Québec.

My representations last fall did not bring about any betterment; so this year I have representations signed by some 35 people who sat in a station waiting for a train which was supposed to arrive there at half past eight in the morning but in fact did not arrive until five o'clock in the afternoon. At one time there were 75 to 100 people waiting in that station, and I have a statement here signed by 35 of those people.

People read in the papers about there being $24,000,000 profit for the Canadian National Railways this year, and those people wonder why improvements cannot be made out of such an amount of profit. Here is a particular place where temperatures run below zero for quite a long time and where the existing toilet facilities are located about 400 feet away from the station. Now you have a situation where there are 100 people stuck there for the whole day, including children, girls, and so on, yet I receive an official answer; we will see what we can do.

Mr. VAUGHAN: That would be a most unusual condition. We had the revenue checked up at all those stations and it was found that the number of people travelling, generally, was very small; and it was also found that there are no sewage facilities near those places.

Mr. PICARD: But the neighbouring farmer has private facilities and his house is right next to the station. He had facilities installed himself and the whole installation would not amount to more than $300. One of the stations is on the Halifax to Montreal line, and I do not think it makes sense. That particular point served about five villages. We are told that consideration will be given, yet nothing is done. The answer is a dramatic one, a nice smile and that is all.

Mr. WALTON: We have made some progress in installing toilets at stations at intermediate points where there are sewer and water available. But where such facilities are not available, it means the installation of a septic tank, an electric pump and arrangements for water to be drawn from a well; and in addition to that, it has been found, upon more than one occasion, that those arrangements, where there is not a proper sewage system, are unsanitary. We have purposely gone slowly in respect to those installations where sewer and water are not available. On the other hand, St. Francois may have some unusual condition with respect to the number of passengers.

Mr. PICARD: Especially the weather conditions.

Mr. WALTON: That is true, but that also applies to the greater part of Canada in winter time. But as I say, in general, we have been hesitant in making such installations where sewers and water are not available.

Mr. PICARD: There is a small group of buildings around there and they all have tanks and wells. In fact, I had a summer home at Cacouna, and there was no sewer there; but we installed the necessary facilities. These people have to suffer throughout the winter and they cannot find justification in your adding great comfort for the benefit of some classes who use the railways, in the way of pullman cars and so on, when a sum of $300 would add so much to their comfort.

Mr. VAUGHAN: I think the average cost would run to something like $1,200 to $1,500.

Mr. PICARD: But my installation at Cacouna did not cost me that much, at my summer place. The farmer next door to the station could not afford to pay that much. Those are people of small means.

Mr. VAUGHAN: What were the other two stations?

Mr. PICARD: The other ones were not in connection with sewage. The station at St. Charles, there it is a question of heating.

At the moment the station at St. Charles is heated by two huge stoves that consume a large amount of coal, yet, at the same time there is a central heating system in the station, a furnace installed by the station-master at his own expense or, rather, the station-master who was there before the present one. The necessary installation there would involve not more than say 100 feet of pipe. It would bring about a substantial reduction in the cost of coal and it would mean a great deal of comfort to the passengers because, as you have it now, there are two rooms, one for men and one for ladies, at either end of the station, in each of which there is a huge stove which is kept red hot, while in the centre, in the office where the station-master and the telegraph operator are, they are freezing. In other words, at both extreme ends of the building the stoves make it very hot, while in the centre, in the office, they are freezing.

In the same building there is a furnace. It would require merely the laying of pipes to heat the whole building, and the cost would be less in the way of coal than the cost of installation of the pipes. But there is apparently a principle of the company: that it must not heat the residences of the station-masters. To connect up these pipes would prevent them from separating one from the other, yet it would cost less to heat the whole building including the station-master's house than it cost just for the two public rooms with attendant discomfort to everybody.

Mr. VAUGHAN: Have you written to us about them?

Mr. PICARD: Yes, I wrote twice, but I did not write a third time about the heat.

Now in connection with Ste. Françoise, I received long letters, and I was told that my last letter would be submitted to Mr. Walton's attention, but it has been a long time now.

Mr. VAUGHAN: These matters are referred back to the officers in charge of that particular section of the line; and the answer that usually comes back is that: after investigation was made the matter was considered to be unnecessary. That is the usual procedure.

Mr. PICARD: Would it not be rather due to the fact that these superintendents want to show that their portion of the line makes good profits and they want to keep down expenses. Here is a situation where any disinterested investigator could well verify the facts. The hours of delay of the trains would be very easy to find out; the temperature and the weather is easy to find out. The first petition was sent in about five years ago; but I took charge of the matter only about two years ago, and since then I have received only nice letters and smiles.

Hon. Mr. CHEVRIER: Do not give up hope, Mr. Picard.

Mr. PICARD: And there is another point: at St. Damien on the transcontinental railway, the station-master installed an electric system for his own home. The previous station-master wanted to have an easy life and he extended the wires out to the station platform and put in three lights and paid for it out of his own pocket because he did not want to slip on the ice. But the next station-master who came along cut off the wires and the lights. He did not care to light the station platform at his own expense. At that point you have several institutions. There is a hospital for aged men, and there is a school for about 300 or 400 pupils, and there is also the main branch of an order of nuns.

In connection with the order of nuns, there are a number of old, retired ladies who travel from one place in Canada to another and it may be that they have to use the platform there in the winter time, sometimes in the middle of the night should the trains be later than scheduled, and they have to suffer great discomfort on the station platform; yet the electricity is only about 12 feet away. The railway says it would cost too much to put in electricity on that platform, yet the electricity is in the home of the station-master and could be installed at very little cost. That is important, but my main point concerns Ste. Françoise because conditions there are not sanitary. In fact, I think the Board of Health for the province of Quebec might well go there and report that the conditions are unbearable.

Mr. MUTCH: Have you emphasized that fact in your reports?

Mr. VAUGHAN: I do think you are mistaken, however, when you suggest that the superintendent might not recommend these things because they would be charged to their districts. In fact, these expenditures would be capital expenditures.

Mr. PICARD: Yes; I do not think they would add very much to the capital structure of the company, to add these things.

Mr. HAZEN: Might I direct the attention of the president of the road to the conditions of the station at Hillsboro, in New Brunswick. The station there was destroyed by fire and, at the present time, they have a very make-shift kind of affair which is not satisfactory to the people in that community. Hillsboro is the largest community in the county of Albert. The Canadian Gypsum Company has a large plant there and it is quite a prosperous community, but I believe it is, at the present time, without an adequate station. I hope the president of the road will be good enough to endeavour to improve it.

Mr. VAUGHAN: We will endeavour to improve it, Mr. Hazen.

The ACTING CHAIRMAN: I notice that it is one o'clock now. We have spent a day and a half on this report and I wonder if it could not be adopted?

Mr. PICARD: I have something in mind, Mr. Chairman; I do not want to ask to spend many many days on this report; yet, on the other hand, we have the argument of the officers of the company, that they are anxious to get back home. I do think they can give us a few days. After all, they are managing public property.

Hon. Mr. CHEVRIER: There is no question of the officers not wanting to stay here for two weeks if necessary. They can stay for three weeks if required, but they have business duties and they should be getting along. The only suggestion that the chairman had in mind was: that perhaps we might pass this first report and, if there were any questions, later on we could come back to it. But, if there is any objection—

Mr. JACKMAN: No, no. May I ask when we expect to get T.C.A. Will it be this week or next week?

Hon. Mr. CHEVRIER: That will depend upon the progress we make with this report. If we do not make any progress this week, we certainly won't get to T.C.A. I hoped that we would finish with the officials of the Canadian National Railways before entering upon the session of T.C.A.

Mr. JACKMAN: I wondered if Mr. Symington would come on Monday or Tuesday?

Hon. Mr. CHEVRIER: I think Mr. Symington would be delighted to come on Friday.

Mr. PICARD: If we could finish with this report, say, tomorrow, then we could take T.C.A. next week.

Hon. Mr. CHEVRIER: Yes, I think so.

Mr. PICARD: Then we would finish entirely with this report this week.

Mr. VAUGHAN: You still have Canadian National West Indies Steamships, but it should not take very long. We spent quite a long time on this report this morning, on the balance sheets, because we thought it would be very interesting to this committee.

Hon. Mr. CHEVRIER: There remain a number of other items to be taken up.

Mr. NICHOLSON: But if we meet twice tomorrow, we should be able to finish up Canadian National business.

Hon. Mr. CHEVRIER: Would it be the intention of the committee to deal with the T.C.A. on Friday?

Mr. PICARD: No, rather next week.

Hon. Mr. CHEVRIER: But next week there will be an international convention meeting in Montreal and Mr. Symington will have to go there.

Mr. PICARD: We might as well postpone it.

The ACTING CHAIRMAN: We will now adjourn until 4.00 p.m.

The committee adjourned at 1.00 p.m. to meet again today at 4.00 p.m.

The committee resumed at 4 o'clock p.m.

The Acting CHAIRMAN: Page 16.

Mr. JACKMAN: We were finishing page 15. There is an item there of $2,500,000 for deferred maintenance in 1945 as compared with $6,500,000 in 1944. I see at the same time that there is no substantial increase in operating expenses for such things as roadway maintenance. There is a slight amount there, $140,000 only. Bridges and trestles are down $600,000. Ties are down and rails are down. I was wondering if the management would explain why it is with apparently less repairs and renewal work done during 1945, presumably because you could not get the men or materials, you did not see fit to set up as much deferred maintenance in that year as in the previous year.

Mr. COOPER: In analyzing the amounts for the two years you would have to take into account that in 1943 there was considerable back time charged into the accounts, and the price of materials increased and wage rates have increased. If you make allowance for all those things you will find that although the gross expenditure is less in 1945 than in 1944 there was an actual increase in the amount provided for maintenance and on that basis it seems reasonable that we should not make as large a provision for deferred maintenance as we did in the previous year.

Mr. JACKMAN: I do not quite understand the item of back pay from 1944 coming into 1945, but we will leave that aside for the moment and if you wish you can explain it later. That will be satisfactory. Assuming the reserve set aside was reasonable in 1944 the price of materials and wages were up during the year which would seem to me to prove my point, if you like, rather than your answer to it, because you have not spent as much during the 1944 operating year and yet you have reserved less for deferred maintenance than you did during the previous year. You did less work maintaining or repairing property and yet you reserved less money.

Mr. COOPER: Taking the back time, if we had in 1944 an amount charged in there that related to 1943—

Mr. JACKMAN: I do not quite understand the back time.

Mr. COOPER: In 1944 certain wage awards were granted which were made retroactive into 1943. They extended back to March, 1943.

Mr. JACKMAN: You are suggesting that the 1944 accounts were upped without any reflection of more work being done.

Mr. COOPER: Absolutely.

Mr. JACKMAN: So that the 1944 amount bore a truer physical relationship than appears on the face?

Mr. COOPER: Yes. That is one item.

Mr. JACKMAN: Does that amount to millions of dollars?

Mr. COOPER: Yes, $5,400,000.

Mr. JACKMAN: That is the amount of back pay you had to charge to 1944 earnings in relation to 1943 work?

Mr. COOPER: That is right. That is not all maintenance of way, but that was the amount. Then in addition, of course, we have $6,500,000 against $2,500,000 for deferred maintenance. Those two items should be extracted from both years before you make the comparison.

Mr. JACKMAN: Those are the two items I am speaking about.

Mr. COOPER: Yes, but they should be extracted before you make the comparison.

Mr. JACKMAN: They are a part of the comparison. How do you mean?

Mr. COOPER: I mean you should deduct them from the total of the expenses for the two years in arriving at the actual expenses for the two years.

Mr. WALTON: I think what Mr. Cooper is saying in effect is that all the other items in this list represent service performed whereas these two do not, and therefore to get the comparison if you are looking at it on the basis of work done and material consumed you would take both those items out of both years.

Mr. JACKMAN: Having done that, in a cursory way all I see on the public accounts is that you spent less money in maintaining the system than in 1944.

Mr. COOPER: Well, we think we spent more. We say we spent more. We have computed we spent in 1945 $2,090,000 more on actual maintenance of way than we did in 1944.

Mr. JACKMAN: Largely accounted for by the back pay?

Mr. COOPER: No, actual work performed in 1945 as compared with 1944. We say we spent more on maintenance in 1945 than in 1944 to the extent of $2,090,000.

Mr. JACKMAN: That does not appear obvious from the operating expenses.

Mr. COOPER: No, it is not obvious because, as I say, you must make the analysis. You must deduct, for example, this item of back pay. You must deduct the item of deferred maintenance. You must deduct the item of amortization of defence projects, and things of that sort. If you do that you will find that the actual maintenance expenses in 1945 exceeded those of 1944, and therefore it seems logical that the provision for deferred maintenance should be less in 1945 than it was in 1944.

The ACTING CHAIRMAN: Are you ready for page 16 now?

Mr. JACKMAN: Of course, I would expect that item of back pay and some of those other things you have mentioned to apply more or less equally throughout all items, but take roadway maintenance. It is $8,705,847 in 1945 as against $8,660,168 in 1944, not very much difference.

Mr. COOPER: No, but if you remember in the $8,660,168 you have a certain amount of back time for 1943.

Mr. JACKMAN: I am assuming that, but I am also assuming the same condition of back time to apply to other items. Take the item of rails.

Mr. COOPER: There is no back time in rails. That is material. There is no back time there. There is no back time in ties.

Mr. WALTON: That is the purchase of the rails, not any labour in laying them.

Mr. JACKMAN: All right. We went over page 14 before I had a chance to ask all the questions that I wanted. Under the heading of capital stock of the Canadian National Railways Securities Trust you have got capital gains there of $19,000,000. How do they arrive?

Mr. COOPER: Chiefly in respect of the repatriation of the British securities. We bought them in at the market price which was lower than the par value.

Mr. JACKMAN: You had capital losses of $2,125,000 during the year, and I see that has an asterisk. How does that arise? I see it is set out down below that it is the loss on the abandonment of a line and the loss applicable prior to 1940 on retirement of rolling stock equipment, $957,000. How much more rolling stock might there be a loss on applicable to the period prior to 1940?

Mr. COOPER: Oh, a very considerable amount.

Mr. JACKMAN: I wonder if you would explain to the committee just how this item arises. It seems a little foreign to us.

Mr. COOPER: It all stems out of the war. Prior to the war, as you know, we were on what we called the retirement accounting basis with respect to rolling stock. As equipment was worn out in service or was destroyed it was retired in the accounts. It was written out of the investment account and the loss was charged to operating expenses.

Mr. JACKMAN: For that year?

Mr. COOPER: For that year. That was the basis on which we made our accounting prior to 1940. When the war broke out it very soon became evident that we would not be making the normal retirements of rolling stock. Every unit of rolling stock that had any service in it would have to be kept going and the retirements of rolling stock were going to be held down to an absolute minimum. We then considered that if we continued our retirement accounting policy that the charges to operating expenses for the retirement of rolling stock would be sub-normal. Therefore we decided to move over to depreciation accounting.

Then we were confronted additionally by the fact that the use of rolling stock under war conditions was going to be very steeply accelerated. We have moved at least twice as much business in the war period as we did prior to the war period. The use of equipment was therefore very much greater, and the acceleration of obsolescence was increased. Therefore we decided that in addition to the ordinary rates for depreciation we would make some additional charges for depreciation, and in addition to the ordinary rates we charged into our accounting additional amounts representing what we thought was the accelerated depreciation which was taking place. Our charges for depreciation in the war period increased up to a figure something like $19,000,000 or $20,000,000 a year.

Under those conditions where we were making very substantial charges to expenses, building up a reserve in a very rapid way, and making almost no retirements of equipment, we felt that we could take care of any retirements which did take place through the depreciation reserve. Now we have come to the end of the war. We have, as the report says, reconsidered our depreciation allowances. We have established a depreciation rate equal to that of the class one roads of the United States, and we feel that the charge to the depreciation reserve of retirement losses also should be reconsidered.

We commenced to set up in 1940 a reserve for depreciation which has accrued since 1940. We did not set up and we have no reserve with respect to the depreciation accrued prior to 1940. All equipment which we had in service at that date had a certain amount of accrued depreciation attached to it. We considered it would be incorrect to charge that prior accrued depreciation to a reserve established to provide for depreciation which accrued subsequent to 1940, and under ordinary company accounting that prior depreciation would be charged not to current operating expenses and not to depreciation reserve but to profit and loss.

Mr. JACKMAN: Let me follow that carefully. You say under ordinary company accounting you would not charge depreciation on the pre-1940 property to operating account?

Mr. COOPER: No, otherwise you would have a double charge in your current year's accounts. Our depreciation charge in 1945 measures the true depreciation which is chargeable to 1945 operations.

Mr. JACKMAN: But at 1940 you had a lot of accrued depreciation, and you have no place to write it off the accounts except to create a loss; is that it?

Mr. COOPER: Except to charge it to surplus account or profit and loss account or in our case to proprietor's equity.

Mr. JACKMAN: To lessen the proprietor's equity in addition to the deficit, if there was a deficit. In that one year you wrote off $957,000; is that right?

Mr. COOPER: Yes.

Mr. JACKMAN: To that account?

Mr. COOPER: Yes.

Mr. JACKMAN: How much do you expect to have to write off in regard to all the equipment which had depreciation on it prior to 1940 for which you have no reserve?

Mr. COOPER: That is a difficult question to answer. When we have built up this reserve to a level at which we feel it can absorb all retirement charges.

Mr. JACKMAN: You mean the current depreciation reserve?

Mr. COOPER: Yes.

Take the American railways, they have been depreciating since back in 1907 and to-day they have a very substantial depreciation reserve, one which possibly represents fifty per cent of the value of the equipment they have. Our depreciation reserve in line with the value of the equipment is small, we have only been on depreciation accounting the past five years. When we feel that the depreciation reserve is sufficiently high to take care of our retirement problem, we shall charge all equipment retirements against that account. When that will occur, I do not know exactly.

Mr. JACKMAN: But on the basis of the losses which you have had to face, and which you will have to face over the coming years, would it not be an approximate figure to take the total value of rolling stock now? And, as you say, the rule of thumb might be that fifty per cent would be depreciated—you mentioned that figure.

Mr. COOPER: No, I said that was in respect to the lines in the United States.

Mr. JACKMAN: What I am suggesting is that if the equipment cost a hundred dollars it would be half worn out—some of it entirely worn out and some of it brand new—would that be a fair statement of the condition of the equipment in relation to its cost?

Mr. COOPER: No, I didn't quite mean that. I meant that if you had been on a depreciation basis long enough you might find that your reserve was equal to about fifty per cent of the value of the equipment itself. But if, as in our case, a considerable amount of equipment has been bought in recent years the situation would be different. It would depend on the life of the equipment.

Mr. JACKMAN: What I am endeavouring to arrive at is, how large would losses amount to over the years before you have your present reserve built up through yearly additions so you could get away from this type of accounting and charge everything to depreciation reserve?

Mr. Cooper: We have not made that computation.

Mr. Jackman: Would that be fifty million or a hundred million dollars?

Mr. Cooper: I would not like to guess. In this committee last year you asked for a statement with respect to our depreciation accounting policy. We gave it to you and it is in the minutes of this committee. On this very subject we said that we intended to charge the loss prior to 1940 into the proprietors' equity account.

Mr. Jackman: I am talking now about the extent to which it might go. I have no means of guessing, and I think we should be informed as to whether it might be fifty million or a hundred million, on all your equipment prior to 1940.

Mr. Cooper: If you will be satisfied with a rough guess, I would put it at $100,000,000.

Mr. Jackman: $100,000,000 of a loss?

Mr. Cooper: No, on the depreciation prior to 1940.

Mr. Jackman: But you have no means of knowing when you might transfer to the method of current depreciation, you would have to build up your reserve to cover that?

Mr. Cooper: That is so.

Mr. Jackman: And that $100,000,000 more or less would be a direct charge to proprietors' equity account?

Mr. Cooper: That is so. I might mention too that the Canadian Pacific having the same kind of a situation, dealt with it by taking a lump sum, if I remember rightly it was $20,000,000 in 1943, which they charged to surplus account and credited to depreciation reserve; and in addition to that they took a figure, as I remember it in 1940, of something like $48,000,000 which they charged to investment account and credited depreciation reserve; and in that method they increased their depreciation reserve by between sixty and seventy million dollars. We have not done anything of that sort.

Mr. Jackman: But they were justified in doing that. As I recall the conversations a year ago in this committee, when they had a locomotive which cost $25,000 and it was replaced by one which cost $100,000, the new locomotive would stand in the books at $25,000, and $75,000 additional would be charged to capital expense for the year.

Mr. Cooper: No, not at all.

Mr. Jackman: And the purpose of this reserve was to cover these items, when they had assets which had a limited value it would fall into this reserve until they built up a depreciation account which could meet current demands.

Mr. Cooper: You are speaking of the justification of the method followed by them?

Mr. Jackman: Do they do something that is not sound accounting?

Mr. Gibson: They pay income tax on it.

Mr. Jackman: And that is sound accounting. Why should the C.N.R. not do likewise, instead of allowing these deficits which are charged to operating each year?

Mr. Cooper: I am afraid that is a question that I am not in a position to answer.

Mr. Jackman: After all, the C.P.R. accounts are audited by an equally reputable firm of auditors, and they all seem to pass muster. If you have the same conditions as they do, why could you not set up a reserve for depreciation similar to what they have?

Mr. COOPER: Well, I am sure of one thing, Mr. Jackman; that if we had come here with a charge to investment account of X dollars, and a credit to depreciation reserve account of X dollars, we should have been very closely questioned about it.

Mr. JACKMAN: I do not think the members of this committee are any more careful of the accounts than are the shareholders of the C.P.R. with respect to C.P.R. accounts. I have not seen anything raised on that item. However, the answer to it is that we are going to be faced with a yearly deficit, a loss of rolling stock equipment, which may in the aggregate amount to $100,000,000.

Mr. COOPER: No, I do not say that, Mr. Chairman; I said, when our reserve in our judgment is sufficient to absorb these proper charges we will discontinue charging against our proprietors' equity account.

Mr. JACKMAN: You can only build up that depreciation reserve by over depreciating currently and have it accumulate.

Mr. COOPER: I do not think that a charge of three and a third per cent for the reserve fund is disproportionate.

The ACTING CHAIRMAN: Gentlemen, this has been going on for half an hour as an examination by one member of the committee. Do you not think that the other members of the committee should have a chance to ask questions?

Mr. MUTCH: I am inclined to question whether there is any point in all this discussion. I have been very silent, for me, for the last two or three days. There is a point in connection with these things, and as the chairman has raised it, I intend to speak to it. It is not very interesting to sit and listen to one man discussing a subject hour after hour. When it touches on the auditing of the accounts, I think it is important, but when it gets into the realm of crystal gazing, as is being done now, I think it is an imposition on the members of the committee. I wasn't going to raise the point, but the chairman did. I look upon this committee as a committee examining the accounts, as being here for the purpose of asking questions and getting an explanation of the audit of the accounts. I do not take that to mean that we are free to go through all the ramifications of railroading and auditing accounts of railroads all over the country. I for one think it is being over-done.

Mr. JACKMAN: I disagree with that view, Mr. Chairman, I should like to have my question answered. Mr. Cooper, I asked you a question and you were answering, very kindly. I wonder if you would let me have the rest of the answer?

Mr. COOPER: I don't think I remember it.

Mr. JACKMAN: You were giving an answer in considerable detail which I was endeavouring to digest. The question was in regard to what the amount of the reserve would be. I suggested that eventually you would be faced with a loss of $100,000,000 more or less on capital equipment and rolling stock equipment in the service prior to 1940, and you said that would not be the case because three and a third per cent rate of depreciation would build up a fund sufficient to obviate taking an actual loss on those retirals and the retirements could be made directly to the depreciation account; and I said eventually we will have over $100,000,000 loss. You explained to me that we would not. I have given you back your answer as far as you gave it to me when you were interrupted by the chairman at one point. Perhaps you will finish.

Mr. COOPER: If you will accept a suggestion, I would say that ten years from now our depreciation reserve should be sufficiently high to absorb those items.

Mr. JACKMAN: In other words, now you are taking these losses and charging them directly to capitl account, whereas in future you hope you will have built up a reserve which will enable you to charge them directly to depreciation account.

Mr. Cooper: Yes, that is correct.

The Acting Chairman: Are you ready for page 16 now? The members might ask questions on this page? Are there any questions to be answered about it?

Mr. Nicholson: What policy is followed in providing for injuries sustained by persons in your employ, do you make compensation in different cases?

Mr. Cooper: Yes. The measure of compensation to employees injured on duty would be covered by the Provincial Workmen's Compensation Act.

Mr. Nicholson: You have no separate fund of your own out of which you take care of injuries to persons in your employ? Have you any special fund, do you pay a certain percentage into that fund?

Mr. Cooper: We charge that directly to our expenses.

Mr. Nicholson: How about payments to the Provincial Workmen's Compensation fund in the various provinces. Do you make payments to those funds?

Mr. Cooper: There are payments which are based on the payroll in the case of some of the provinces, they assess us three per cent of our payroll.

Mr. Jackman: You have no alternative there.

Mr. Cooper: That payment will be charged to our operating expense.

Mr. Nicholson: And if the employee loses an arm, let us say in Saskatchewan, the basis of compensation would be that fixed under the Workmen's Compensation Act in Saskatchewan?

Mr. Cooper: Definitely.

The Acting Chairman: Any questions on page 16?

Mr. Moore: Just before you go on to that, Mr. Chairman, I have a question to ask in reference to the Hudson Bay railway. There are three divisions on that road between The Pas and Churchill, two of them are exceedingly long, and I understand there is only one train a week up to that part of the country and that train does a lot of switching as well as ordinary work at the different stops or stations along the line, with the result that it is a particularly long day for the crew. I understand that the crews have asked the railway company to consider placing automatic stokers on the engines used on those lines. Could we have some information on that?

Mr. Walton: Nothing has reached me on that. Our ordinary practice in regard to the application of automatic stokers on locomotives is, that the larger locomotives are so equipped but not the smaller locomotives. If I remember right, we are using, or will be using on the Hudson Bay Railway locomotives of approximately 40,000 pounds tractive effort, and these ordinarily are not equipped with stokers. As to whether in the case of which you speak some special arrangement would be warranted there I could not say at the moment, I would have to look into it. It is true those subdivisions are long, and also they have very severe winter weather to contend with. It may be that some special arrangement should be made but I would want to look into it before saying definitely.

Mr. Picard: There is one thing I would like to ask you about: do you still have investments in Europe, do you still have buildings over there?

Mr. Vaughan: We own our office in London, England, and we own the building in Paris.

Mr. Picard: Were they damaged to any considerable extent during the war?

Mr. Vaughan: Our building in London suffered to the extent that some bombs dropped near it and broke the windows, otherwise the building was not greatly affected.

Mr. PICARD: I was wondering if you had any other assets in Europe besides those two buildings.

Mr. VAUGHAN: Those are the only two.

Mr. PICARD: Your other offices which you operated before the war were in leased buildings?

Mr. VAUGHAN: Yes, rented.

Mr. NICHOLSON: There is one other item there to which I would like to direct a question. I see under traffic, in connection with colonization, agriculture and natural resources, you have an amount of $202,627. Do we have any corresponding item showing the revenue from operations of that kind?

Mr. VAUGHAN: I do not think you will see any compensating item. We have a substantial department engaged in immigration work and colonization work, and in agricultural work of all kinds. They have offices in different parts of the country. We have offices in London, England. These people are engaged generally in doing work which produces traffic for the railway.

Mr. NICHOLSON: How about your lands department; how much land is owned by the railway?

Mr. VAUGHAN: Have you got a statement of land unsold? I do not remember what it is; it would be a few hundred thousand acres; I do not remember the figures. We have not got a great deal of land left.

Mr. NICHOLSON: Would there not be some item showing the revenue produced by that land?

Mr. VAUGHAN: It all comes into the general accounts. If it would be of advantage to you we would be glad to give you a statement showing the amount of land sold at the end of the year, the average price and the acreage.

Mr. COOPER: The income derived from land during 1945 was $498,000, land sales have been very good and the collections under land contracts have been good.

Mr. VAUGHAN: We will give you a statement to that effect.

Mr. NICHOLSON: Thank you.

Mr. PICARD: What about the state of the Paris building during the war as far as income was concerned?

Mr. VAUGHAN: We were rather fortunate in that respect, Mr. Picard. You know we have a French company and our man in charge there was a Swiss.

Mr. PICARD: Is that company operating? It is not a wholly owned subsidiary company of your company?

Mr. VAUGHAN: No. We have the hotel leased to the Hotel Scribe. When the Germans moved in, I think they made Hotel Scribe the headquarters of their Gestapo operations. Mr. Regamey was able to collect rental from the Germans during the war because he was a Swiss. In fact, he invested some of the rentals derived from the Germans, and made some more money.

Mr. PICARD: I know the man personally. He is a very good man. But, I wondered if the Germans paid rental during their occupation?

Mr. VAUGHAN: From 1940 to 1945 we collected 8,500,000 francs, the equivalent to $80,058.

Mr. PICARD: And you collected even from the Germans, while they occupied it?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: Are there any questions on page 17?

Mr. MUTCH: Where is that guy now, we need him.

Mr. PICARD: I don't want to embarrass the officers of the Canadian National Railway Company, but would it be in order for them to give us a list of their officials together with their salaries? The other day I received a report from General Motors in which they listed all their people.

Mr. VAUGHAN: They list their men over $100,000. We would be glad to do that too.

Mr. PICARD: No, no, they have got men down as low as $15,000 or $20,000. That report is sent to all shareholders regardless of the number of shares they own in the company. I wonder if this company, since it is a company which is owned and operated by the Dominion of Canada and operated with Canadian money could not supply such a list. I am sure that our officers are not paid comparably to the officers of American companies, nevertheless I think it would be interesting, although I do not want to embarrass you.

Mr. VAUGHAN: It has never been done, Mr. Picard, and I do not think it would be fair to our officers to do it.

Mr. PICARD: Why not? We know the salary of the Prime Minister and so on?

Mr. VAUGHAN: We would be ashamed to have our salaries published in comparison to some of the officials of other railways.

Mr. PICARD: Well, then, what do you think about members of the cabinet and judges of the High Court and so on, their salaries as compared to their value and the indemnity that they get?

Mr. VAUGHAN: Everybody is on the same basis then, and that is different.

Mr. PICARD: I think that is a measure that should be pursued a little further. After all, this management is not that of a company of private sharholders; it is a company for the whole country generally, and I think the country should know how much is paid to its own civil servants, although you are not civil servants in the correct sense of the word; yet you are administering public property. Just as we have a "blue book" published showing the salaries paid to all officials of the Canadian government, we should have a similar "blue book" with respect to the Canadian National Railways.

Hon. Mr. CHEVRIER: In that connection, Mr. Picard, I think, as far as I am concerned I would like to support what the president has said about that, because I am informed by the officers of the Department of Transport that it has not been the custom nor the practice to do so. Nevertheless, the committee has the power, if it wants, to obtain from the officers of the railway, the amount of their salaries. But I do suggest, very respectfully, to this committee that that would not be a good thing to do. One reason for my taking that stand is that it was suggested by the president that if the salaries were published, in comparison to what the Canadian Pacific Railway officials get, perhaps the list would not stand out very well.

Mr. JACKMAN: Unfair to labour?

Hon. Mr. CHEVRIER: Perhaps there is something in that remark; and for that reason I suggest to the committee that the opinion of the president of the Canadian National Railways be respected in that regard.

Mr. HAZEN: Do you think that the salaries of these officials would not compare favourably with those paid by the Canadian Pacific Railway?

Hon. Mr. CHEVRIER: I have the president's statement for it, and I say the same thing too.

Mr. VAUGHAN: Except in a few instances, the executive salaries are considerably higher than those paid to Canadian National officers, I think, at one time, the salaries of the civil servants were published in a "blue book" but I do not think they are so published any more.

Mr. MUTCH: Oh yes, and their expenses.

Mr. PICARD: I do not think we can treat the Canadian National as a private company because its operations are financed by the government; so I think any official of the government, directly or indirectly, should have his salary known. You say that such a list would not compare favourably but you know, perfectly well, inside your company what each corresponding man in the Canadian Pacific Railway Company gets. I do not think that it would be disturbing to the public.

Hon. Mr. CHEVRIER: It would make this difference, Mr. Picard—

Mr. VAUGHAN: It would be very humiliating to Canadian National officers to have their salaries published.

Hon. Mr. CHEVRIER: Not only that, it would make this difference; and I say this with respect to your last statement that the Canadian National Railways might lose some of its best officers to other countries and to other railway companies if their salaries were to be published.

Mr. PICARD: Because the public would know?

Hon. Mr. CHEVRIER: No, not necessarily that, but because other railway companies would know.

Mr. PICARD: Are you suggesting now that the Canadian Pacific Railway does not know what Canadian National officers get?

Hon. Mr. CHEVRIER: I do not see how they would.

Mr. PICARD: I think my request is a fair one. The same thing applies to civil servants and to any other public body. I do not see any objection to it at all.

Hon. Mr. CHEVRIER: But it has never been the practice of the committee to do so.

Mr. PICARD: There are many things which have never been our practice before.

Hon. Mr. CHEVRIER: On the other hand I think the committee has the power to insist; but I ask the committee not to insist.

Mr. JACKMAN: While no one likes to hold a person's own business more inviolate than I do, myself, yet I think we are coming to a day, particularly when public owned corporations and corporations in which there are public shareholders will publish these matters on the ground of public interest or on the ground of a shareholder's interest. We find that to be the case in the United States now. There they have to indicate what the salaries of their senior executives are. I do not think any real harm would come about from the publication of the salaries paid by private companies. They publish the aggregate of their executives' salaries and their lawyers' fees.

This is not a company taxable under the Income Tax Act and it does not have to do so; so, while I would not press the point at the present time I do feel that institutions such as the Bank of Canada and perhaps the Canadian National Railways—and if we revise the Companies Act I think we should make the same terms applicable to the Canadian Pacific and perhaps to all private companies. I do not think there is as much objection as some of us have felt in the past, with respect to the publication of salaries. I think it is pretty well known what salary the president of the Canadian National Railways gets. In fact, I can make a fair stab at it myself.

As to the point of taking men away from the system, I think it is only fair to an officer of the system that he be given a chance to improve his position at the hands of a competitor, if he chooses to go. I think it would be detrimental to the best interests of our people if executive salaries should not be given out. A man may be doing a bigger business and rendering more service to the people thereby. I think times are changing and these things should not be kept from the public. I think the interests of the public and of the shareholders in private companies is overshadowing gradually the personal interest concerning non-disclosure of salaries.

In the United States we now have publication of those salaries. It is merely a question of educating the people to the fact that such salaries exist and are paid because of merit and because the law of supply and demand warrants the payment of such salaries.

Mr. VAUGHAN: But it would be embarrassing in many ways. It would be embarrassing to our other officers in the company. Our officers do not know what other officers get, except those men who handle the payrolls. We would have all kinds of complaints. For example, a man getting $5,000 would say: here is another man getting $10,000 and he is no better than I am.

Mr. JACKMAN: But there may be unsound reasons for the other man getting $10,000?

Mr. VAUGHAN: That is a matter for the management to decide.

Mr. MUTCH: The capacity to evaluate the wages of management does not exist in the average shareholder, either the shareholder of a public corporation or of a private corporation. In general I would be opposed to the suggestion of changing the Companies Act as you suggest, to disclose these things with respect to private companies. I would hesitate to urge that it be done in this company; although I do agree, that the temper of mankind being what it is, that is probably what will eventually take place, and there will be a demand for it. But I see no reason, certainly not at the moment.

Mr. PICARD: But it exists in the States.

Mr. GIBSON: Yes, the income tax authorities publish that information in the States. I feel now, since the subject has been raised, that the public will wonder why the salaries are not available to them.

Mr. VAUGHAN: Unfortunately the worth of a good many men is judged by their salaries. It is very unfortunate. Some of our men are worth twice as much as they are getting. Many of them have been offered positions at salaries twice as much as they are getting; but a good many of us have stayed with the Canadian National just because we have a desire to see this thing through and to serve the country. Speaking for myself, I have been offered positions at 100 per cent more salary than I am getting.

Mr. JACKMAN: And if you had accepted them, Mr. Vaughan, the public of Canada would have suffered.

Mr. VAUGHAN: Thank you for your comments.

The ACTING CHAIRMAN: Have you finished your discussion with respect to this?

Mr. JACKMAN: If that is the case I think it is high time that the Canadian people knew just the extent of the service rendered by some of these officials and the sacrifice they make as compared to officials of American lines. I do not see how it would hurt, Mr. Vaughan; but I won't press the point at the present time. I do think that we are going to come to it and I should like to see us come to it willingly, on the part of all concerned.

The ACTING CHAIRMAN: Will you please turn to the next page, page 18? Over to page 20. Are there any questions to be asked about page 20? Then page 21.

PROPERTY INVESTMENT ACCOUNT

Expenditures Year 1945

ROAD:		
New Lines Constructed	$ 1,318,151 84	
Rails and Fastenings	526,122 52	
Tie Plates and Rail Anchors	776,040 95	
Ballast	361,225 60	
Large Freight Terminals	*366,115 30*	
Yard Tracks and Sidings	509,804 95	
Roadway Machines	561,053 92	
Bridges, Trestles and Culverts	446,158 71	
Stations and Station Facilities	420,190 37	
Shops, Enginehouses and Machinery	396,880 94	
Water Supplies	45,123 51	
Fuel Stations	97,188 47	
Signals and Interlockers	42,416 70	
Telegraphs—Railway	62,265 19	
Telegraphs—Commercial	272,834 67	
Assessments for Public Improvements	37,185 56	
Land	*496,413 82*	
General, including Additions and Betterments	335,022 09	
		$ 5,345,136 87
EQUIPMENT:		
Equipment Purchased or Built	$ 10,809,111 90	
Equipment Retirements	*1,321,293 90*	
General Betterments to Equipment	255,147 85	
Equipment Conversions	*253,289 05*	
Express and Miscellaneous Equipment	74,484 80	
		9,564,161 60
HOTELS		12,009 69
SEPARATELY OPERATED PROPERTIES		*2,212,103 60*
NET ADDITIONS AND BETTERMENTS DURING 1945		$ 12,709,204 56

Ledger Balance 1st January, 1945		$ 2,027,054,482 00
Net Additions and Betterments during the year	$ 12,709,204 56	
Abandonment of 27·62 miles of St. Lin Subdivision	*1,167,121 47*	
Loss (applicable to period prior to 1940) on retirement of rolling stock equipment	*957,967 06*	
		10,584,116 03
Ledger Balance at 31st December, 1945		$ 2,037,638,598 03

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1945	Interest Accrued 1945
GUARANTEED BY DOMINION OF CANADA:					
5% Perpetual Debenture Stock	G.T.R.	1875 to 1883	Perpetual	$ 1,480,965 59	$ 75,024 41
5% G.W. Perp. Debtr. Stock and Bonds	G.T.R.	1858 to 1876	Perpetual	864,855 33	43,063 92
4% Perpetual Debenture Stock	G.T.R.	1883 to 1918	Perpetual	6,036,822 60	251,098 24
4% Nor. Rly. Perpetual Debtr. Stock	G.T.R.	July 31, 1884	Perpetual	27,457 73	1,098 31
3% 1st. Mortgage Bonds	G.T.P.	July 1, 1905	Jan. 1, 1962	26,465,130 00	793,953 90
4% Sterling Bonds	G.T.P.	July 1, 1914	Jan. 1, 1962	7,999,074 00	319,962 96
3% 1st. Mortgage Debenture Stock	Can. Nor.	July 29, 1903	July 10, 1953	1,162,768 33	34,321 46
3½% 1st. Mortgage Debenture Stock	Can. Nor.	Mar. 1910	July 20, 1958	5,638,941 49	197,420 88
6½% Sinking Fund Debenture Bonds	Can. Nor.	July 1, 1921	July 1, 1946	23,752,000 00	1,543,845 00
3½% 1st. Mortgage Debenture Stock	C.N.A.	Mar. 22, 1911	May 4, 1960	551,505 27	19,302 68
3½% 1st. Mortage Debenture Stock	C.N.O.	Dec. 8, 1911	May 19, 1961	3,620,293 87	126,163 77
5% 30 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1924	Feb. 1, 1954	50,000,000 00	2,500,000 00
4½% 30 Year Guaranteed Gold Bonds	Can. Nat.	July 1, 1927	July 1, 1957	64,136,000 00	2,886,120 00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Oct. 1, 1929	Oct. 1, 1969	57,728,500 00	2,886,425 00
5% 40 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1930	Feb. 1, 1970	17,338,000 00	866,900 00
4¾% 25 Year Guaranteed Gold Bonds	Can. Nat.	June 15, 1930	June 15, 1955	48,496,000 00	2,303,560 00
4½% 25 Year Guaranteed Gold Bonds	Can. Nat.	Feb. 1, 1931	Feb. 1, 1956	67,386,000 00	3,031,560 00
4½% 20 Year Guaranteed Gold Bonds	Can. Nat.	Sept. 1, 1931	Sept. 1, 1951	48,022,000 00	2,160,990 00
3% 17 Year Guaranteed Bonds	Can. Nat.	Feb. 15, 1936	Feb. 15, 1953	25,000,000 00	750,000 00
3% 15 Year Guaranteed Bonds	Can. Nat.	Feb. 1, 1937	Feb. 1, 1952	20,000,000 00	600,000 00
2¼% 7 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1946	15,000,000 00	337,500 00
3% 20 Year Guaranteed Bonds	Can. Nat.	Jan. 15, 1939	Jan. 15, 1959	35,000,000 00	1,050,000 00
Total Issues Guaranteed by Dominion of Canada				$525,688,314 21	$22,778,310 53
GUARANTEED BY PROVINCE OF NEW BRUNSWICK:					
4% 1st. Mortgage Debenture Stock	St. J. & O.	May 14, 1912	June 1, 1962	$ 622,657 40	$ 24,906 29
GUARANTEED BY PROVINCE OF BRITISH COLUMBIA:					
4% 1st. Mortgage Debenture Stock	C.N.P.	Nov. 16, 1911	Apr. 2, 1950	806,328 81	31,958 37
4½% Terminal Debenture Stock	C.N.P.	1913 and 1914	Apr. 2, 1950	1,157,945 46	52,138 73
Total Issues Guaranteed by Provincial Governments				$ 2,586,931 67	$ 109,003 39

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FUNDED DEBT—PRINCIPAL AND INTEREST

NAME OF SECURITY	Issuing Company	Date of Issue	Date of Maturity	Principal Outstanding at Dec. 31, 1945	Interest Accrued 1945
Equipment Trust Issues:					
2½% Series "O"	Can. Nat.	Aug. 1, 1937	Ser. 1, 8, '47	$ 2,860,000 00	$ 92,354 17
2¾% Series "P"	Can. Nat.	Sept. 15, 1938	Ser. 15, 9, '53	4,100,000 00	122,489 58
2½% Series "Q"	Can. Nat.	July 1, 1939	Ser. 1, 7, '49	2,600,000 00	73,125 00
2½% Series "G.T.W."	G.T.W.	June 1, 1941	Ser. 1, 6, '51	3,127,000 00	87,675 00
Total Equipment Trust Issues				$ 12,687,000 00	$ 375,643 75
Other Issues:					
4% Canada Atlantic 1st. Mtge. Bonds	G.T.R.	Jan. 1, 1905	Jan. 1, 1955	9,950,364 00	397,743 41
4% 1st. Mortgage Bonds	Pem. Sou.	Sept. 1, 1906	Sept. 1, 1956	150,000 00	6,000 00
4% 2nd. Mtge. Bonds, Prairie "A"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,575,016 00	143,000 64
4% 2nd. Mtge. Bonds, Mountain "B"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	3,146,364 00	124,807 96
4% 1st. Mtge. Bonds, "Lake Superior"	G.T.P.	Apr. 1, 1905	Apr. 1, 1955	2,152,494 00	86,099 76
4% Perpetual Cons. Debenture Stock	Can. Nor.	1903 to 1912	Perpetual	4,065,433 26	160,678 15
4% Perpetual Cons. Debenture Stock	C.N.O.	June 21, 1909	Perpetual	890,877 40	35,703 45
4% Perpetual Cons. Debenture Stock	C.N.Q.	Oct. 1906	Perpetual	465,545 33	18,641 28
4% 1st. Mtge. Perp. Debenture Stock	Q.& L. St. J.	June 1, 1912	Perpetual	314,299 07	12,571 96
4% 1st Mortgage Bonds	G.T.W.	Nov. 30, 1900	July 1, 1950	6,527,336 00	261,237 86
4½% 1st. Mortgage Series "A" Bonds	G.T.W.	Jan. 1, 1930	Jan. 1, 1980	400,000 00	18,000 00
4% 1st. Mortgage Gold Bonds	M. & P.L.	Oct. 1, 1900	Oct. 1, 1950	200,000 00	8,000 00
5% Indebtedness to Province of N.B.	Can. Nat.	Sept. 3, 1929	Various	380,022 60	24,192 97
Interest on Securities retired in 1945				—	1,462,149 45
Total Other Issues				$ 32,217,751 66	$ 2,758,826 89
Total Debt held by Public (including therein $5,745,864.12 par value held in Special Funds and Accounts) as per Balance Sheet				$ 573,179,997 54	$ 26,021,784 56

These obligations are stated in Canadian currency, Sterling and United States currencies being converted at the par of exchange.

This schedule does not include securities in the Railway treasury or those held by The Canadian National Railways Securities Trust, or by the Dominion Government as collateral.

Mr. HAZEN: I see an item: new lines constructed. How many miles of new lines were constructed?

Hon. Mr. CHEVRIER: Did we build any new lines during the war?

Mr. WALTON: 14 miles and a fraction.

Mr. MUTCH: The Montreal Terminal.

Mr. NICHOLSON: Are any new lines being considered?

Mr. VAUGHAN: We have nothing under construction at the present time. We have quite a few demands for branch lines, but no action has been taken on them as yet.

The Acting CHAIRMAN: Page 22? Page 23.

Hon. Mr. CHEVRIER: Pages 24 and 25?

DOMINION OF CANADA—LOANS

	Principal outstanding at Dec. 31, 1945	Interest accrued 1945	Average Interest rate
Loans for repatriation of U.K. securities	$391,179,395 36	$13,684,939 40	3·50%
" " debt redemption	195,264,135 50	4,075,917 81	*2·47%
" " new rolling stock	73,851,082 26	2,058,755 90	2·95%
" " working capital	13,906,999 71	486,744 98	3·50%
	$674,201,612 83	$20,306,358 18	3·14%

* Includes premium on U.S. funds.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Total Par Value Outstanding	Owned by Can. Nat. System Par Value	Owned by Can. Nat. System Book Value
STOCKS:			
The Belt Railway Company of Chicago	$ 3,120,000 00	$ 240,000 00	$ 240,000 00
Canadian Government Merchant Marine, Limited	800 00	800 00	800 00
Central Vermont Transportation Company	200,000 00	50,000 00	20,000 00
Chicago & Western Indiana Railroad Company	5,000,000 00	1,000,000 00	1,000,000 00
The Detroit & Toledo Shore Line Railway Company	3,000,000 00	1,500,000 00	1,500,000 00
Detroit Terminal Railroad Company	2,000,000 00	1,000,000 00	1,000,000 00
Northern Alberta Railways Company (representing amount paid up, i.e. 10%)	625,000 00	312,500 00	312,500 00
The Ontario Car Ferry Company (Limited)	500,000 00	250,000 00	179,007 53
The Public Markets, Limited	1,150,000 00	575,000 00	575,000 00
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600 00
The Toronto Terminals Railway Company	500,000 00	250,000 00	250,000 00
The Toledo Terminal Railroad Company	4,000,000 00	387,200 00	387,200 00
Trans-Canada Air Lines (representing amount paid up, i.e. 92%)	4,600,000 00	4,600,000 00	4,600,000 00
Vancouver Hotel Company Limited	150,000 00	75,000 00	75,000 00
			$10,140,107 53
BONDS:			
Northern Alberta Railways Co. 1st Mortgage Bonds	$31,530,000 00	$15,765,000 00	$15,765,000 00
The Toronto Terminals Railway Co. 1st Mortgage Bonds	25,810,000 00	12,905,000 00	12,905,000 00
			$28,670,000 00
ADVANCES:			
Chicago & Western Indiana Railroad Company			$ 2,320,770 09
The Railroad Credit Corporation			53,516 83
Railway Express Agency, Incorporated			145,465 22
Vancouver Hotel Company Limited			12,284 01
			$ 2,532,036 15
			$41,342,143 68

MAJOR CONTINGENT LIABILITIES

TRANS-CANADA AIR LINES:

At 31st December, 1945, Canadian National Railway Company had subscribed for $5,000,000 of the Capital Stock of the Air Lines on which total call has been $4,600,000.

NORTHERN ALBERTA RAILWAYS COMPANY:

At 31st December, 1945, Canadian National Railway Company had subscribed for $3,125,000 of the Capital Stock of the Railways Company on which total call has been $312,500.

THE DETROIT & TOLEDO SHORE LINE RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

THE TOLEDO TERMINAL RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68 per cent.

CHICAGO & WESTERN INDIANA RAILROAD COMPANY:

Assumed by Grand Trunk Western Railroad Company, pursuant to joint supplemental lease dated 1st July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st December, 1945, are:—

Issued for "common" property	$39,973,019 39
Issued for "exclusive" property	252,535 36

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st March, 1936, between Grand Trunk Western Railroad Company and other proprietary companies. Obligation is to pay as rental sinking fund payments sufficient to retire bonds at maturity and interest as it falls due. The Grand Trunk Western's proportion is one-fifth in the absence of default of any of four other tenant companies. The bonds are First and Refunding Mortgage 4¼% Series "D" Sinking Fund Bonds due 1962 and the amount outstanding at 31st December, 1945, is $17,971,000.

C.N.R. PENSION PLAN:

Reserves have been set up against contracts in force under the 1935 contractual plan, but not against pensions conditionally accruing under that plan or prior non-contractual plans.

The ACTING CHAIRMAN: Page 24 and page 25; has any person any questions to ask? Companies comprising the Canadian National Railways System?

Mr. PICARD: Yesterday I was not quite sure whether I got the information correct about the July 1946, 6½ per cent sinking fund bonds, maturing on July 1, 1946. Are they to be redeemed?

Mr. COOPER: They will be redeemed.

Mr. PICARD: Is the financing done?

Mr. COOPER: Not yet.

Mr. PICARD: Have you any idea on what basis it will be? 6½ per cent?

Mr. COOPER: We expect to finance that at 2 per cent.

Mr. PICARD: That is quite a large amount.

Mr. COOPER: Yes; it would, however, save over $1,000,000 per annum.

Mr. PICARD: Would that be a public issue or government financed?

Mr. VAUGHAN: That would be borrowing from the government.

Mr. PICARD: It would be borrowing from the government to replace them.

Mr. NICHOLSON: What happened to those 2¼, 7-year guaranteed bonds?

Mr. COOPER: We borrowed $15,000,000 from the government at 2⅛ per cent.

Mr. PICARD: Did you say yesterday that you did not consider it good policy to go to the public for that?

Mr. COOPER: No, sir, we indicated that the railway would probably go into the market in the near future.

Mr. VAUGHAN: Those have been definitely arranged for, Mr. Picard.

The ACTING CHAIRMAN: Pages 24 and 25.

Mr. EMMERSON: Mr. Chairman, unfortunately on account of the flag committee I was unable to be here earlier in the afternoon. There were one or two questions that I wanted to ask. They are on page 16 and it would seem as though we have gone by operating expenses. I wonder if I might be permitted now or later on to ask those questions.

The ACTING CHAIRMAN: May we complete this before you ask those questions? Pages 24 and 25. Is there anything on page 27?

Mr. JACKMAN: Did you rule that he could ask them?

The ACTING CHAIRMAN: Yes, afterwards.

Hon. Mr. CHEVRIER: The chairman suggested that we get through with these pages and then perhaps Mr. Emmerson could ask his questions afterwards.

The ACTING CHAIRMAN: Page 27.

COMPANIES COMPRISING THE CANADIAN NATIONAL RAILWAY SYSTEM

CAPITAL STOCKS OWNED BY DOMINION OF CANADA

Company Number		
1	Canadian National Railway Company	$ 18,000,000 00
2	The Canadian National Railways Securities Trust	381,711,556 78
		$399,711,556 78

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
3	Atlantic and St. Lawrence Railroad Company	1	$ 6,302,340 00	$ 119,440 00
4	The Bay of Quinte Railway Company	24	$ 1,395,000 00	
5	The Bessemer and Barry's Bay Railway Company	24	125,000 00	
6	*Brooksay Realty Company	30	2,000 00	
7	*Canada Atlantic Transit Company	1	219,000 00	
8	*Canada Atlantic Transit Company of U.S.	38	250,000 00	
9	The Canadian Express Company	1	1,768,800 00	
10	Canadian National Electric Railways	24	1,750,000 00	
11	Canadian National Express Company	25	1,000,000 00	
12	Canadian National Land Settlement Association	1	....	
13	*Canadian National Railways (France)-francs 30,000,000	1	1,893,573 92	
14	*Canadian National Realties, Limited	24	40,000 00	
15	Canadian National Rolling Stock Limited	1	50,000 00	
16	*Canadian National Steamship Company, Limited	46	15,000 00	
17	Canadian National Telegraph Company	24	500,000 00	
18	*Canadian National Transportation, Limited	1	500 00	
19	The Canadian Northern Alberta Railway Company	24	3,000,000 00	
20	Canadian Northern Manitoba Railway Company	24	250,000 00	
21	The Canadian Northern Ontario Railway Company	24	10,000,000 00	
22	Canadian Northern Pacific Railway Company	24	25,000,000 00	
23	The Canadian Northern Quebec Railway Company	24	9,550,000 00	3,849,200 00
24	The Canadian Northern Railway Company	1	18,000,000 00	
25	The Canadian Northern Railway Express Company, Limited	24	1,000,000 00	
26	Canadian Northern Steamships, Limited	24	2,000,000 00	
27	Canadian Northern System Terminals (Limited)	24	2,000,000 00	
28	Canadian Northern Western Railway Company	24	2,000,000 00	
29	Cannar Oils Limited	1	100 00	
30	*The Centmont Corporation	32	176,400 00	
31	The Central Ontario Railway	24	3,331,000 00	
32	Central Vermont Railway, Inc.	1	10,000,000 00	
33	Central Vermont Terminal, Inc.	32	5,000 00	
34	*Central Vermont Transit Corporation	30	5,000 00	
35	*Central Vermont Warehouse, Inc.	30	5,000 00	
36	The Champlain and St. Lawrence Railroad Company	1	50,000 00	
37	*Consolidated Land Corporation	49	64,000 00	
38	Continental Realty & Holding Company	14	90,000 00	
39	*The Dalhousie Navigation Company, Limited	24	50,000 00	
40	Duluth, Rainy Lake & Winnipeg Railway Company	42	2,000,000 00	
41	Duluth, Winnipeg and Pacific Railroad Company	42	100,000 00	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC—*Conc.*

	Name of Issuing Company	Owned by Company Number	Capital Stock Issued	Owned by Public
42	Duluth, Winnipeg and Pacific Railway Company..	24	3,100,000 00	
43	*Grand Trunk-Milwaukee Car Ferry Company.....	49	200,000 00	
44	The Grand Trunk Pacific Branch Lines Company.	46	200,000 00	
45	*The Grand Trunk Pacific Development Company, Limited	46	3,000,000 00	
46	The Grand Trunk Pacific Railway Company	1	24,940,200 00	
47	The Grand Trunk Pacific Saskatchewan Railway Company	46	20,000 00	
48	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	46	501,000 00	
49	Grand Trunk Western Railroad Company (Common)	1	20,000,000 00	
	Grand Trunk Western Railway Company (Preferred)		25,000,000 00	
50	The Great North Western Telegraph Company of Canada (Including $331,500.00 held in escrow)	17	373,625 00	6,925 00
51	The Halifax and South Western Railway Company	24	1,000,000 00	
52	*Industrial Land Company	49	1,000 00	
53	International Bridge Company	1	1,500,000 00	
54	The James Bay and Eastern Railway Company..	24	125,000 00	
55	The Lake Superior Terminals Company Limited..	24	500,000 00	
56	The Maganetawan River Railway Company	1	30,000 00	
57	Manitoba Northern Railway Company	1	500,000 00	
58	The Marmora Railway and Mining Company	24	128,600 00	
59	The Minnesota and Manitoba Railroad Company.	24	400,000 00	
60	The Minnesota and Ontario Bridge Company ...	24	100,000 00	
61	Montreal and Province Line Railway Company..	30	1,000,000 00	
62	*Montreal and Southern Counties Railway Company	1	500,000 00	165,600 00
63	The Montreal and Vermont Junction Railway Company	32	197,300 00	
64	*Montreal Fruit & Produce Terminal Company, Limited	1	500 00	
65	*The Montreal Stock Yards Company	1	350,000 00	
66	*The Montreal Warehousing Company	1	236,000 00	12,240 00
67	Mount Royal Tunnel and Terminal Company, Ltd.	24	5,000,000 00	
68	Muskegon Railway and Navigation Company	49	161,293 00	
69	*National Terminals of Canada, Limited	1	2,500 00	
70	National Transcontinental Railway Branch Lines Company	1	500 00	
71	*The Niagara, St. Catharines and Toronto Railway Company	24	925,000 00	
72	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	71	100,000 00	
73	*The Oshawa Railway Company	1	40,000 00	
74	The Ottawa Terminals Railway Company	1	250,000 00	
75	The Pembroke Southern Railway Company	1	107,800 00	
76	*Prince Rupert, Limited	1	10,000 00	
77	The Quebec and Lake St. John Railway Company	24	4,508,300 00	489,160 00
78	The Qu'Apelle, Long Lake and Saskatchewan Railroad and Steamboat Company	24	201,000 00	
79	*Rail & River Coal Company	1	2,000,000 00	
80	St. Boniface Western Land Company	24	250,000 00	
81	The St. Charles and Huron River Railway Co....	24	1,000 00	
82	St. Clair Tunnel Company	1	700,000 00	
83	*The Thousand Islands Railway Company	1	60,000 00	
84	†Trans-Canada Air Lines	1	4,600,000 00	
85	The United States and Canada Rail Road Co.....	1	219,400 00	475 00
86	Vermont and Province Line Railroad Company..	1	200,000 00	
87	The Winnipeg Land Company Limited	24	100,000 00	
			$207,327,731 92	$ 4,643,040 00

*The Income Accounts of Companies indicated (*) are included in the System Income Account as "Separately Operated Properties."

†Treated as an Affiliated Company.

RAILWAY EQUIPMENT

	December 31, 1944	Additions During Year	Retirements During Year	Conversions During Year Added	Conversions During Year Retired	December 31, 1945
LOCOMOTIVES:						
Passenger—Freight	1,999	....	24	..	..	1,975
Switching	525	....	2	..	..	523
Electric	24	....	....	..	..	24
Oil Electric	37	....	....	..	..	37
Total	2,585	....	26	..	..	2,559
FREIGHT EQUIPMENT:						
Box Cars	69,166	2,144	303	13	119	70,901
Flat Cars	5,415	....	31	..	11	5,373
Stock Cars	3,054	....	16	..	1	3,037
Coal Cars	15,714	....	53	..	..	15,661
Tank Cars	147	....	....	..	5	142
Refrigerator Cars	3,212	146	41	..	112	3,205
Caboose Cars	1,670	....	22	..	..	1,648
Other Cars in Freight Service	10	....	....	..	..	10
Total	98,388	2,290	466	13	248	99,977
PASSENGER EQUIPMENT:						
Coach Cars	1,202	....	3	..	3	1,196
Combination Cars	272	....	2	..	..	270
Dining Cars	96	....	....	..	..	96
Colonist Cars	190	....	....	..	..	190
Parlour Cars	47	....	....	..	..	47
Cafe Cars	28	....	....	..	..	28
Sleeping Cars	302	....	....	..	..	302
Tourist Cars	46	....	....	..	..	46
Baggage and Express Cars	1,051	....	10	1	..	1,042
Postal Cars	49	....	....	..	..	49
Unit Cars	43	....	3	..	..	40
Other Cars in Passenger Service	67	....	2	..	..	65
Total	3,393	....	20	1	3	3,371
WORK EQUIPMENT:						
Business Cars	61	....	1	..	..	60
Other Cars in Work Service	7,353	32	238	244	7	7,384
Total	7,414	32	239	244	7	7,444
FLOATING EQUIPMENT:						
Car Ferries	9	....	1	..	..	8
Barges	5	....	....	..	..	5
Tugs	4	....	....	..	..	4
Work	3	....	....	..	..	3

Mr. NICHOLSON: On page 24 there is a reference to the Canadian Northern Alberta Railway Company. Have we been breaking even on the operation of that Northern Alberta line, or what is the score on that?

Mr. COOPER: We did not make any money in 1945.

Hon. Mr. CHEVRIER: There is an annual operating deficit, is there not?

Mr. COOPER: In 1945 after the payment of interest the railway had a deficit of $884,000 of which the Canadian National paid 50 per cent and the Canadian Pacific paid the other 50 per cent.

Hon. Mr. CHEVRIER: It is a fact there has been a loss on the operation of that line ever since it has been established except for two or three years?

Mr. COOPER: Yes.

Mr. NICHOLSON: How large did the deficit run before the war? Have you those figures readily available?

Mr. VAUGHAN: The loss in some cases was very substantial, several hundred thousand a year and some years the loss ran over $1,000,000.

Mr. NICHOLSON: It is likely to operate at a loss now?

Mr. VAUGHAN: Likely to for some time until the country has developed further.

The Acting CHAIRMAN: Have you the answer to your question?

Mr. NICHOLSON: No, just a minute.

Mr. COOPER: I am sorry, we will have to get that for you, Mr. Nicholson. The losses are absorbed by the two parent companies, and therefore it does not reflect itself in the accounts of the company to-day.

Mr. NICHOLSON: Could we have the information for the last ten years if it is not too much trouble?

Mr. COOPER: You can have that without any trouble.

Mr. MOORE: Where is the James Bay and Eastern Railway Company?

Mr. VAUGHAN: I just forget which charter that was now.

Mr. PICARD: According to what it says here it is a branch of the Canadian Northern, is it not?

Mr. VAUGHAN: Yes.

Mr. PICARD: I see the amount owned by the public in all these different companies is $4,643,000. That is referred to in the top line of the balance sheet on page 13. I see next to it on page 25, $207,000,000. Is that owned by the public? It is at the bottom of page 25. You have two figures there. The first one is $207,327,000, capital stock issued, and next to it you have owned by the public, $4,643,000. That figure is also in the top line on page 13 in the liabilities on the balance sheet. What is the $207,000,000?

Mr. COOPER: That is the total capital stock issued by all these companies of which $4,600,000 is held by the public. The balance is held by the Canadian National System.

The Acting CHAIRMAN: Page 29.

STATISTICS OF RAIL-LINE OPERATIONS

	1945	1944
TRAIN-MILES:		
Freight Service	43,381,957	45,206,361
Passenger Service	24,600,264	24,216,998
Total	67,982,221	69,423,359
Work Service	1,732,082	1,552,221
Total	69,714,303	70,975,580
LOCOMOTIVE-MILES:		
Freight Service	46,392,068	48,153,317
Passenger Service	24,382,258	24,034,555
Train Switching—Freight	3,659,667	3,636,807
—Passenger	104,120	101,881
Yard Switching—Freight	15,247,844	15,196,852
—Passenger	1,474,192	1,432,847
Total	91,260,149	92,556,259
Work Service	2,402,612	2,123,840
Total	93,662,761	94,680,099

STATISTICS OF RAIL-LINE OPERATIONS—*Conc.*

	1945	1944
CAR-MILES—FREIGHT SERVICE:		
Loaded Freight Cars	1,173,624,393	1,202,177,715
Empty Freight Cars	528,469,997	555,756,559
Passenger Coach and Combination Cars	6,956,586	7,703,467
Sleeping, Parlor and Observation Cars	313,716	525,769
Dining Cars	15,796	44,575
Other Cars	6,789,874	7,604,153
Caboose	42,490,621	44,138,113
Total	1,758,660,983	1,817,950,351
CAR-MILES—PASSENGER SERVICE:		
Loaded Freight Cars	386,155	216,373
Empty Freight Cars	162,865	112,685
Passenger Coach and Combination Cars	81,828,393	89,431,191
Sleeping, Parlor and Observation Cars	61,263,172	58,703,137
Dining Cars	11,440,316	11,200,033
Other Cars	69,802,421	65,925,827
Motor Unit Cars		
Caboose		
Total	227,525,343	227,982,223
Car-Miles—Total	1,986,186,326	2,045,932,574
Work Service	3,989,987	3,045,122
Total	1,990,176,313	2,048,977,696
AVERAGE MILEAGE OF ROAD OPERATED	23,498·36	23,496·03
FREIGHT TRAFFIC:		
Tons carried—Revenue freight	79,941,296	80,851,179
Tons carried one mile—Revenue freight	34,599,518,473	36,015,898,732
Freight revenue	$316,533,329	$321,588,728
Revenue per ton	$3·95957	$3·97754
Revenue per ton mile	$0·00915	$0·00893
Miles per revenue ton	432·81	445·46
Ton-miles—Revenue freight per mile of road	1,472,423	1,526,753
Ton-miles—All freight per mile of road	1,589,767	1,641,004
Gross ton-miles of cars, contents and cabooses	77,301,216,775	79,728,903,320
Net ton-miles of freight (Revenue and non-revenue)	37,356,916,946	38,557,084,137
Train-hours in freight road service	2,850,886	2,894,098
PASSENGER TRAFFIC:		
Passengers carried	30,370,680	35,928,212
Passengers carried one mile	3,338,197,658	3,696,546,316
Passenger revenue	$65,199,923	$69,776,256
Revenue per passenger	$2·14680	$1·94210
Miles per revenue passenger	109·92	102·89
Revenue per passenger mile	$0·01953	$0·01888
Passenger-miles per mile of road	142,061	157,326
NET RAILWAY OPERATING INCOME:		
Gross Revenue per mile of road	$18,459 73	$18,775 41
Gross Railway operating charges per mile of road	$15,571 11	$15,893 02
Net railway operating income per mile of road	$2,888 62	$2,882 39

Mr. NICHOLSON: Referring to page 27 I wonder if you have any plans for using these oil electric trains more extensively on some of these branch lines. I think that unless something can be done to speed up the passenger service on these branch lines the buses are going to get more of the passenger traffic again. I understand that the oil electrics operate economically.

Mr. WALTON: They operate economically, but one difficulty with them is to find a suitable place for them. In many cases we have to move them from one assignment to another from time to time as business fluctuates. We have not bought any of those units for some time nor have we any immediate plans for them. There are comparatively few runs on which they fit the requirements of the run. Even with those that operate regularly we often at week-ends have to substitute steam service which leaves the diesel lying idle. We have not for several years added any of those units to our equipment.

Mr. NICHOLSON: What are your plans to compete against buses? I think unless you can speed up your service the buses are going to cut into the passenger business pretty drastically.

Mr. WALTON: We have planned some speeding up of service in certain localities. That can be done with steam equipment equally as well as with diesel unit equipment. The chief advantage of these diesel units is their lesser cost of operation, but against that is the difficulty of finding a place where the requirements, at least at certain times, do not become too heavy for them.

Mr. MUTCH: How do they operate in the snow?

Mr. WALTON: Oh, they would stall in snow easier than a steam locomotive, but on the whole we have not found that a serious disability.

Mr. GIBSON: The upkeep would be much higher on them?

Mr. WALTON: No, the entire operation on them is not bad. In connection with Mr. Mutch's question I would say that in cases where it is extremely stormy we would turn out a steam unit instead of one of these rather than take a chance of having them stall in the snow. They distinctly have their limitations, and it is some years since we have added anything to our ownership of that style of unit.

Mr. NICHOLSON: Instead of giving mixed service on some of our lines in the west it would appear to me that one of these cheaper units would produce a good deal of revenue and would not be too costly.

Mr. JACKMAN: With a chair car attached.

The ACTING CHAIRMAN: And no smoking. Page 29, gentlemen. That is just statistics. Page 31.

Mr. JACKMAN: There might be something interesting in the statistics, by chance.

Hon. Mr. CHEVRIER: I am sure you will find it, Mr. Jackman, if there is.

Mr. JACKMAN: All right, I will uncover it.

Hon. Mr. CHEVRIER: To use the expression of one of my colleagues I am saying that in a very kindly way.

Mr. JACKMAN: I know you are, Mr. Minister. I see here ton miles, all freight per mile of road, 1,589,767. How does that figure compare with the C.P.R.? Under the next heading, passenger traffic, you have got passenger miles per mile of road, 142,061.

Mr. COOPER: The figure for Canadian Pacific ton miles of revenue freight per mile of road in 1945 is 1,600,283.

Mr. JACKMAN: Have you the passenger figure there, too?

Mr. COOPER: What was the other question?

Mr. JACKMAN: Passenger miles per mile of road.

Mr. COOPER: 168,470.

Mr. HAZEN: Have you any record of the number of passengers carried on passes in 1945?

Mr. WALTON: I do not think we have any figures here.

Mr. JACKMAN: As to that comparison you gave me Mr. Cooper, I was under the impression from some of our previous meetings that to some extent you are a colonizing road and your density of traffic was not nearly as favorable as that of your competitor. These figures would seem to indicate that you have got a pretty good line working through a pretty good territory.

Mr. WALTON: We are lower than the Canadian Pacific.

Mr. COOPER: On the revenue freight as against their 1,600,000 ton miles per mile of road ours was 1,472,000.

Mr. JACKMAN: 4,589,000?

Mr. COOPER: No, 1,472,423. Then their figure of all freight would be 1,725,427 as compared with the C.N.R. of 1,589,767.

Mr. JACKMAN: There is not anything very wrong with your territory judging from that comparison.

Mr. COOPER: Not in 1945.

Mr. REID: If this question has been asked and answered you can just brush it off, but the question I have in mind has to do with page 29. It gives the passenger service train miles as 24,600,264, and then below that it gives the passenger service locomotive miles, 24,382,258. The figures as to train miles and locomotive miles of the freight and passenger services are entirely different. What is the reason for that? I thought that a locomotive would be on every train.

Mr. WALTON: In some cases there is a double header on certain trains, two locomotives. In freight service there is assisting up grades, which gives you different locomotive mileage than train mileage and there is the feature of mixed train operation.

Mr. REID: That would answer it.

The ACTING CHAIRMAN: Page 31.

OPERATED MILEAGE, 31st DECEMBER, 1945

Operated Road Mileage				
Territory	Owned	Leased	Trackage	Total
Atlantic Region	2,986.74	6.41	82.95	3,076.10
Central Region	7,104.18	353.13	27.85	7,485.16
Western Region	11,083.77	378.22	64.07	11,526.06
Grand Trunk Western Lines	956.26	9.50	59.75	1,025.51
Central Vermont Lines	237.90	125.18	58.73	421.81
Total First Main Track	22,368.85	872.44	293.35	23,534.64
Lines in Canada	20,959.26	565.43	170.48	21,695.17
Lines in United States	1,409.59	307.01	122.87	1,839.47
Operated Mileage All Tracks				
First Main Track	22,368.85	872.44	293.35	23,534.64
Second Main Track	1,214.87	13.70	85.42	1,313.99
Third Main Track	26.65	....	3.49	30.14
Fourth and Other Main Tracks	10.78	....	5.09	15.87
Spurs, Sidings and Yard Tracks	5,793.23	308.19	1,129.81	7,231.23
Total All Tracks	29,414.38	1,194.33	1,517.16	32,125.87

EMPLOYEES AND THEIR COMPENSATION

Year	*Average Number of Employees	*Total Payroll	%Inc. over Previous Year Employees	%Inc. over Previous Year Payroll
1939	78,129	$122,354,101		
1940	82,831	132,594,063	6.02	8.36
1941	89,536	153,654,368	8.09	15.89
1942	94,592	177,042,773	5.65	15.22
1943	101,126	195,555,045	6.91	10.46
1944	102,764	222,649,839	1.62	13.86
1945	105,624	220,507,637	2.78	*.96*

* Includes railways, express and telegraph employees. Excludes hotel and subsidiary company employees.

DISBURSEMENT OF TOTAL OPERATING REVENUES AND EXPENSES

	Operating revenues were disbursed:— 1945–%	1944–%	Operating expenses were disbursed:— 1945–%	1944–%
Labour	47.19	46.78	57.61	56.93
Fuel	9.77	9.82	11.92	11.95
Other Expenses	24.95	25.58	30.47	31.12
Total Operating Expenses	81.91	82.18	100.00	100.00
Available for Taxes and Other Accounts	18.09	17.82		
Total	100.00	100.00	100.00	100.00
Maintenance of Way Accounts	16.21	17.34	19.79	21.10
Maintenance of Equipment Accounts	17.70	18.19	21.61	22.13
Traffic Accounts	1.39	1.37	1.70	1.67
Transportation Accounts	41.30	40.32	50.42	49.07
Miscellaneous Accounts	1.45	1.34	1.77	1.63
General Accounts	3.86	3.62	4.71	4.40
Total Operating Expenses	81.91	82.18	100.00	100.00

Mr. HAZEN: I asked as to passengers carried on passes. Have you any record of that?

Mr. VAUGHAN: We have, of course, a record of the passes. At least, a record could be obtained from the pass stubs. All our passes are issued in accordance with the rulings of the Board of Transport.

Mr. HAZEN: There are 30,370,680 passengers carried. I was wondering how many were carried on passes.

Mr. VAUGHAN: We could not tell you that.

Mr. NICHOLSON: At previous meetings of the committee we have had some discussion about the allocation of government business. Have satisfactory adjustments been made or are there any directives that result in the Canadian National not getting a fair share of government business?

Mr. VAUGHAN: That is not as important as it was when the war business was moving. So far as I know at the present time we are getting a fair share of the business that is going.

Mr. REID: Is your Company at any disadvantage in regard to the percentage of the passenger traffic obtained from those arriving in this country on the various steamship lines? I have in mind that the C.P.R. have some steamships of their own crossing the Atlantic and they might direct all the passengers over their lines. Are you at any disadvantage, Mr. Vaughan?

Mr. VAUGHAN: No, we have not been. The C.P.R. have been operating no passenger boats on their own account. Practically all the vessels they have been operating during the war have been under the control of some government or another. We have had a fair share of all business that has been coming into Halifax during the war.

Hon. Mr. CHEVRIER: It was pooled under the united maritime agreement.

Mr. NICHOLSON: How about your revenue from carrying mail? I understand that the C.P.R. get a good deal of the carrying of mail between Montreal and Winnipeg and Toronto and Winnipeg.

Mr. VAUGHAN: We are improving our position in respect to mail carryings. There is still room for improvement yet though.

Mr. NICHOLSON: How much mail are you carrying from Montreal to Vancouver, for example?

Mr. VAUGHAN: We do not carry any.

Mr. NICHOLSON: Toronto to Vancouver?

Mr. VAUGHAN: All those mails go by the Canadian Pacific Railway.

Mr. NICHOLSON: Are you striving to improve that position?

Mr. VAUGHAN: Our officers are constantly in touch with the Post Office Department, and that situation is being gradually corrected.

Mr. MUTCH: What is the situation between Halifax and Montreal?

Mr. VAUGHAN: We are the only ones can carry mail there.

Mr. MUTCH: You are the only ones; you get it all?

Mr. VAUGHAN: We are the only ones that reach Halifax. The C.P.R. do not come anywhere near Halifax with a through line. Saint John is the nearest point they come to Halifax.

Mr. MUTCH: I would have been more accurate if I had said the Atlantic coast than Halifax.

Mr. VAUGHAN: They get most of the mail from Saint John, and we get it from Halifax.

Mr. NICHOLSON: How about Winnipeg and Saskatoon and Winnipeg and Edmonton? Do you handle those mails?

Mr. VAUGHAN: We handle a substantial proportion of those mails.

Mr. PICARD: According to these figures here it would appear that it pays the company more to transport passengers than freight. Your revenue per passenger mile is nearly 2 cents and your revenue per ton mile of freight is 0·009. You may not get more money in the whole revenue of the company but per mile it pays you more to haul passengers than freight.

Hon. Mr. CHEVRIER: If you will look at the diagram on page 19 you will see how it is divided. Seventy-three cents of a dollar comes from freight and 15 cents comes from passenger.

Mr. WALTON: I do not think you can compare a ton of freight and a passenger.

Mr. PICARD: No, but yet the revenue per passenger mile here is 0·019 which is the equivalent of about 2 cents per mile per passenger, and a little above that you have got the revenue per ton mile of freight, 0·009. So that it is more profitable. How do you explain that part of the statistics?

Mr. WALTON: I just do not think you can compare one passenger with a ton of freight. You are comparing two different things.

Mr. PICARD: These things must have a meaning. When you give the revenue per ton mile at so much and the revenue per passenger mile at so much then you must have a purpose in having it there. I am trying to find out what the purpose is.

Mr. WALTON: We show these figures so they can be compared with any like figures that may be produced, but we do not do it with the idea of comparing a passenger with a ton of freight.

Mr. PICARD: No, I imagine it might not be a proper comparison, and yet as far as revenue is concerned it is a comparison that can be made. Does it mean that it is more profitable to haul a passenger than a ton of freight?

Mr. WALTON: I do not think that question can be answered, Mr. Picard. They are not set out comparatively. They are just statistics in respect to the two different branches of the service.

Mr. PICARD: That is right, but yet on the other hand if you haul a ton of merchandise for one mile even if it weighs a lot more than a passenger it brings you less, according to these statistics.

Mr. WALTON: If the comparison is worth anything we might state it another way, that we move a freight train with 2,000 tons of freight on it and we move a passenger train with 300 passengers on it. Whether that helps to get us anywhere I do not know, but it is a fact.

Mr. VAUGHAN: It is impossible to compare them because we are moving so much more freight than we are passengers.

Mr. REID: Am I right in assuming this: there was a reduction (that is at the bottom of page 29) in the gross revenue per mile of road, being less in 1945 than it was in 1944, also, operating charges per mile of road were less in 1945 than they were in 1944—that is the third item—am I right in saying that it shows a betterment in the net operating income; 2·888 as compared to 2·88239?

Mr. WALTON: The figures there indicate dollars, that should be $2,888.62.

Mr. REID: But it does show a betterment?

Mr. WALTON: A slight betterment.

Mr. REID: Why does it show a betterment at the foot, when all the way down it shows an operating loss until you get down to the bottom figure there which shows a betterment?

Mr. VAUGHAN: There is a little betterment in operating conditions.

Mr. WALTON: The expenses went down slightly more than the income with the result that the net position is slightly better.

Mr. REID: You were holding your own in 1945?

Mr. WALTON: Yes.

Mr. JACKMAN: Hurray!

Mr. NICHOLSON: In connection with the different regions, have you any way of indicating the operating revenues for the separate regions?

Mr. VAUGHAN: Mr. Cooper might explain how our regional accounts are kept.

Mr. COOPER: We keep an account of our revenues and expenditures on the different regions, Atlantic, central, western.

Mr. NICHOLSON: Have you any indication as to which is the more profitable?

Mr. WALTON: There is no doubt about the fact that our central region is the most profitable.

Mr. VAUGHAN: The central region is much more profitable than any other of our regions. The western comes next, and then the Atlantic, the Atlantic region is not profitable at all.

Mr. MUTCH: That is due to the concentration of traffic and shorter hauls, is it not?

Mr. VAUGHAN: The central region serves quite a large industrial area.

Mr. EMMERSON: Have you got a breakdown of these different regions that could be submitted showing the revenues and expenditures?

Mr. VAUGHAN: We could file that I think.

Mr. EMMERSON: If that is the case, I would like to have a further breakdown, if possible, (going back to page 16,) a comparative statement on locomotive repairs. I would like particularly to have a statement with respect to the Atlantic region on the Moncton shop for 1945—let us say, for 1942 to 1945. Would it be possible to get that?

Mr. WALTON: I think probably we would have to combine the Moncton and Riviere du Loup shops, both are in the Atlantic region.

Mr. EMMERSON: Even at that it would be of some use. I think I raised the question at a former meeting of the committee with regard to the work done in the Moncton locomotive shops. I would like to ask Mr. Walton if there was some 75 locomotives taken from the Atlantic region in 1945 to the Montreal shops for overhaul.

Mr. WALTON: I have not the exact number before me, but a considerable number were moved to other shops for repairs. In that connection, locomotives are not necessarily repaired at the point where they come due for repairs. There is a situation there which is not particularly applicable to the Atlantic region. We have to transfer locomotives from one region to another as business fluctuates and at various times of the year. A considerable number may be sent to the western region, to western Canada in time for the grain movement. Engines must be sent to the Atlantic region in time for the winter export movement, and so on. These engines may come due for repairs on the Atlantic region when they have put in a comparatively small proportion of their mileage on that region and it would not be a workable arrangement to hold the engines at the point where they are taken out of service for repairs at that particular point. These engines are moved all over the road, they are interchangeable, they are not confined to any one region, with the possible exception of a few special design locomotives. Repair work may be done at any one of our repair shops.

Mr. EMMERSON: That is very true, Mr. Walton, but is seems sometimes that the transfers are made out of the Atlantic region and they hesitate on the way down to get an overhaul and come to the region in first class shape; and then, when they are being transferred back, taken from the region, they stop rather conveniently on their way by these points.

Mr. WALTON: No, I would not say that takes place. It might in the odd instance. If you are looking at it from the point of a repair situation, our Moncton shop itself is on a high level of efficiency.

Mr. EMMERSON: It is on a higher level than it has been for many years.

Mr. WALTON: Yes, and it is handling all the repairs that it can handle and they are doing it well. The only way in which the Moncton shops could handle any more repairs on locomotives than they are at the present time, would be to put on a night shift.

Mr. EMMERSON: You think that is the only way in which it could be done?

Mr. WALTON: I think so.

Mr. EMMERSON: If the efficiency of the shop went up would you not get more production?

Mr. WALTON: Yes, but the Moncton shops show a good level of efficiency at the present time.

Mr. EMMERSON: Just within the last two or three months?

Mr. WALTON: No, longer than that. There was a time after the opening of the new shop that they had to get used to the new set-up. The old shop had a poor layout admittedly, but even in a new shop it takes time to get things properly working. That has now been done and we are well satisfied in recent times with the level of efficiency in the Moncton shops.

Mr. EMMERSON: Now, Mr. Walton, how does the unit cost compare, say in 1945 as compared with 1942, 1943 and 1944 and so on?

Mr. WALTON: 1945 was considerably better than those years you mention. Some of the other shops showed an improvement, too. During the war years we were obliged to take any help we could get. You know the story of how many thousand of our employees went into the armed services. And naturally, many of those were younger men, and many had just finished their apprenticeship, and were at the peak efficiency, doing the best work. They had to be replaced by men, some of whom we had to take from garages; we just had to take anyone we could get, with the result that a lower rate of efficiency could not be avoided. And that condition did not apply to the shops only, it applied to various other lines of our work. Now, that has been picking up recently and we are satisfied—we are not satisfied, we would like to do better, but it is at a good level at the present time.

Mr. EMMERSON: On the matter of unit costs, that is all based on records, you have a record of how much it costs to remove, repair and replace different parts. Have you any separate audit of costs in the Moncton shops?

Mr. WALTON: Yes, we have what is called—

Mr. EMMERSON: I mean from outside auditors, the same as you used to have five or six years ago.

Mr. WALTON: We have what is called our shop methods department which assesses the value of the various work units.

Mr. EMMERSON: Which checks up and sees that the right costs—

Mr. WALTON: —are applied to the job.

Mr. EMMERSON: And not run over.

Mr. WALTON: That is right, and that applies also at the other shops as well as Moncton.

Mr. EMMERSON: Has that been the set-up at Moncton during the last four or five months, have they been working there?

Mr. WALTON: I presume they have. That is our regular custom. I am sure I would know if that were not being done.

Mr. EMMERSON: They are asked to check up and see the work being done?

Mr. WALTON: Certainly.

Mr. REID: Mr. Chairman, I brought up a question last year which may seem trivial, but it is one which involves a principle. It has to do with the amount of money, however small or great, collected on meals from passengers travelling through the Province of Saskatchewan. That is something which has been going on for quite a number of years. I asked in the committee last year if I could have the amount collected from passengers on meals, the amount of tax collected on meals at stations or in dining cars from passengers passing through the province of Saskatchewan. There must be a record of that somewhere.

Mr. VAUGHAN: I think we explained last year that it would be a very difficult thing to obtain. These passengers are on continuous trips, a good many of the people concerned are moving from one part of the country to the other. It would be a job to figure out.

Mr. REID: Yes, but surely, Mr. Vaughan, you are not trying to tell the committee that you take money from passengers in the form of a tax and do not account for it, that you do not account to the province of Saskatchewan for the amount you collect. There must be some record of it.

Mr. VAUGHAN: We can certainly give you the amount we pay in the form of taxes to the province of Saskatchewan.

Mr. REID: I may say personally that I think it is unconstitutional; however, that has nothing to do with this committee at the moment.

Mr. VAUGHAN: We can give you, if you so desire, a statement of the taxes we pay to the province, and what it is based on.

Mr. GIBSON: I think it was the tax on meals in which he was particularly interested.

Mr. REID: I was curious to know the amount. It is a tax collected on meals, and surely there must be a record of it somewhere.

Mr. VAUGHAN: We will see if we have any records along that line. Do you know if the records are available, Mr. Cooper?

Mr. COOPER: If it was paid to the province there would be a record.

Mr. REID: There must be a record of it. That has been going on in the province of Saskatchewan for a number of years.

Mr. NICHOLSON: You follow the same practice in other provinces too, do you not?

Mr. REID: I intended my question to apply to whatever provinces it may affect. I do not travel in the province of Quebec very often so I do not know what the practice is there, but I do travel through the province of Saskatchewan frequently and I know that it has been going on there for the past ten years anyway.

Mr. MUTCH: I do not think you could get it back.

Mr. VAUGHAN: We will check that up.

Mr. REID: And my second question is this, have you any figures as to the amount of money it costs you to run to Vancouver from your terminal at Port Mann? You have no running rights through to Vancouver at all. I would like to know what it costs you per year.

Mr. VAUGHAN: We will be glad to file here the amount of money we pay to the Great Northern for running rights.

Mr. NICHOLSON: In filing a report of the amount of money collected in Saskatchewan in respect to the educational tax, you might also file the amount which you collected in Quebec. I presume it would not be too much trouble to get them both at the same time. I understand that the tax you collect in Quebec is on the meals served in the dining car.

Mr. VAUGHAN: We will try to get that for you.

Mr. REID: And may we have similar information with respect to any other province where such an arrangement applies, if there are any others, please let us have them also.

The ACTING CHAIRMAN: Page 32.

REVENUE TONNAGE BY COMMODITIES

AGRICULTURAL PRODUCTS:	Year 1945	Year 1944	Year 1943	Year 1942
Wheat	8,836,831	8,846,923	6,433,610	5,554,753
Corn	470,431	346,596	461,393	518,329
Oats	1,853,887	1,757,427	1,707,204	683,973
Barley	1,370,197	1,414,851	1,567,989	607,909
Rye	85,227	124,038	106,094	39,312
Flaxseed	116,848	188,933	271,184	172,056
Other Grain (excluding dried peas, beans, soya beans)	......	28,015	60,645	29,421
Other Grain (including dried peas, beans, soya beans)	155,894	......	......	......
Flour	1,177,277	1,066,804	979,580	947,486
Other Mill Products	2,120,249	2,109,663	2,152,140	1,588,507
Hay and Straw	253,578	329,441	208,439	100,350
Cotton	79,755	77,184	67,993	102,563
Apples (fresh)	91,224	107,381	87,692	75,529
Other Fruit (fresh)	432,482	350,468	291,247	272,606
Potatoes	411,572	337,906	324,671	240,802
Other Fresh Vegetables	261,268	251,533	231,413	198,897
Other Agricultural Products (incl. dried peas, beans, soya beans)	......	709,533	615,869	677,357
Other Agricultural Products (excl. dried peas, beans, soya beans)	725,845	......	......	......
Total	18,442,565	18,046,696	15,567,163	11,809,850

REVENUE TONNAGE BY COMMODITIES—*Concluded*

	Tons Year	Tons Year	Tons Year	Tons Year
ANIMAL PRODUCTS:				
Horses	46,296	39,772	35,241	25,214
Cattle and Calves	398,994	296,403	264,180	243,692
Sheep	27,136	29,319	21,914	21,172
Hogs	218,802	355,417	285,797	213,589
Poultry (live and dressed)	......	31,890	27,457	23,694
Poultry (live)	2,431	......	......	......
Dressed Meats (fresh or frozen)	......	156,158	126,892	217 6[illegible]
Dressed Meats or Dressed Poultry (fresh or frozen)	294,449	......	......	......
Dressed Meats (cured, salted, canned)	......	399,829	318,182	252,277
Dressed Meats (cured or salted)	233,454	......	......	......
Other Packing House Products (edible)	42,377	108,356	106,823	46,679
Eggs	91,125	80,868	62,169	57,889
Butter	65,345	73,497	75,887	75,073
Cheese	88,219	77,388	71,949	71,328
Wool	67,404	68,375	78,286	77,083
Hides and Leather	85,696	79,460	68,203	66,244
Other Animal Products (non-edible)	114,463	92,351	79,535	77,766
Total	1,776,191	1,889,083	1,622,515	1,469,345
MINE PRODUCTS:				
Anthracite Coal	2,095,409	2,485,751	2,636,434	2,612,070
Bituminous Coal	9,193,585	9,335,488	9,983,156	9,181,800
Sub-Bituminous and Lignite Coal	1,823,304	1,703,873	1,975,152	1,716,941
Coke	1,472,883	1,232,219	1,228,110	1,010,864
Iron Ores and Concentrates	646,270	137,451	338,355	177,898
Copper Ore and Concentrates	181,605	196,934	225,870	239,528
Other Ores and Concentrates	2,033,078	3,057,685	4,556,495	2,707,385
Base Bullion, Matte, Pig and Ingot (non-ferrous metals)	819,398	750,669	836,148	827,158
Sand and Gravel	1,438,943	1,409,881	1,506,195	1,801,655
Stone (crushed, ground, broken)	2,009,009	1,995,647	1,971,865	2,069,652
Slate, Dimension or Block Stone	70,984	81,076	67,622	70,646
Crude Petroleum	606,176	629,573	535,876	356,870
Asphalt (natural, by-product petroleum)	199,882	197,498	128,529	177,268
Salt	567,193	498,454	498,973	476,942
Other Mine Products (not fully processed)	1,042,179	1,234,542	1,290,365	1,204,170
Total	24,199,898	24,946,741	27,779,145	24,630,847
FOREST PRODUCTS:				
Logs, Posts, Poles, Piling	677,158	568,608	544,002	491,042
Cordwood and Other Firewood	580,163	759,108	668,884	582,401
Ties	61,290	105,531	56,170	71,450
Pulpwood	4,104,087	3,524,054	3,099,099	2,683,141
Lumber, Timber, Box, Crate and Cooperage Material	4,090,454	4,099,984	4,114,300	4,300,022
Other Forest Products	252,371	310,578	226,255	258,905
Total	9,765,523	9,367,863	8,708,710	8,386,961
Carried Forward	54,184,177	54,250,383	53,677,533	46,297,003

Mr. JACKMAN: When a province has a corporate income tax do you have to pay income tax with respect to your operations in that province?

Mr. VAUGHAN: Frequently there are special arrangements made by the railways with the provinces with respect to taxation.

Mr. JACKMAN: Have you made any representations to the province of Saskatchewan with regard to the proposed corporation tax in that province?

Mr. VAUGHAN: We have made a good many representations to Saskatchewan. Just offhand I do not know in what position these representations are at the moment.

The ACTING CHAIRMAN: Page 33. Page 34. Page 35.

REVENUE TONNAGE BY COMMODITIES—*Continued*

	Year 1945 Tons	Year 1944 Tons	Year 1943 Tons	Year 1942 Tons
Brought Forward	54,184,177	54,250,383	53,677,533	46,297,003
MANUFACTURES AND MISCELLANEOUS:				
Gasoline	1,391,244	2,191,200	1,766,540	1,434,251
Petroleum Oils and Petroleum Products (except asphalt and gasoline)	1,767,601	1,619,419	1,780,340	1,810,555
Sugar	375,950	424,855	335,051	261,127
Iron, Pig and Bloom	288,527	249,784	251,209	247,716
Rails and Fastenings	61,635	106,919	29,046	29,256
Iron and Steel (bar, sheet, structural, pipe)	1,733,839	1,685,688	2,323,745	2,349,704
Castings, Machinery and Boilers	259,747	230,878	294,603	283,261
Cement	488,525	419,206	541,035	732,438
Brick and Artificial Stone	213,776	202,515	240,760	281,353
Lime and Plaster	367,387	400,787	436,248	399,278
Sewer Pipe and Drain Tile	30,085	23,306	29,581	34,352
Agricultural Implements and Vehicles other than autos	228,674	203,875	147,659	136,123
Automobiles, Auto Trucks and Auto Parts	1,701,549	2,171,116	2,287,630	2,161,027
Household Goods and Settlers Effects	20,268	20,225	14,356	12,213
Furniture	49,525	43,806	44,054	52,732
Beverages	473,298	463,502	377,705	390,065
Fertilizers, All Kinds	1,130,242	920,518	809,155	667,740
Newsprint Paper	1,462,742	1,543,708	1,591,989	1,507,344
Other Paper	317,307	286,926	251,086	238,903
Paper Board, Pulpboard and Wallboard (paper)	400,422	340,182	326,152	358,115
Woodpulp	1,295,781	1,297,012	1,445,684	1,342,551
Fish (fresh, frozen, cured, etc.)	164,628	124,218	122,579	103,028
Canned Goods (all canned food products except meats)	......	528,836	466,164	469,156
Canned Goods (all canned food products)	624,518	......	......	......
Other Manufactures and Miscellaneous	8,709,255	8,907,430	8,737,518	8,084,014
Merchandise (all L.C.L. freight)	2,200,594	2,194,885	2,099,359	1,861,932
Total	25,757,119	26,600,796	26,749,248	25,248,234
Grand Total	79,941,296	80,851,179	80,426,781	71,545,237

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The Canadian National maintains offices in the British Isles, Australia, New Zealand, France and the United States to render helpful service and to give information in connection with the traffic and other interests of the Company and of Canada generally. The principal offices of this kind are located at the following points:—

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Prince Arthur Hotel

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The Fort Garry

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MINAKI LODGE
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Pictou, N.S.

SIX YEARS OF WAR

SOME OUTSTANDING FACTS OF CANADIAN NATIONAL RAILWAYS OPERATIONS 1940-1945 INCLUSIVE

1940	1941	1942	1943	1944	1945
Revenue Tons of Freight Carried—Total 433,195,137					
55,060,232	65,370,412	71,545,237	80,426,781	80,851,179	79,941,296
Number of Revenue Passengers Carried—Total 160,048,545					
11,204,289	17,681,343	30,363,290	34,500,731	35,928,212	30,370,680
Number of Telegrams and Cables Handled—Total 64,675,926					
8,758,272	10,000,957	10,862,351	11,650,492	11,382,207	12,021,647
Number of Express Shipments Handled—Total 85,095,087					
11,933,289	12,712,385	12,932,571	14,672,359	15,780,767	17,063,716
Number of Hotel Guests—Total 4,351,689					
604,028	648,010	638,877	755,514	817,016	888,244
Payroll—Total $1,101,993,725					
$132,584,063	$153,654,368	$177,042,773	$195,555,045	$222,649,839	$220,507,637
Operating Revenues—Total $2,243,095,405					
$247,527,225	$304,376,778	$375,654,543	$440,615,955	$441,147,510	$433,773,394
Operating Expenses—Total $1,771,603,687					
$202,519,813	$237,768,437	$288,998,675	$324,475,670	$362,547,043	$355,294,049
Net Operating Revenues—Total $471,491,718					
$45,007,412	$66,608,341	$86,655,868	$116,140,285	$78,600,467	$78,479,345
Surplus after Payment of Taxes, Interest due Public and the Government and all other Charges—Total $95,537,017					
$16,965,044*	$4,016,327	$25,063,268	$35,639,412	$23,026,924	$24,756,130

* Deficit.

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

Mr. GIBSON: I second the motion.

The ACTING CHAIRMAN: Gentlemen, you have heard the motion. Will those in favour please say aye? Those opposed?

I declare the motion carried.

The ACTING CHAIRMAN: And now, gentlemen, we will proceed to a consideration of the budget. You all have copies of it before you, the Canadian National Railways budget for the year 1946. (Printed as Appendix "B").

Hon. Mr. CHEVRIER: I think, Mr. Vaughan, the practice followed before was that either yourself or Mr. Cooper read the various points of the budget and questions were asked as we went along. Is there any objection to that procedure?

Mr. VAUGHAN: All right, sir. Our operating budget for 1946 shows an anticipated surplus of $7,500,000. The details of that are on page 2. The capital budget shows additions and betterments for 1946 of $14,000,000. The comparable figure for 1945 is there. You will see that the comparable figure for 1945 was $15,008,000 and of that we were only able to expend $2,630,000.

Mr. MUTCH: Was that due to shortage of material or labour?

Mr. VAUGHAN: Shortage of material and labour.

Mr. MUTCH: Do you consider the situation has improved adequately to bring it back to the amount you figured on in 1945?

Mr. VAUGHAN: We are hoping that we will be able to get more material this year, and labour is more plentiful. New equipment—we propose to spend $8,863,000. The details of that will be found on page 3. Perhaps I had better go through the first page and we can go on to the details later. For the acquisition of the Manitoba Railway $7,000,000.

Mr. GIBSON: Who owns that?

Mr. VAUGHAN: The Northern Pacific Railway, under lease to the Canadian Northern for nine hundred and ninety-nine years.

Mr. GIBSON: Have they guaranteed the bonds?

Mr. VAUGHAN: No, sir, that is a straight lease from the Northern Pacific Railway for nine hundred and ninety-nine years. The amount at which the line can be acquired is set out in the option, and that option can be exercised to-day and a considerable amount of money saved.

Mr. GIBSON: And you think it is a good buy at $7,000,000?

Mr. VAUGHAN: Yes, we do.

Mr. NICHOLSON: Where does this line originate?

Mr. VAUGHAN: It is almost entirely in Manitoba. It runs from the Minnesota boundary through Winnipeg and Portage Laprairie and out through there.

Mr. JACKMAN: I suppose they would have to pay taxes on the rentals you paid them, I mean to the income tax department?

Mr. VAUGHAN: I do not know what they do about that, Mr. Jackman.

Mr. JACKMAN: I am just wondering whether or not from the point of view of the whole of Canada it would not be more economical—it might be more economical from the point of view of the system—but the treasury would be losing a considerable amount of money by reason of the loss of taxes if it goes into your hands. It might not be advantageous to acquire it.

Mr. VAUGHAN: It has been discussed with the Treasury and considered from all viewpoints and with respect to any agreement as to purchasing this land.

Mr. JACKMAN: How much rental do you pay to the Great Northern?

Mr. VAUGHAN: $300,000 per annum.

Mr. GIBSON: That is a good bargain.

Mr. VAUGHAN: Acquisition of securities; there is an item of $410,000. Principal payments, $9,777,000.

Mr. PICARD: With respect to that item, does it mean that it is retired out of your operation costs, or is it retired by government loans?

Mr. COOPER: As against gross requirements of $40,000,000, we have $17,000,000 of our own available and we expect to borrow $22,000,000 from the government.

Mr. PICARD: But you have a total of $9,777,000?

Mr. COOPER: That enters into the total requirements of $40,000,000, against the total requirements we shall have available, $17,500,000; and we expect to borrow the difference.

Mr. VAUGHAN: There is an item there at the bottom: "Pursuant to the Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company has subscribed for all of the shares of the capital stock of Trans-Canada Air Lines. The initial capital stock was $5,000,000, on which to December 31, 1945, calls had been made amounting to $4,600,000. The capital stock was increased to $25,000,000 by the 1945 amendment to the Act. During 1946 the Canadian National Company may be required to meet additional calls on the capital stock amounting to $14,000,000 to enable Trans-Canada Air Lines and its subsidiaries to finance their 1946 capital budgets."

Mr. JACKMAN: Are you expecting a call?

Mr. VAUGHAN: Trans-Canada Air Lines has ordered new equipment as you already know, and a certain amount of it will be delivered this year, but you gentlemen will have an opportunity to question Trans-Canada Air Lines officers upon that when they come before this committee.

Mr. JACKMAN: I understand the bill of divorcement of the airways from the railways has been postponed, has it not?

Mr. VAUGHAN: I do not know how long it has been postponed. On page 2 you will find the details of our operating revenues. We estimate an operating revenue of $381,251,000 against a 1945 actual revenue of $429,565,715.

Payment under Maritime Freight Rates Act: $3,042,000 as against a 1945 actual of $3,519,878.

Payment of deficit in the opertion of Prince Edward Island Car Ferry and Terminals: $707,000 as against 1945 actual $687,800.

The total estimated revenue would be $385,000,000, as compared to $433,773,393 last year.

Mr. REID: Do you expect a drop to that extent, Mr. President?

Mr. VAUGHAN: Yes, sir. We are just running about that right now, at the present time.

Mr. PICARD: I think your budgetary experts are quite good to come within their budget since there is such a small difference.

Mr. VAUGHAN: Operating expenses in 1946 are estimated to be $325,500,000 as against $355,294,048 last year. We hope to get a net operating revenue of $59,500,000 as against an actual operating revenue of $78,479,345 last year. Net income charges excluding interest: $7,174,000 as against $7,395,073 last year. Interest on funded debt due to the public this year will be: $23,377,000 as against $26,021,784 last year. Interest on government loans are expected to be: $21,449,000; making a total of income charges of $52,000,000 and an estimated surplus of $7,500,000 as against an actual surplus of $24,756,130 last year.

Mr. JACKMAN: You budgeted there for the interest on the repatriated securities?

Mr. VAUGHAN: Yes, sir. Then there is a note down there:

> The 1946 budget includes $1,991,800 for contribution to the deficit of the I.C.R. & P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

Mr. EMMERSON: How does that budget compare to previous years? Is that contribution increasing every year?

Mr. VAUGHAN: I think it is increasing rather than decreasing.

Mr. EMMERSON: We will have to come to a time when these old employees are gradually dying off.

Mr. VAUGHAN: They are retiring all the time and their pensions down there are quite high as compared to pensions on any other part of the system.

Mr. MUTCH: When do you expect to reach a peak?

Mr. COOPER: In about ten or twelve years from now.

Mr. GIBSON: Is it not predicated on your wage scales?

Mr. VAUGHAN: It is based upon the pensions paid to the men who have actually retired.

Mr. WALTON: The higher the wages the greater the contributions.

Mr. VAUGHAN: It is very difficult to estimate. The next is page 3, additions and betterments. Atlantic region: 1946 budget, $1,686,067. Last year, actual, $750,440. The 1945 budget was for $1,341,350.

Mr. EMMERSON: Can we have an indication of what that is for?

Mr. VAUGHAN: There is a breakdown on the next page. Central region: $5,914,660 as against an actual expenditure last year of $1,755,917. Western region, the figure is $3,109,860 as against an actual, last year, of $1,249,109. Grand Trunk Western Railroad Company: $1,985,729 as against $840,456 last year. For the Central Vermont Railway: $344,931 as against a credit last year of $204,791. Subsidiary companies: $1,967,705 as against a credit last year of $765,261. Express, telegraphs, and other departments, $1,674,277 as against a credit last year of $220,725. Additions and betterments to equipment, $2,116,956 as against $546,443 last year. Equipment retirements: a credit of $1,800,185 as compared to a credit last year of $1,321,294, and the total would be $17,000,000 as against an actual expenditure last year of $2,630,294 and a budgeted expenditure in 1945 of $15,008,000.

Less—Portion of projects included in the above 1946 requirements which will not be physically completed by December 31, 1946.

Mr. GIBSON: How much did you invest in the Pacific Communication System taken over from War Assets this year? I believe it was quite a substantial amount?

Mr. VAUGHAN: We did not invest very much ourselves in the Communication System, out there, except to the extent that we have bought some of their equipment since. The expenses of that were paid by the government and the work was done jointly by the Canadian National, the Canadian Pacific, and British Columbia Telephone.

Mr. GIBSON: But now you have taken them over into your own name, have you not?

Mr. VAUGHAN: Not any great proportion of them as yet.

Mr. GIBSON: If it is not readily available, it will be all right because it will come up in due course.

Mr. REID: I wonder if you would be good enough to stop off at that New Westminster station and see what the Great Northern are doing, and see if it is conducive to traffic?

Mr. VAUGHAN: I will do so, Mr. Reid.

Mr. GIBSON: I put him off there in December and he looked very unhappy.

Mr. JACKMAN: Do you think the time will ever come when the system will not be asking the government for money for capital account?

Mr. VAUGHAN: I think it is still a long way off. We are bound to have capital expenditures every year if we are to keep this railroad up to date.

Mr. JACKMAN: I mean capital expenditures beyond the amount you have for depreciation on rolling stock. An ordinary company would obtain its capital through depreciation of property, but you do not have a set-up for that. If this were a private company it might not be able to borrow on its own account. It would have to cut the cloth to fit the pattern. It might be quite unable to go ahead expanding in this way. But, having the treasury of the people to draw upon and to approve these budgets, you are able to go ahead with this expansion even though it does not appear, over a term, to add to the earnings of the railway. Surely there will come a time when parliament must consider whether or not it is going to keep on advancing millions and millions of dollars every year for capital expenditures for this railway which do not net any return to the taxpayers?

Mr. COOPER: That item in the budget of $9,777,000 is not an addition to the capital debt of the railway; it is entirely a refunding proposition.

Mr. JACKMAN: But referring to $22,550,000?

Mr. COOPER: Out of the $22,550,000 the $9,777,000 is really a refunding.

Mr. JACKMAN: But if you take the $9,777,000 off you have got about $13,000,000 net capital expansion being put up by the taxpayers, yet we are foreshadowing greatly decreased revenues and we already have a proprietorship account of $9,777,000 on which we get a very small return. This year, I think it was 1 per cent.

Mr. COOPER: The item of $7,000,000 can be considered substantially as a refunding proposition.

Mr. JACKMAN: That takes it down to $5,000,000.

Mr. COOPER: We have $22,550,000 net capital of which $16,777,000 is substantially refunding, making additional capital of $5,773,000.

Mr. JACKMAN: That is right.

Mr. COOPER: And we expect to earn $7,500,000 from operations. So, according to our budget estimates we will not ask for any money from the government, that is there will not be any increase in our capital debt in 1946. If we borrow $10,000,000 for refunding, it is not an addition to the debt.

Mr. VAUGHAN: Every railroad in the United States have such a policy; when they buy new equipment, they issue new securities to cover it.

Mr. JACKMAN: Yes, but they often have receipts from their rolling stock, or they pay it off gradually out of earnings.

Mr. VAUGHAN: So do we; we pay it off serially each year. For example, here is an item out of the Canadian Pacific report; your approval will also be requested for capital appropriations of $42,000,000 in the year 1946. Their capital budget is much higher than ours.

Mr. REID: What about this item I see here about hotels; what position is the new hotel in Vancouver in? How are they getting on financially?

Mr. VAUGHAN: We have been doing reasonably well there. A rental is being paid to the Canadian National for the use of the hotel and the operating company is making a little money and dividends have been paid for the last two years to each railway on the operation of the hotel.

Mr. PICARD: If we listened to your suggestion yesterday, or if the Canadian National were treated in the same way as American railways have been by being able to reduce their capital you would have been in a better position with respect to your surplus in 1946; you would not have to consider interest on government loans, and so on, if you were in the same position as the American railroads are after re-organization?

Mr. VAUGHAN: That is correct.

Mr. PICARD: To what extent do you figure you would be in a better position?

Mr. VAUGHAN: It would be hard to figure such an estimate, Mr. Picard, but our whole position would be very much better if we had our fixed charges adjusted to a normal basis.

Mr. PICARD: The same as has been done in the American companies?

Mr. JACKMAN: They get a credit for the payment of surplus each year for debt which they owe, the same as the American railroads get a reduction in the bonds which they owe.

Mr. PICARD: In Canada we have assimilated all the loans when the organization of the Canadian National took place which might have been passed on to the public as was done in the United States.

Mr. JACKMAN: When they re-organized.

Mr. VAUGHAN: When they re-organized so much capital and bonded indebtedness was written off.

Mr. PICARD: But we have assimilated the whole of the charges and we still have them on our shoulders.

Mr. JACKMAN: In connection with the $42,000,000 of the Canadian Pacific Railway Company for capital expansion over the coming year, is that money to come from increasing bonded indebtedness?

Mr. VAUGHAN: We have no way of knowing how they will finance that; I would not like to speak for the Canadian Pacific. But if they buy considerable new equipment I would be surprised if they did not make a public issue to pay for it.

Mr. JACKMAN: For new rolling stock?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: It would probably come out of surplus earnings. In connection with railroading on this continent, is it not a fact that they would all require —with perhaps an exception here and there—an increase in their bonded indebtedness or proprietorship account, probably for decades ahead as far as we can see? Are they all still capital consuming industries? None of them has reached its peak yet. They all require money each year to improve their service beyond any amount coming out of their own till, out of their own operating charges. Do they have to go to the public every year, all the American railroads, to carry on expansion programs, or do some of them not have expansion programs?

Mr. VAUGHAN: I think that nearly all the railways, if they buy new equipment, issue securities to cover the equipment.

Mr. JACKMAN: I realize that it is a very cheap way to finance railroads, but even so some of them are not increasing or doubling the amount of railway stock outstanding.

Mr. VAUGHAN: That may be so, but funds for expansion, in one way or another, may be built up from reserve, built up in the last few years.

Mr. WALTON: They are appealing for increased freight rates in the U.S. at the present time for that purpose.

Mr. JACKMAN: Wouldn't that be a better way than for us to keep asking the public for more money?

Mr. REID: If you increase the freight rates, be sure to increase them for the central provinces.

Mr. VAUGHAN: Our position has been improving right along.

The ACTING CHAIRMAN: Is is the wish of the committee to adjourn now until 11 o'clock tomorrow?

Mr. PICARD: I was about to say: that since we have gone into the details of most of this in this year's balance sheet and operations and expenditures, and since this is along the same line, could we move the approval of the budget today and so get rid of it? There are only questions of detail?

Hon. Mr. CHEVRIER: We have gone over the greater part of it with respect to last year.

Mr. PICARD: We have questioned the officers about most of these things.

Hon. Mr. CHEVRIER: Mr. Reid has one question he would like to ask.

Mr. VAUGHAN: We might deal with that budget when we deal with the West Indies Steamships budget.

Mr. NICHOLSON: If we are meeting tomorrow I think we might adjourn now and continue with this. Some of us have not had a chance to look through this yet. I think we will finish tomorrow anyway.

The committee adjourned at 6.05 p.m. to meet again on Thursday, May 16, 1946, at 11 o'clock a.m.

APPENDIX "B"

CANADIAN NATIONAL RAILWAYS

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

BUDGET - 1946

SUMMARY OF FINANCIAL REQUIREMENTS—YEAR 1946

—	1945 Budget	1945 Actual	1946 Budget	Details on Page
	$	$	$	
OPERATING BUDGET—				
Surplus	25,000,000	24,756,130	7,500,000	2
CAPITAL BUDGET—				
Additions and Betterments	15,008,000	2,630,294	14,000,000	3
New Equipment	24,606,000	10,078,911	8,863,000	4
Acquisition of Manitoba Railway	....	....	7,000,000	5
Acquisition of Securities	1,015,000	829,020	410,000	6
Retirement of Maturing Capital Obligations, including Sinking Fund and Equipment Trust Principal Payments	10,777,000	10,771,225	9,777,000	7
	51,406,000	24,309,450	40,050,000	
Less amounts available from Reserves for Depreciation and Debt Discount Amortization	18,000,000	16,775,951	17,500,000	
Total Capital Budget	33,406,000	7,533,499	22,550,000	

STATUTORY AUTHORIZATION—

Pursuant to The Trans-Canada Air Lines Act, 1937, the Canadian National Railway Company has subscribed for all of the shares of the capital stock of Trans-Canada Air Lines. The initial capital stock was $5,000,000, on which to December 31st, 1945, calls had been made amounting to $4,600,000. The capital stock was increased to $25,000,000 by the 1945 amendment to the Act. During 1946 the Canadian National Company may be required to meet additional calls on the capital stock amounting to $14,000,000 to enable Trans-Canada Air Lines and its subsidiaries to finance their 1946 capital budgets.

OPERATING BUDGET

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Operating Revenues—			
(a) Operating Revenues, excluding *(b)* and *(c)*	428,657,000	429,565,715	381,251,000
(b) Payment under Maritime Freight Rates Act (20%)	3,630,000	3,519,878	3,042,000
(c) Payment of deficit in the operation of P.E.I. Car Ferry and Terminals	713,000	687,800	707,000
	433,000,000	433,773,393	385,000,000
Operating Expenses	354,800,000	355,294,048	325,500,000
Net Operating Revenues	78,200,000	78,479,345	59,500,000
Net Income Charges, excluding interest	6,909,000	7,395,073	7,174,000
Interest on Funded Debt—Public	26,035,000	26,021,784	23,377,000
Interest on Government Loans	20,256,000	20,306,358	21,449,000
Total Income charges	53,200,000	53,723,215	52,000,000
Surplus	25,000,000	24,756,130	7,500,000

NOTE.—The 1946 Budget includes $1,991,800 for contribution to the deficit of the I.C.R. and P.E.I. Provident Fund also $100,000 for contribution to the Grand Trunk Superannuation Fund Association.

ADDITIONS AND BETTERMENTS

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Additions and Betterments—			
Atlantic Region	1,341,350	750,440	1,686,067
Central Region	6,109,624	1,755,917	5,914,660
Western Region	2,963,779	1,249,109	3,109,860
Grand Trunk Western Railroad Company	1,529,246	840,456	1,985,729
Central Vermont Railway	203,045	Cr. 204,791	344,931
Subsidiary Companies	281,097	Cr. 765,261	1,967,705
Express, Telegraphs, and other departments	2,089,009	Cr. 220,725	1,674,277
Additions and Betterments to Equipment	2,519,845	546,443	2,116,956
Equipment Retirements	Cr.2,028,995	Cr.1,321,294	Cr.1,800,185
	15,008,000	2,630,294	17,000,000
Less.—Portion of projects included in the above 1946 requirements which will not be physically completed by December 31, 1946	....	....	3,000,000
Total	15,008,000	2,630,294	14,000,000

(see attachment Page 3-A)

ALL-INCLUSIVE SYSTEM

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1946

EXPENDITURES LESS RETIREMENTS APPLICABLE TO CAPITAL ACCOUNT

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Subsidiaries Departments and Equipment	Total
	$	$	$	$	$	$	$
ROAD—							
New Lines		175,000	19,313				194,313
Rails and Fastenings	80,330	266,044	243,351	204,150	7,361		801,236
Tie Plates and Rail Anchors	195,777	575,745	514,858	106,250	13,910		1,406,540
Ballast	291,710	360,228		306,670	53,586		1,012,194
Widening Cuts and Fills	255,624				4,000		259,624
Ditching, Drainage and Sewers	20,479	6,885	63,540	5,420			96,324
Large Freight Terminals		85,000	Cr. 102,600				Cr. 17,600
Large Passenger Terminals		60,000	266,725				326,725
Yards, Tracks and Sidings	73,886	356,530	113,359	290,000	6,969		840,744
Roadway Machines	14,460	186,440	146,575	41,960	5,800		395,235
Bridges, Trestles and Culverts	156,088	403,408	556,508	22,600	79,975		1,218,579
Tunnels			65,000				65,000
Highway and Crossing Protection	10,815	39,498	2,400	70,900			123,613
Stations and Station Facilities	110,150	547,965	448,533	101,050			1,207,698
Water Supplies	6,461	50,503	139,001	39,120	3,500		238,585
Fuel Stations	6,700	83,621	127,680	5,000			223,001
Shops, Enginehouses and Machinery	261,286	1,907,746	727,841	122,118	33,101		3,052,092
Docks and Wharves			Cr. 14,850	60,000			45,150
Signals and Interlockers	24,510	175,378	40,127	52,950			292,965
Telegraphs—Railway						586,643	586,643
Telegraphs—Commercial						1,065,301	1,065,301
Land	4,000	13,500	3,630	3,500			24,630
General Additions and Betterments and Contingencies	173,791	618,279	Cr. 252,481	94,160	51,014	Cr. 236,028	448,735
Total	1,686,067	5,911,770	3,108,510	1,525,848	259,216	1,415,916	13,907,327
EQUIPMENT—							
Additions and Betterments to Equipment				448,401	84,015	2,116,956	2,649,372
Equipment Retirements						Cr. 1,800,185	Cr. 1,800,185
Express and Miscellaneous Equipment		2,890	1,350	11,480	1,700	186,376	203,796
Total		2,890	1,350	459,881	85,715	503,147	1,052,983

ALL-INCLUSIVE SYSTEM—*Con.*

ADDITIONS AND BETTERMENTS BUDGET-YEAR 1946

EXPENDITURES LESS RETIREMENTS APPLICABLE TO CAPITAL ACCOUNT

—	Atlantic Region	Central Region	Western Region	Grand Trunk Western Lines	Central Vermont Railway	Subsidiaries Departments and Equipment	Total
	$	$	$	$	$	$	$
Hotels						71,985	71,985
Subsidiary Companies						1,967,705	1,967,705
Total Estimated Additions and Betterments	1,686,067	5,914,660	3,109,860	1,985,729	344,931	3,958,753	17,000,000
LESS.—Portion of projects included in the above requirements which will not be physically completed by December 31, 1946							3,000,000
Net Estimated Additions and Betterments							14,000,000

CANADIAN NATIONAL RAILWAY SYSTEM

New Equipment Purchases

Canadian National Railway System

650 Box Cars to be delivered between January 1, 1946 and March 31, 1946, at a cost of $2,872,000 (part lot of 2,500 cars from 1945 program). To be financed through the 1945 Hire Purchase Agreement. No budget funds required.

Equipment for which financial provision is required in 1946:—

30	Coaches. Authorized in 1944 Budget. Delivery expected in 1946.	
10	Baggage Cars. Authorized in 1944 Budget. Delivery expected in 1946.	
200	Refrigerator Cars. Authorized in 1945 Budget. Delivery expected in 1946.	
400	Box Cars. G.T.W. Authorized in 1945 Budget. Delivery expected in 1946.	
10	Mail and Express Cars. Delivery expected in 1946.	
10	Diesel Switchers. Delivery expected in 1946.	
6	Diesel Switchers—G.T.W. Delivery expected in 1946.	
	Total Cost including Sales Tax and Inspection Charges.....	$ 8,863,000

Equipment for which orders will be placed in 1946 but for which financial provision is not required in 1946:—

20	Sleepers. Delivery expected in 1947.	
100	Refrigerator Cars. Order to be placed in 1946 but delivery expected in 1947.	
	Total Cost including Sales Tax and Inspection Charges.....	$ 3,715,000

CANADIAN NATIONAL RAILWAYS

Acquisition of the Lines of The Manitoba Railway Company

The Manitoba Railway Company is an amalgamation of:—

Northern Pacific & Manitoba Railway
Winnipeg Transfer Company
Portage & North Western Railway
Washada & North Eastern Railway (No mileage constructed).

Mileage of the lines is as under:—

First Main Track..	348·81
Second Main Track...	4·29
Spurs, sidings and yard tracks.................................	137·66

These lines comprise important connecting links for our train operations through Winnipeg Terminal and to Portage la Prairie and Brandon as well as the line over which Northern Pacific and Great Northern trains operate into Winnipeg. Capital expenditures by C.N.R. for improvements during the term of the lease to December 31, 1945, amounted to $966,001.55.

On January 15, 1901, these lines were leased to the Province of Manitoba for 999 years. On February 11, 1901, the lease, together with option to purchase, was assigned to the Canadian Northern Railway Company. The rental was:—

First 10 years..	$210,000 per annum
Second 10 years......................................	225,000 " "
Third 10 years..	275,000 " "
Remaining period	300,000 " "

The present estimated annual saving resulting from the purchase of the lines is:—

Present annual rental..	$ 300,000 00
Purchase price of $7,000,000 at interest rate of, say, 3%.......	210,000 00
Annual saving	$ 90,000 00

The option to purchase is for $7,000,000 at any time during the lease.

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities

	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Toronto Terminals Railway— Joint with Canadian Pacific Railway Co. General Additions and Betterments— C.N.R. proportion 50%	100,000	100,000	....
Northern Alberta Railways— Joint with Canadian Pacific Railway Co. General Additions and Betterments— C.N.R. proportion 50%	600,000	400,000	250,000
Chicago and Western Indiana Railroad Advances under agreement of March 1/36	150,000	155,244	160,000
Atlantic and St. Lawrence Railroad Purchase of Capital Stock	10,000	17,424	....
Northern Railway of Canada 6% Third Preferential Bonds	....	487	....
Stanstead, Shefford and Chambly Railroad Company Purchase of 4% Debenture Bonds	155,000	155,865	....
	1,015,000	829,020	410,000

RETIREMENT OF MATURING CAPITAL OBLIGATIONS, INCLUDING SINKING FUND AND EQUIPMENT TRUST PRINCIPAL PAYMENTS

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
Retirement of Maturing Capital Obligations—			
Indebtedness to State of Michigan *re* Wider Woodward Avenue, Detroit	430,000	430,668	430,000
5½% Province of New Brunswick Debentures	818,000	818,000	....
	1,248,000	1,248,668	430,000
Sinking Fund Payments—			
2% Canadian National Rlys. Guar. Deb. Stock (1927)	....	Cr. 5,840	....
4% St. John and Quebec Rly. 1st Mtge. Deb. Stock	6,227	6,227	6,227
	6,227	387	6,227
Equipment Principal Payments—			
4½% Can. National Rly. Equip. Trust Series "L"	1,050,000	1,050,000	....
2½% Can. National Rly. Equip. Trust Series "O"	1,430,000	1,430,000	1,430,000
2½% Can. National Rly. Equip. Trust Series "P"	500,000	500,000	500,000
2½% Can. National Rly. Equip. Trust Series "Q"	650,000	650,000	650,000
3% Purchase of Rly. Equip. 1936 (Dom. Gov't) Repayable 1938–1950	517,173	517,173	517,173
3½% Purchase of Rly. Equip. 1940 (Dom. Gov't) Repayable 1941–1955	991,968	991,968	991,968
3½% Purchase of Rly. Equip. 1941 (Dom. Gov't) Repayable 1943-1957	1,382,634	1,382,634	1,382,634
2⅝% Purchase of Rly. Equip. 1943 (Dom. Gov't) Repayable 1945-1959	1,561,667	1,561,667	1,561,667
2⅝% Purchase of Rly. Equip. 1944 (Dom. Gov't) Repayable 1945-1959	868,728	868,728	868,728
2⅝% Purchase of Rly. Equip. 1945 (Dom. Gov't) Repayable 1946-1960	....	....	868,411
2½% Grand Trunk Western RR. Equip. Trust 1941	570,000	570,000	570,000
	9,522,170	9,522,170	9,340,581
	10,777,000	10,771,225	9,777,000

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

—	1945 Budget	1945 Actual	1946 Budget
	$	$	$
OPERATING BUDGET—			
Operating Revenues	4,503,272	4,412,251	3,677,000
Operating Expenses	2,850,584	2,849,091	2,790,000
Net Operating Income	1,652,688	1,563,160	887,000
Interest Income, etc	....	216,842	175,000
Interest Requirements on 5%—25-Year Bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
U.S. Exchange premium on bond interest	51,700	50,917	49,500
Interest on Government Notes and Advances	145,988	142,999	126,500
Surplus	985,000	1,116,086	416,000
CAPITAL BUDGET—			
Purchase of 3 diesel-driven cargo vessels	....	....	3,750,000
Purchase of vessel from Park Steamship Company	....	....	450,000
	....	....	4,200,000

NOTE.—Funds for the purchase of these four vessels will be taken from the Vessel Replacement Fund.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MAY 16, 1946

WITNESSES

Mr. R. C. Vaughan, Chairman and President, Canadian National Railways;

Mr. N. B. Walton, C.B.E., Executive Vice-President, C.N.R.;

Mr. T. H. Cooper, Vice-President and Comptroller C.N.R.;

Mr. O. A. Matthews, Representing George A. Touche & Co., Auditors.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

ROOM 497, HOUSE OF COMMONS,

THURSDAY, 16th May, 1946.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government, met this day at 11.00 o'clock a.m., Mr. McCulloch (*Pictou*) in the chair.

Members present: Messrs. Chevrier, Bourget, Emmerson, Gibson, (*Comox-Alberni*), Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, McCulloch (*Pictou*), Moore, Mutch, Nicholson, Picard, Pouliot, Reid—15.

In attendance: (Representing Canadian National Railways): Mr. R. C. Vaughan, Chairman and President; Mr. N. B. Walton, C.B.E.; Mr. T. H. Cooper; Mr. N. J. Macmillan, General Counsel; Mr. W. S. Thompson, Director of Public Relations and Mr. S. H. May, General Auditor; (Representing G. A. Touche & Company, Auditors for National Railways): Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, Deputy Minister and Mr. F. M. Maclennan, Assistant Deputy Minister and Comptroller.

Mr. Vaughan filed replies to questions previously asked by Messrs. Reid, Nicholson, Jackman; also a statement showing C.N.R. revenues and expenditures by Regions for 1945.

Mr. Pouliot asked to put on record a tribute to the excellent work done during the period of the war by the following C.N.R. officials: Mr. J. P. Johnson, Moncton, Vice-President and General Manager, Atlantic Region and Mr. Frank Griffin, General Superintendent, Quebec City.

Consideration was resumed of the 1946 Budget for Canadian National Railways.

On motion of Mr. Reid, it was

Resolved,—That the Committee adopt the Canadian Natoinal Railways Budget for 1946. Carried on division.

Mr. Vaughan gave a short history of Canadian National (West Indies) Steamship Line and was questioned thereon.

Mr. Vaughan read the Annual Report for the calendar year 1945 of Canadian National (West Indies) Steamships Limited and answered questions in connection therewith.

Mr. Pouliot pointed out that the total (actual) cost to the Government of the operations of the SS. Line as compared with a (potential) cost, if certain subsidies had been paid, was very small (less than $2 million) considering the gain which accrued to Canada as a result of the development of our trade with the West Indies.

After considerable discussion, Mr. Nicholson moved: That this Committee recommends that the management of Canadian National (West Indies) Steamships Limited make representations to the Dominion Government to absorb the $5,059,960 of Dominion of Canada advances appearing in the liabilities side of the Line's Consolidated Balance Sheet for the year ending December 31, 1945.

The Committee adjourned at 1.00 o'clock p.m., to meet again this day at 4.00 o'clock p.m.

AFTERNOON SITTING

The Committee resumed at 4.00 p.m.

Members present: Messrs. Chevrier, Bourget, Emmerson, Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, LaCroix, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid—13.

In attendance: The same officials as are named above.

Discussion on motion of Mr. Nicholson.

Mr. Hazen moved an amendment thereto: "That all the words after 'that' be left out and the following substituted therefor: The Committee adopt the consolidated balance sheet of Canadian National (West Indies) Steamships Limited as shown in the Annual Report for 1945."

After discussion, the question was put on the amendment, and was carried.

On motion of Mr. Reid, it was

Resolved,—That the 1945 Report of Canadian National (West Indies) Steamships Limited and their 1946 Budget be adopted by this Committee.

Mr. Cooper, Comptroller, The Canadian National Railways Securities Trust, read the report of the transactions of the Trust for the calendar year, 1945, and was questioned thereon.

On motion of Mr. Reid, the said Report was adopted.

Mr. O. A. Matthews, of George A. Touche & Company, was called.
He read the 1945 Report to Parliament of the Auditors for National Railways and Canadian National Railways Securities Trust and was questioned thereon.

On motion of Mr. LaCroix the said Report was adopted.

On motion of Mr. Reid, the 1945 Report of the Auditors of Canadian National (West Indies) Steamships Limited was taken as read, considered and adopted.

The following items of the Estimates for the year ending 31st March, 1947, were considered:

Vote No. 422, Maritime Freight Rates Act—Canadian National Railways;

On motion of Mr. Reid, the said item was adopted.

Vote No. 423, Maritime Freight Rates Act,—Railways other than Canadian National Railways;

On motion of Mr. LaCroix, this item was adopted.

Vote No. 469, Prince Edward Island Car Ferry and Terminals—Deficit, 1946;

On motion of Mr. LaCroix, this item was adopted.

It was agreed that the Acting Chairman should report to the House accordingly.

The Minister of Transport (Hon. L. Chevrier) filed with the Committee a Report for 1945 of the operations of Hudson Bay Railway, which is printed as Appendix "C".

The Minister of Transport informed the Committee that he had received a note from the Minister of Reconstruction and Supply (Hon. C. D. Howe) with reference to Trans-Canada Air Lines and asked if it would be agreeable to the Committee to sit on May 28 to consider all matters relating to T.C.A.

The Committee adjourned at 6.00 p.m. to meet again on Tuesday, May 28, 1946, at 11.00 o'clock a.m.

T. L. McEVOY,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, 17th May, 1946.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1947, referred to your Committee on 15th April, 1946, and recommends the adoption of the said items, namely:—

Vote 422, Maritime Freight Rates Act— Canadian National Railways	$3,042,000.00
Vote 423, Maritime Freight Rates Act— Railways other than Canadian National Railways ..	900,000.00
Vote 469, Prince Edward Island Car Ferry and Terminals— Deficit 1946	707,000.00

All of which is respectfully submitted.

H. B. McCULLOCH,
Vice-Chairman.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 16, 1946.

The Sessional Committee on Railways and Shipping met this day at 11 o'clock a.m. The Acting Chairman, Mr. H. B. McCulloch, presided.

The ACTING CHAIRMAN: Gentlemen, we will come to order. Mr. Vaughan has answers to some of the questions which were asked yesterday.

Mr. VAUGHAN: The first is a question asked by Mr. Reid:

> Q. What was the total amount paid to the Great Northern Railway in 1945 for running rights over the line from Vancouver to New Westminster?

A. The amount was $169,533.

The next question asked by Mr. Reid, and coupled with that is some information about Quebec, asked by Mr. Nicholson:

> Q. What were the amounts collected for provincial meal taxes on Canadian National Railways dining cars for the year 1945?

A. Amount collected and paid to the: Province of Saskatchewan, $2,722.60; Province of Quebec, $13,611.19.

The next question by Mr. Nicholson:

> Q. What were the financial results of operation of the Northern Alberta Railways for the last ten years?

A. The profit or loss (shared equally by C.N.R. and C.P.R.) was as under:—

Year	Profit	Loss
1936		$1,257,472
1937		912,233
1938		1,242,143
1939		1,276,262
1940		924,423
1941		808,899
1942	$1,374,900	
1943	2,506,453	
1944		466,565
1945		884,227

Then, Mr. Jackman asked:

> Q. What was the total amount of Dominion of Canada loans outstanding at December 31, 1922?

A. Principal of loans, $506,945,969; Unpaid interest on loans, $69,328,803. Total, $576,274,772.

Then we were asked to supply a statement showing revenues and expenditures by regions for 1945. That statement is as follows:—

NET OPERATING REVENUE BY REGIONS, ETC.
YEAR 1945

Canadian Lines	Revenues	Expenses	Net
Atlantic Region..	$ 50,816,824	$ 51,290,719	$ 473,895 *
Central Region..	189,365,327	130,619,230	58,746,097
Western Region	125,660,155	85,188,906	40,471,249
Common Expenses, such as depreciation, general administration and provision of reserves		29,495,815	29,495,815 *
Express, excluding railway proportion of revenue included above..	10,517,184	10,279,879	237,305
Commercial Telegraph Department..	7,540,500	6,807,970	732,530
Total	$383,899,990	$313,682,519	$ 70,217,471
U.S. Lines..	49,873,404	41,611,530	8,261,874
System.	$433,773,394	$355,294,049	$ 78,479,345

* Figures in red.

This I believe completes all the questions asked, with the exception of some information which Mr. Nicholson wanted relating to land sales. We haven't got that with us but we will file it later, while we are here.

The ACTING CHAIRMAN: Are there any questions?

Mr. POULIOT: Up until now we have been talking in millions of dollars. I have a simple request to make which will not even run into two dollars. I wonder, Mr. Vaughan, if it would be possibl to make copies of the telephone directory of Canadian National Railways at Montreal available for each member of this committee. It would be of great assistance to us in getting in touch with officials when we are in Montreal.

Mr. VAUGHAN: You mean our internal directory?

Mr. POULIOT: Yes.

Mr. VAUGHAN: We will be glad to do that.

Mr. POULIOT: Would you please instruct one of your men to telephone to Montreal and have those sent to us?

Mr. VAUGHAN: We will do that.

Mr. POULIOT: Thank you very much, sir.

Mr. EMMERSON: There was a return I asked for yesterday. Will that be brought down later? It relates to a breakdown of repairs on locomotives on the various regions, more particularly with respect to the Moncton shop. Either Mr. Walton or Mr. Vaughan said that could be given for Moncton and Rivière-du-Loup.

Mr. WALTON: I thought I had pretty well answered your questions in regard to locomotive repairs, Mr. Emmerson. Is anything further wanted?

Mr. EMMERSON: You made a statement on it.

Mr. WALTON: Yes.

Mr. EMMERSON: What I asked was in connection with pages 16 and 17, the cost for 1944 and 1945 for locomotive repairs on the system, and I wanted it by regions.

Mr. WALTON: We can get that for you, Mr. Emmerson.

Mr. POULIOT: When repairs are made to locomotives, do you add to the cost of repairs the cost of transporting the locomotives? Supposing, for instance, a locomotive is found to have something wrong when running between Rivière-du-Loup and Levis, instead of being repaired at Rivière-du-Loup it is taken to Montreal; let us suppose it is taken to Montreal, would you add the cost of transportation from the point of breakdown to Moncton or Montreal?

Mr. WALTON: No.

Mr. POULIOT: I have in mind an actual case.

Mr. WALTON: Whenever it is possible the engine is worked in service to the repair point. If it is completely broken down and has to be hauled to the repair point, that is just a cost incidental to transportation, it is not segregated and charged to any particular shop or point.

Mr. POULIOT: No, no; but it means the repair is costlier. It does not appear in the account as part of the cost of the repair?

Mr. WALTON: No, not the cost of hauling the locomotive.

Mr. POULIOT: But the repair costs more because of transportation; is that not true?

Mr. WALTON: There would be a certain cost due to hauling it, but usually if it is hauled to a point further away, that is done in order to spread work and because there would have been undue delay had the locomotive been held for repair at the closest point.

Mr. POULIOT: And, by the way, is the Canadian National Railways satisfied with the kind of repair work that is being done on locomotives at Rivière-du-Loup?

Mr. WALTON: Yes, excellent work is being turned out at that shop.

Mr. POULIOT: And would it be possible to have two shifts of men working there on the repair of locomotives?

Mr. WALTON: We have not gone generally into two shift work, feeling that we can overtake the backlog of repairs to locomotives in a reasonable period of time. That matter is one which is subject to re-survey periodically. If we can overtake such backlog as there is with our present staff, we think it is preferable rather than to have a sharp increase in the number of men and then a layoff in possibly a short time again.

Mr. POULIOT: Of course, service work is most important.

Mr. WALTON: Yes.

The ACTING CHAIRMAN: Would you go on, Mr. Vaughan?

Mr. VAUGHAN: If Mr. Pouliot has finished. We had, I think, just finished page 3 of the budget and we are ready now to go on with page 3 (*a*), which is a breakdown by regions.

Mr. JACKMAN: Mr. Chairman, in regard to the appropriation of $7,000,000 for the acquisition of the Manitoba Railroad, the president said that this matter has been taken up with the Department of Finance in order to get their general approval I suppose to the budget, but before voting on that particular item I should like to have the specific information that finance and revenue were definitely of the opinion that from the standpoint of Canada as a whole it was advantageous to purchase this Manitoba Railroad from the Great Northern. The matter of taxation is one which complicates it, and which makes it different from an ordinary business deal. May I ask in the meantime who pays for the upkeep of the railroad for which the National pays $300,000 a year rent?

Mr. VAUGHAN: We do.

Mr. JACKMAN: You maintain it intact?

Mr. VAUGHAN: Yes sir.

Mr. JACKMAN: So the $300,000 is net to the Great Northern, is it?

Mr. VAUGHAN: That is merely the rent which we pay them. We have to pay all the operating expenses on the line.

Mr. JACKMAN: For how long is the lease?

Mr. VAUGHAN: 999 years.

Mr. JACKMAN: So it has an indefinite period to go yet?

Mr. VAUGHAN: Yes, sir.

Mr. JACKMAN: Why is it that it now becames profitable or advantageous for the Canadian National system to acquire that property, whereas it was not advantageous before?

Mr. VAUGHAN: Well, Mr. Jackman, the reason for it is that we are considering every possible means whereby we could reduce our expenses, and even if we borrow the money at three per cent today, and we expect to borrow it at less than that, the cost would only be $210,000 per annum, as against the $300,000, thereby making a saving of $90,000 per annum.

Mr. JACKMAN: Yes, but as a friend of mine in one company says when a good idea is brought forward, why didn't you think of that long ago?

Mr. VAUGHAN: We would all be a lot better off if we could put into effect some of the ideas we got many years ago.

Mr. JACKMAN: This must have been staring you in the face for some years. At the same time, this $300,000 which is paid the Great Northern must be subject to income tax, corporation income tax, at least to the extent of the minimum rate of forty per cent, which would mean tax to the amount of $120,000 to the treasury, which would reduce the net income of Canada (looking at the C.N.R. and the government as one), whereas if you put through this deal on a three per cent basis it costs the country $210,000 maintenance as against the $120,000 revenue. That is exactly the situation. So, Mr. Chairman, before I vote for that I would like to have it clear in my mind that this matter was concurred in by either finance or revenue.

Hon. Mr. CHEVRIER: I can say this about it, Mr. Jackman, that a bill is now in the course of preparation for the acquisition of the railway, subject of course to the approval of parliament. It has been discussed with the Department of Finance and they are perfectly satisfied that this is a good thing to do, in so far as the affairs of Canadian National Railways are concerned. I cannot go beyond that.

Mr. JACKMAN: I do not doubt that. That is what has been happening all across this country because of the higher rate of taxation, and it has an effect on crown companies and particularly provincial governments who do not pay taxes which private business does. Private business has been forced out of many lines of activity. As an illustration let us consider elevators and creameries in the west. They simply have had to sell out to cooperatives, which are also subject to special tax exemption, for the simple reason that private business cannot compete and pay the minimum of forty per cent tax against an owning body which pays no tax whatever. Of course, if the government collects its minimum of forty per cent tax on $300,000, which is $120,000, that brings the net cost to the government down to $180,000 against a projected cost, if the deal went through, of $210,000; so we are much better off as long as the forty per cent tax rate on corporations is continued. Did I understand the minister to say that a bill is coming before the House, to take this line over?

Hon. Mr. CHEVRIER: Yes. There will be full opportunity to discuss it at that time. I have seen the bill and it has been approved by the legal officers of my department, and I presume it will be coming before us in due course. It is not ready yet. I think that within the next few weeks it will be before the House for first reading.

Mr. REID: Mr. Chairman, I have one or two questions I want to ask about that same line. There is one point about it that interests me, that is the question of municipal taxes you have to pay after you become the owner of this line and operate it; or, do you pay municipal taxes on it now?

Mr. VAUGHAN: We pay all municipal taxes now.

Mr. REID: You do?

Mr. VAUGHAN: Yes.

Mr. REID: And you pay a straight rental for the use of the road and also pay the municipal taxes?

Mr. VAUGHAN: That $300,000 is merely the amount we pay for our right to use their tracks.

Mr. REID: And so you will have no more taxes to pay after the acquisition of the line that you paid, let us say last year?

Mr. VAUGHAN: No.

Mr. REID: Do American funds enter into this contract at all?

Mr. VAUGHAN: No, sir; we would pay them in Canadian funds.

Mr. REID: And the rental is paid in Canadian funds?

Mr. VAUGHAN: In Canadian funds.

Mr. POULIOT: While we are discussing the acquisition of railways, have you given any consideration to the acquisition of the Temiscouata Railway?

Mr. VAUGHAN: That has been considered at different times, Mr. Pouliot; but we have never yet felt that it would be to our interest to acquire that railway.

Mr. POULIOT: You know that that is the only link between the Transcontinental Railway and the Intercolonial?

Mr. VAUGHAN: It is still being operated by the present owners. That link is there.

Mr. POULIOT: Yes, but it would be a fine outlet for linking up between the St. Lawrence River and the valley of the St. John River, and Maine and other points of the States.

Mr. VAUGHAN: The Temiscouata has been an active subject at different times. We do lend them some little assistance in connection with their operations, as you probably know.

Mr. POULIOT: I know that.

Mr. VAUGHAN: That is a matter which will have to be dealt with at some future time.

Mr. POULIOT: But the door is not closed?

Mr. VAUGHAN: It is not very wide open, but it is not closed.

Mr. REID: With regard to this line which is being purchased, do you consider that it will be a profitable line to operate? Would it not be more economical to consider bus and truck service in that area? There are 340 miles along there on which you have spent nearly a million dollars for improvements up to the present time, and you are now going to spend $7,000,000. I am asking you the question, do you think this is a profitable investment, or could that area be served by bus and truck?

Mr. VAUGHAN: These are lines we could never do without. They were the nucleus of the Canadian Northern Railway in the province of Manitoba. The saving is almost entirely due to the fact that we can borrow money and purchase the line for considerably less than it was costing us to lease it. That is the only saving.

Hon. Mr. CHEVRIER: Even if the line were operating unprofitably you are still saving $90,000?

Mr. VAUGHAN: That is right.

Mr. WALTON: In reply to Mr. Reid's question in regard to trucks, these lines produce a very large amount of grain, and that puts them out of the truck field in as far as taking care of the territory entirely by trucks is concerned.

The ACTING CHAIRMAN: Are there any further questions you would like to ask on the budget?

Mr. JACKMAN: On page 3 (*a*) of the budget.

Mr. POULIOT: Before we leave that, I want to pay tribute to Mr. J. P. Johnson, Vice-President of Canadian National Railways at Moncton, for the excellent work he has done throughout the period of war. His job has been a very difficult one and he has done it extremely well. I should also like to pay a special tribute to Mr. Frank Griffin, General Superintendent at Quebec City. I think he has done remarkably well.

Mr. VAUGHAN: Thank you, Mr. Pouliot, we will be very glad to pass that on to them. We think they have both done an excellent job.

Mr. POULIOT: It was very difficult, and very well done.

Mr. VAUGHAN: Yes.

Mr. JACKMAN: On page 3 (*a*), Mr. Chairman, additions and betterments—large passenger terminals, $326,725; might I ask where that is being planned?

Mr. COOPER: Which is the particular region, Mr. Jackman?

Mr. JACKMAN: I notice it says large passenger terminals. I do not suppose there are very many large ones, Mr. Cooper?

Mr. COOPER: Edmonton is the one concerned.

Mr. JACKMAN: Do you think the whole amount will be spent there, largely?

Mr. COOPER: $159,000 of the $266,000 for the western region is Edmonton.

Mr. JACKMAN: That is quite a nice addition at Edmonton. What are you doing to it?

Mr. VAUGHAN: We are altering the station and putting in additional office accommodation so that we will have better facilities there, and perhaps save some uptown office accommodation.

Mr. JACKMAN: Is there more traffic arising out of that area?

Mr. VAUGHAN: That is correct. Edmonton is a very, very important point.

Mr. WALTON: The whole item for the western region is at Edmonton. The post office department are considering a new building as an extension to our station on the east side. That involves taking down the building that we have been using for office accommodation, and we are placing that office accommodation on the third floor, to be constructed on the present station.

Mr. JACKMAN: Was it found that, because of the tremendously increased volume of traffic in Edmonton during the war years, the accommodation was uncomfortable and inadequate to handle traffic?

Mr. WALTON: It was definitely overcrowded.

Mr. VAUGHAN: Edmonton is a place which is growing rapidly; even since the war has ended, the volume of business there is being maintained.

Mr. NICHOLSON: You are losing money on the operation of the Northern Alberta Railway. Wouldn't that indicate that business in Edmonton is really falling off?

Mr. VAUGHAN: No, sir; the Northern Alberta uses our station there, but that is only a comparatively small branch line compared with the large number of lines we have in and about Edmonton.

Mr. EMMERSON: With regard to equipment on page 3 (*a*), I note additions and betterment to equipment; would that refer to rolling stock?

Mr. VAUGHAN: Yes, sir.

Mr. EMMERSON: I notice it provides for new equipment on the Grand Trunk Western lines; of course, the other is the American line. Why is it put to the Grand Trunk Western? You transfer equipment, do you not, from one region to another?

Mr. VAUGHAN: That equipment is equipment which is local to the Grand Trunk Western lines, and consists largely of putting in devices to take care of loading of automobiles. We serve a large number of big automobile plants over there, and these are special devices for the loading of automobiles.

Mr. NICHOLSON: What about this item of $1,207,000 for stations and station facilities? Where are they?

Mr. VAUGHAN: In the central region. What you see there are the plans for this year.

Mr. NICHOLSON: We are very short of building materials at the present time, but it would appear that you are going to make a considerable expenditure in your central region in spite of what was said about toilet facilities by one of the members yesterday. The member who brought that matter to attention is not in the committee of the moment, but if his region is to receive consideration of the type he requested yesterday, then I suggest that we in western Canada should be entitled to similar consideration. Out in Saskatchewan we have the same type of stations as those about which he complained, and we have just as severe, if not more severe winter weather. If these facilities are going to be improved with respect to one part of Canada, I submit they should be provided for other parts as well.

Mr. POULIOT: The situation is the same in the west.

Mr. NICHOLSON: Yes, we have even longer delays at terminal points than was mentioned by the member who spoke yesterday; and, as I said, our weather conditions are very much more severe, particularly the cold in the wintertime.

Hon. Mr. CHEVRIER: I am afraid Mr. Picard will take issue with you on that statement.

Mr. WALTON: You will notice that these items are spread pretty well across the country.

Mr. NICHOLSON: They are over half in the central region.

Mr. WALTON: Yes, but that is a very large territory. We are finishing a new station at Midland, Ontario, to replace one that was burned down. Then there are a number of small points where station buildings are being replaced, some in case of fire, and some where they are being added to. It is pretty generally distributed over the territory. Included in the same category is the erection of a 15,000 ton ice house in Montreal, which we have found to be a necessity, and that amounts to around $120,000 in one item alone.

Mr. NICHOLSON: Where they were lost by fire, there is no room for argument about the necessity; but where a new building is being put up where you have facilities at the present time, in view of the shortage of materials, these might be better served at a later date.

Mr. WALTON: This is not exclusively stations. There are items such as bunkhouses for employees at Quebec, and a yard office which is required at that point.

Mr. VAUGHAN: In fact I think the only new station that we have under construction, except perhaps a small station that was destroyed by fire is the Midland station; and that, of course, was to replace a station that was destroyed by fire. We are not making any great additions to stations at all. There may be the odd place where work is necessary. We are not going in for wholesale remodelling of stations at the present time.

Mr. NICHOLSON: How about in the western region? What are some of your larger items? There is almost half a million in the western region.

Mr. VAUGHAN: The largest item is Edmonton in the western region. That will take up most of that amount of money.

Mr. NICHOLSON: I think you gave that under large passenger terminals.

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: Further down for stations and station facilities there is $448,000.

Mr. VAUGHAN: We can give you some of those particulars.

Mr. WALTON: One item at Transcona is an ice house, $75,000. Then there are section buildings at a number of points, $5,000. There is a coal dock at Brandon, $20,000. They are largely operating items under this category.

Mr. NICHOLSON: Before we leave the budget I was going to ask you what happens to labour personnel as your revenues fall off. Assuming that your revenues fall off to the extent of 25 per cent, how soon is there a reflection in maintenance of way staff and the running crews? What is going to happen to your total working personnel if the revenues continue to fall off?

Mr. WALTON: The running personnel feel the effect of it, I would say, immediately, or almost immediately. Station staffs, freight shed staffs, feel it practically immediately as business falls off, but in our maintenance of track and work such as that there will be a certain slowing because of work that is seasonable and has to be taken care of in the summer time without being tied in definitely with the level of earnings at the moment. So that their lay-offs ordinarily are retarded somewhat compared with the running men.

Mr. JACKMAN: In the event of such a condition as Mr. Nicholson describes, do the unions still ordain that the work shall be spread among a great number part time or does the seniority rule for full time apply?

Mr. WALTON: The various wage agreements have clauses as to how reductions in staff shall be made in the event they are necessary, and in each case those requirements are complied with. In the running trades, as I mentioned the other day, there is a certain mileage that a man is entitled to for a month if he works. In work such as the shop trades there is a general provision that when lay-offs occur you start with the junior men and work up the list.

Mr. JACKMAN: Instead of spreading the time you still have to give your senior men full time and the recent employees have to be out in the cold?

Mr. WALTON: That is the general arrangement unless the situation gets to a point where special negotiations take place in regard to a particular difficulty.

Mr. JACKMAN: So as far as spreading the work is concerned it is really out of your jurisdiction once a contract has been entered into with the respective unions?

Mr. WALTON: That is right.

Mr. NICHOLSON: On page 4 we have a list of the new equipment purchases. I presume these estimates have been made as a result of your estimated revenues for the year. Assuming that your revenues had been 25 per cent greater would it have been possible to have increased your purchases of new equipment to provide additional employment in the matter of coaches or switches or express cars? Is this sort of item affected by the dropping off of revenues?

Mr. VAUGHAN: If there had been a prospect of our earnings being maintained at war levels no doubt we would have thought it necessary and desirable to order more new equipment, but with the prospect of declining revenues we feel that this equipment here will take care of our needs for the time being.

Mr. JACKMAN: Is there anything in that item of subsidiary companies, $1,967,000, under the additions and betterments budget, of interest to the committee? It is about $2,000,000.

Mr. VAUGHAN: There is $1,500,000 of that provided this year for a new vessel for our Pacific coast steamships.

Mr. POULIOT: What page is that? Page 5?

Mr. JACKMAN: No, on page 3-A, the fourth item from the bottom of the page.

Mr. GIBSON: Are you building that boat in Vancouver?

Mr. VAUGHAN: We do not know yet.

Mr. GIBSON: The contract has not been let?

Mr. VAUGHAN: The contract has not been let.

Mr. REID: In regard to mail how seriously would the income of the railways be reduced if all mail were to be carried by plane instead of by train?

Mr. VAUGHAN: Have you got a statement there of total mail earnings?

Mr. COOPER: $4,204,000.

Mr. REID: So it would really affect the revenues of the company to quite an extent if all mail were carried by plane? There is quite an agitation being made to carry mail by plane. Those who advocate it want quick mail.

Mr. VAUGHAN: I suppose it will be a long time before that will be done for short distances.

Mr. REID: But it would affect the earnings of the company.

Mr. VAUGHAN: That is our total earnings on mails, and anything that is taken away from us would affect us to that extent.

Mr. NICHOLSON: Could we have that figure for the revenue from mails again, and I wonder if Mr. Cooper has the comparable figures for the Canadian Pacific Railway?

Mr. REID: It is important in the light of impending events.

Mr. COOPER: In 1945 our mail revenue was $4,204,000.

Mr. REID: How many millions?

Mr. COOPER: $4,204,000. Singularly enough in 1944 the mail revenue was $4,204,000. The Canadian Pacific mail revenue in 1945 was $4,040,000.

Mr. NICHOLSON: The C.N.R. has about 60 per cent of the mileage in Canad as compared to the C.P.R.

Mr. VAUGHAN: It is much greater than theirs.

Mr. NICHOLSON: You have about 60 per cent and they have about 40; is that about right?

Mr. VAUGHAN: Yes, I would think so.

Mr. REID: Are you giving any consideration yet as to where you might have these diesel driven cargo vessels built? Have any steps been taken in that regard?

Mr. VAUGHAN: They have been under construction for a long time. They were a part of the wartime shipbuilding program. They were well under way before the war ended, and we are buying them from the wartime shipbuilding. They are not boats that have been ordered recently. They have been under construction for some time.

Mr. REID: Is that vessel from the Park Steamships a 10,000 tonner or is it one of the 4,700 tonners?

Mr. VAUGHAN: It is one of the smaller boats.

Mr. POULIOT: Mr. Vaughan, I am most interested in that matter. I wonder if your subsidiary company have bought some of the 10,000 ton boats that have been built during the war?

Mr. VAUGHAN: We have not bought any of the 10,000 ton boats. We have bought one of the 4,700 tonners.

Mr. POULIOT: Now, Mr. Vaughan, what is the total fleet of your subsidiary company?

Mr. VAUGHAN: I think it is the intention after this is over to go into the Canadian National Steamships, and I have a statement on that.

Mr. POULIOT: It will be included in that?

Mr. VAUGHAN: Yes.

Mr. POULIOT: The Canadian National Steamships will include the triangle tour and everything of that nature?

Mr. VAUGHAN: No, the triangle tour is not included in the Canadian National West Indies Steamships. We have a separate company called the Canadian National West Indies Steamships, and we have a separate report for that which we will come to as soon as we are through with the budget.

Mr. REID: I would move the adoption of the budget.

Mr. JACKMAN: I think Mr. Pouliot has some questions on the triangle tour. That is now before us if we want to discuss it. It does not come under the West Indies.

Hon. Mr. CHEVRIER: The annual report and the budget of the Canadian National West Indies Steamships will be discussed and I think Mr. Pouliot could bring it up then.

Mr. REID: I would move the adoption of the budget.

Mr. JACKMAN: May I ask a question about the Windsor station? We are all finished with the capital cost of the Windsor station in Montreal?

Mr. WALTON: That is the C.P.R. station.

Mr. VAUGHAN: What we call our Central station.

Mr. JACKMAN: What is the total cost of that station up to now?

Mr. VAUGHAN: Have you got the figure, Mr. Cooper?

Mr. COOPER: I do not think I have that figure.

Mr. JACKMAN: I think you should advertise the name of that station a bit. I have never heard the name of it before.

Hon. Mr. CHEVRIER: There is no expenditure covered in last year's budget of this year's budget for the Central station?

Mr. VAUGHAN: Is there any item in our current budget for the Central station?

Mr. COOPER: It would be a very small item. The station is finished.

Mr. VAUGHAN: We consider that the station is finished. There may be some things turn up later on to be done, but for all practical purposes the station is finished.

Mr. JACKMAN: How many storeys above the ground are you now? You have got a projected plan to make an office building there?

Mr. VAUGHAN: That would not be an addition to the station. If we put up an office building it would be in front of the station fronting on Dorchester street.

Mr. JACKMAN: You would not use the foundation at all?

Mr. VAUGHAN: No.

Mr. NICHOLSON: It has been taxed to capacity during the war.

Mr. VAUGHAN: It was certainly taxed to capacity during the war but is plenty big enough for normal times.

Mr. REID: Although I moved the adoption of the report there is one question I should like to ask. Has any thought been given to the transcontinental trains having more time in the city of Ottawa? The parliament of Canada on behalf of the people has spent millions of dollars to make this a capital worthy of being seen by visitors and a credit to the country, and yet those who travel across the country complain, and have complained to me and I suppose to you, that when the train comes into Ottawa, fifteen or twenty minutes is all the time that the train stops. I am thinking of people from eastern and western points. The train is going to Montreal, the great terminus, but I am thinking of Ottawa, the capital of Canada. I am thinking of it as an inducement to the travelling public to see the capital. You stop at Edmonton for forty-five minutes. You stop at Winnipeg for sometimes an hour and a quarter which allows people to run around the city. Yet when you come to the capital of Canada they can hardly get off the train to see where the parliament buildings are. They are told, "Oh, do not go out of the station; the train will be leaving." I am wondering if any thought has been given by your company to a train schedule that would allow the people of Canada who are travelling across the dominion to have a little time to see these buildings in the capital city.

Mr. VAUGHAN: We have given consideration to that. I doubt if it would be practical to stop here for any length of time with these transcontinental trains. They have got a long distance to go. Particularly in winter they have got very severe weather conditions to encounter, and it is a difficult enough job as it is now to get them over the road. I think that if people want to see Ottawa and stop there for some time it is going to be necessary for them to travel on other than the transcontinental trains. I do not think it would be practical to do it. We would never get our trains over the road.

Mr. NICHOLSON: You have two or three trains daily between here and Montreal?

Mr. VAUGHAN: Yes.

Mr. NICHOLSON: There are other trains if they wish to stop over.

Mr. JACKMAN: Stop over for the evening and hear the bagpipes.

Mr. REID: They might as well be soaked here as somewhere else.

Mr. JACKMAN: Taking the opposite view, why do both your train and the C.P.R. train stop for an hour or an hour and ten minutes in Winnipeg and some of those other places?

Mr. VAUGHAN: There is a great deal of servicing to be done to these trains in Winnipeg. They have to make certain connections there. That is the pivotal point for servicing those trains on the way to the Pacific coast.

Mr. JACKMAN: There is only the servicing of the engine. There is nothing done to the cars?

Mr. VAUGHAN: You have got to put ice in them. You have got to put supplies on dining cars and sleeping cars. There is a lot of work to be done there.

Mr. JACKMAN: It cannot be speeded up much?

Mr. WALTON: I do not think the time can be shortened.

Mr. VAUGHAN: That has been given very careful consideration.

Mr. POULIOT: If there were a fine statue of bureaucracy in the yards all the passengers would know they had reached Ottawa.

Mr. REID: They would know long before seeing that.

Mr. POULIOT: What I have said is not at all a reflection on the Department of Transport which is very well managed and soundly headed.

Hon. Mr. CHEVRIER: I did not take it as such, Mr. Pouliot.

Mr. NICHOLSON: I wonder if you would give any further consideration to running your trains west from Winnipeg twelve hours apart. You run two trains west to Vancouver about an hour apart. It has seemed to me that if those trains could be spaced twelve hours apart it would give the people all along the line better service. The same thing would apply coming east out of Vancouver. Both the C.P.R. and C.N.R. trains leave at the same time at night. Could you not run one out in the morning to give people a chance to see the mountains?

Mr. WALTON: We have given some thought to that kind of program. It has not so far been feasible. It might be that something of that kind can be worked out. I want to assure you that it is being studied very carefully. Up to the present time the loading of the two trains has not permitted transferring part of the load say at Winnipeg to one train and then letting the other remain over until evening west of that point. We would in the past have been forced into additional train service to do it. We may reach a point where it is feasible.

Mr. NICHOLSON: Would not the summer months be a good time to try that when you have a lot of tourist traffic?

Mr. WALTON: That is the time when we could not do it.

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

Mr. HAZEN: Before the report is adopted, Mr. McLure, one of the members of this committee, is unavoidably absent. If he were here I know he would bring up the question of the cost of transportation on the ferry to Prince Edward Island.

Mr. VAUGHAN: Yes.

Mr. HAZEN: Last year I think it was pointed out that if you loaded a 5-ton truck with potatoes on the Island, took it across on the ferry and came back with a load it cost the operator of that truck \$60 or \$65 to cover a distance of about 14 miles. That is to transport a comparatively small amount of produce. I am not familiar with the matter, but the question I have in mind to ask you is has any further consideration been given to those costs?

Mr. VAUGHAN: Since our last meeting that matter has been taken up by the Prince Edward Islanders before the Board of Transport, and it now is there, so that all arguments will be brought out before the Board of Transport. I presume in due course they will give their judgment on the subject.

Hon. Mr. CHEVRIER: Perhaps I could add that during the discussion of the estimates of the department towards the end of last session there was some discussion on it and I gave Mr. McLure what information I had at the time. I think I indicated to him then that there would be an application go forward to the Board of Transport Commissioners which is the body that has authority to decide on the question of rates. I think if he were here that is the only answer that could be given to him at the moment.

Mr. JACKMAN: In the case of the Windsor station what was your final cost?

Mr. COOPER: Central station.

Mr. JACKMAN: Excuse me.

Mr. COOPER: The cost of the main terminal to the end of 1944 was \$13,029,000.

Mr. JACKMAN: For the terminal?

Mr. COOPER: The main terminal.

Mr. NICHOLSON: That includes some new tracks you put in?

Mr. COOPER: Yes, it includes everything in the station area.

Mr. JACKMAN: What makes up the \$30,000,000 odd?

Mr. COOPER: If you go out to Eastern Junction and Mount Royal the whole cost of the Montreal terminal development to the end of 1944 was \$27,543,000.

Mr. JACKMAN: That was the cost to the railway, and then there were a few millions in unemployment relief given by the government which do not enter into the account.

Mr. COOPER: The figure I have quoted included a credit of $1,490,000 which was a contribution by the dominion government for unemployment relief.

Mr. JACKMAN: That is included in the $27,000,000?

Mr. COOPER: It is deducted from the gross cost to arrive at the $27,000,000.

Mr. VAUGHAN: Much of that work outside of the $13,000,000 for the main terminal would have been necessary whether a new station had been built or not.

Mr. JACKMAN: May I ask what your passenger revenues were running at in the pre-war years? We have them for the present year in the statement before us, $65,000,000.

Mr. COOPER: In 1939 our passenger revenues were $17,817,000.

The ACTING CHAIRMAN: Will somebody second Mr. Reid's motion?

Mr. HAZEN: Could we have the freight revenues for 1939, too?

Mr. COOPER: $160,255,000.

The ACTING CHAIRMAN: It has been moved by Mr. Reid and seconded by Mr. Picard that this report be adopted. All those in favour signify by saying aye.

Mr. JACKMAN: I want to put in a rider in regard to that Northern Manitoba purchase. I do not know whether or not I should go on record here, but if one does go on record in this committee—

Hon. Mr. CHEVRIER: I can assure you you will have every opportunity to discuss it in the House.

Mr. JACKMAN: I do not want it to go on record that we passed the budget unanimously without having that matter gone into. May I ask the minister why it has to come before the House?

Hon. Mr. CHEVRIER: The Railway Act provides that the acquisition of a new line must be subject to the approval of parliament.

The ACTING CHAIRMAN: All those in favour signify by saying aye.

(Carried).

Mr. JACKMAN: On division.

The VICE-CHAIRMAN: We will pass on to the Canadian National West Indies Steamships annual report. I would ask Mr. Vaughan to read the report.

Mr. VAUGHAN: With your permission I should like first to read a statement in connection with the Canadian National West Indies Steamships.

Now that the war is over and the affairs of Canadian National (West Indies) Steamships can be discussed with more freedom I think it would be an advantage to give a short history of the line with particular reference to the financial results of operations. I feel there is a fairly widespread misconception in this matter. The general impression seems to be that the operation of the line has not been successful but this impression is far from being a correct one.

The Company was incorporated in 1927 to implement the Canada-West Indies trade agreement of July 6, 1925. The entire share capital of the Company is $40,000 all owned by the Dominion Government.

The trade agreement of 1925 replaced a former agreement negotiated in 1920. Under the 1920 agreement (and a predecessor agreement of 1912) the Royal Mail Steam Packet Company had operated four ships on a fortnightly service between Canada and the eastern group of islands for which the Company was paid an annual subsidy of $340,666.66. Under the 1920 agreement, Canada also undertook to provide a service to the western group of islands and this service was assigned to the Canadian government merchant marine. Under the agreement the respective island governments undertook to contribute 25 per cent of the loss incurred in operating the service, limited however to a maximum contribution of £3,000 per annum from the Bahamas, £5,000 from Jamaica and £5,000 from British Honduras. The service was not remunerative largely due to unsuitability of the vessels to the trade.

The Royal Mail Steam Packet Company withdrew from the eastern service in 1927 and the service was then turned over to the Canadian government merchant marine for operation. The Canadian government merchant marine thereafter continued to operate both the eastern and western services until the Canadian National (West Indies) Steamships commenced operations.

Under the 1925 trade agreement Canada had undertaken to provide certain ship tonnages and services for which tenders were invited from steamship interests. Two tenders were received by the Canadian government for the eastern service, one from the Royal Mail Steam Packet Company and the other from Canadian National Steamships. In the case of the western service, the Canadian National Steamships was the only tenderer. For the eastern service the Royal Mail Steam Packet Company submitted two proposals:—

(*a*) They would operate a fortnightly mail, passenger and freight service with four new 12 knot passenger vessels in accordance with the trade agreement, for which they asked an annual subsidy of $582,783.33 and to have the privilege of optional calls at one U.S.A. port in one or both directions.

(*b*) They would perform the service every twelve days with smaller ships for an annual subsidy of $534,116.67 with the privilege of a call at U.S.A. ports and provided that there should be no competition from government owned or controlled vessels.

The proposals of the Royal Mail Steam Packet Company were not acceptable to the government and the Canadian National (West Indies) Steamships Ltd. was incorporated for the purpose of carrying out the services called for in the trade agreement.

Five passenger vessels were constructed by Cammell, Laird & Company, Birkenhead, England, these being:

	Gross Tonnage	Deadweight Tonnage	Total Cost
Lady Drake	7,985	6,370	$1,694,718 11
Lady Hawkins	7,989	6,370	1,689,284 11
Lady Nelson	7,970	6,370	1,685,730 12
Lady Rodney	8,194	4,665	1,784,672 30
Lady Somers	8,194	4,665	1,779,694 67

Six freight vessels were transferred from the Canadian government merchant marine, these being:

Cathcart	3,708	2,950	$ 443,672 48
Cavelier	1,769	2,781	425,770 36
Chomedy	6,136	8,600	500,739 02
Colborne	6,230	8,650	500,724 02
Cornwallis	5,458	8,390	167,564 02
Connector	1,769	2,781	286,759 85
			$10,969,329 06

The cost involved in the purchase of the fleet of eleven vessels was financed from the proceeds of a $9,400,000 5 per cent Dominion Government guaranteed bond issue due in 1955 together with certain capital cash advances from the Dominion Government. The Company forthwith embarked on an intensive programme in an endeavour to develop trade, both freight and passenger, between Canada and the Islands.

The balance sheet of the Company at the end of 1945 shows that for the whole period of operations (1929-1945) there has been an overall loss of $4,963,633.22. The balance sheet however is not necessarily a final summation of all the gains or losses resulting from the operation of Canadian National

(West Indies) Steamships and some further analysis is necessary before a conclusion can be reached as to whether or not the line has been a financial success. From the deficit of $4,963,633 there should be deducted the amount of the insurance reserve, $1,260,880 which has been built up out of operations and which is nothing more nor less than surplus in a winding up of the Company. It will thus be seen that the overall loss has been $3,702,753 which, spread over the seventeen years of operation, gives an annual loss of $218,000.

In arriving at the total loss of $3,702,753 there has been charged $4,333,615 for interest paid to the Government. These interest payments have been in respect of advances both for capital and for operation. I have no objection to being charged for interest on amounts used for capital purposes but we have taken objection to being charged interests on amounts lost in the early years of operation. Such advances do not produce assets capable of earning any return. Not only did we object to the policy but we also objected to the rate of interest which in our opinion was excessive. The interest rate was 5 per cent which rate was continued to the end of 1943 when it was reduced to 2½ per cent. Of the total Government interest of $4,333,615, $3,226,616 represents interest on deficit advances. It will be seen therefore that the deficit of the Company to the end of 1945 represents, broadly speaking, interest paid to the Dominion Government on its advances for deficits incurred in the early years of operation when the line was being developed and which unfortunately coincided with the years of business depression.

It must be remembered further that our operations have been restricted to and governed by the conditions of the trade agreement requiring calls at certain ports and the maintenance of specific services which would not have otherwise been undertaken if we had had regard only to the financial results of operation. In the case of the Kingston-Belize service, for instance, the deficit on this operation to 1941 was $1,270,149. No private operator would have undertaken this service without a subsidy payment.

Now I wish to mention some of the gains to Canada which are not reflected in the balance sheet. By the decision to assign these services to Canadian National (West Indies) Steamships Canada saved all subsidy payments to private operators. For the Eastern service alone the Royal Mail Steam Packet Company which was the only private company which tendered asked a subsidy of $582,000 per annum. Estimating the subsidy which would have been payable for the Western service and applying the subsidy payments actually received from the Island Governments during the period 1929-1941 (when the service was curtailed due to war conditions) it is estimated Canada has saved $12,870,000 in subsidy payments by reason of the operation of these services by our ships.

During the period of operations export cargoes from Canada to the Islands totalled 2,458,628 tons which had a trade value in excess of $208 millions. Import tonnage totalled 3,381,159 tons with an estimated trade value in excess of $114 millions. The import tonnage included 25,158,300 stems of bananas imported during the period 1929-1942. The regularity and dependability of the service maintained to the beginning of the war period did much to improve trade relations between Canada and the West Indies Islands. This gain to Canada is not reflected in our balance sheet.

The Company has been required to carry all mail free, the contention being that subsidy payments by the various Island Governments cover the conveyance of mail. It is estimated that mail revenue at "going rates" would have amounted to $20,000 per annum.

It should also be pointed out that the Company has created considerable employment, the total wages paid being in excess of $16,250,000. The Company has been a large purchaser of fuel and provisions, and the maintenance and overhaul of the vessels has provided considerable work for Canadian shipyards.

The operation of the fleet has also been of inestimable value in affording to Canadian citizens the opportunity for seafaring work and this was well demonstrated by the ready response of so many of our officers and seamen for service in the Canadian Navy and Merchant Marine at the outbreak of war. The availability of experienced men at that time was an important factor in establishing Canadian Naval and Merchant Services so efficiently and expeditiously when they were so urgently required.

I think, therefore, the members of the Committee will have no difficulty in agreeing with me that the West Indies services which we have provided have been highly successful and that there is ample justification for their continuance. It is for these reasons that the directors in the annual report have stated that much consideration is being given to the future operations of the Company and that the line should not be allowed to become a war casualty.

Mr. POULIOT: Hear, hear.

Mr. REID: My first question is this: are the Islands' government still paying you subsidies, as outlined on page 1 of your brief, under that old agreement of 1920?

Mr. VAUGHAN: No, sir. Those subsidy payments were reduced during the war.

Hon. Mr. CHEVRIER: The agreement is still in operation.

Mr. COOPER: The Islands' governments were under an agreement to pay a total subsidy of £45,500 per annum. In 1945, due to the curtailment of services, the subsidy payments were £29,850.

Mr. REID: And what about their agreement to pay you twenty-five per cent of the loss?

Mr. COOPER: They only agreed to pay twenty-five per cent of the loss up to the amount of the fixed subsidy payment, and that was in respect to the prior services, not in respect to current service. The obligation under the trade treaty in 1926-1927 was limited to £45,500 per annum.

Mr. REID: And these subsidy payments go to the credit of the Steamships company or the government?

Mr. VAUGHAN: They go to the credit of the operation of the steamships.

Mr. REID: And that takes care of the carrying of mail.

Mr. JACKMAN: May I ask what the status of the agreement is now; is it in operation?

Mr. VAUGHAN: What is that?

Mr. JACKMAN: What is the status of the agreement in 1946?

Mr. VAUGHAN: I believe the agreement has expired and has not yet, so far as I know, been renewed.

Mr. JACKMAN: Has the service been requested?

Mr. VAUGHAN: We have carried the service on all during the war; not making all the calls required under the agreement, but we have operated a service. Last year we operated a fleet of over twenty vessels. We continued operations all during the war except for passenger service, and we have not had the boats with which to give the full service.

Mr. JACKMAN: I am just wondering what the alternative would be if a new agreement is not arrived at by parliament.

Mr. VAUGHAN: We believe that it would still be possible to operate these vessels.

Mr. JACKMAN: Without a subsidy?

Mr. POULIOT: What are your suggestions, Mr. Vaughan? I have listened with very great interest to what you have said. Now, may I ask you this: if the subsidy of $582,000 had been paid during the thirteen years from 1929 to 1941, the government of Canada would have paid $12,870,000 which they did not have to pay because the Royal Mail Steam Packet Company did not operate.

Mr. VAUGHAN: Yes, sir; they saved that amount of money.

Mr. POULIOT: Exactly. You had to pay five per cent of this over a certain period of time?

Mr. VAUGHAN: We paid five per cent on the losses sustained in the early stages.

Mr. POULIOT: And this rate has been reduced to two and a half per cent?

Mr. VAUGHAN: Yes, in 1943.

Mr. POULIOT: The operations of your ships were subject to the emergency of war?

Mr. VAUGHAN: Their movements were controlled to some extent by Admiralty.

Mr. POULIOT: They were under Admiralty control?

Mr. VAUGHAN: Yes.

Mr. POULIOT: As were all ocean-going ships. And now, Mr. Vaughan, what I would like to know is what are your suggestions for putting the Canadian National Steamships back on the same level of efficiency as they were prior to the war?

Mr. VAUGHAN: I think if you will permit me to read this report, Mr. Pouliot, it will give you some of the information you desire:

MONTREAL, MARCH 15, 1946.

THE HONOURABLE LIONEL CHEVRIER, K.C., M.P.,
MINISTER OF TRANSPORT, OTTAWA.

Sir,

On behalf of the Board of Directors of Canadian National (West Indies) Steamships, Limited, I beg to submit the Annual Report of the Company for the calendar year 1945.

The operating results for the year compare with the previous year as follows:

	1945	1944	Decrease	Per cent
Operating revenues	$4,412,251 34	$5,378,058 55	$965,807 21	17·96
Operating expenses	2,849 091 51	3,403,725 74	554,634 23	16·30
Operating profit	1,563,159 83	$1,974,332 81	$411,172 98	

The operating accounts reflect a reduced level of business in 1945 as compared with the previous year. The number of voyages completed was 23 as compared with 25 in 1944 and there was a reduction of 23,117 tons in export tonnage and 31,880 tons in import tonnage. Freight revenue for the year amounted to $3,155,714 against $4,125,593 the previous year, a decrease of $969,879 or 23·5%. Passenger revenue increased from $8,231 in 1944 to $55,325 in 1945 due to resumption of limited passenger service, but the available passenger accommodation was quite insufficient to cope with the numerous requests for passage during the second half of the year.

Earnings from investment of the Vessel Replacement Fund amounted to $216,842, which added to the operating profit made the gross income of $1,780,001. From this there was paid $520,916 for bond interest and exchange and $142,999 for interest on Government advances, leaving an income surplus for the year of $1,116,085.

This income surplus was utilized as follows: $632,080 was paid to the Government in final discharge of all capital and working capital advances, the earnings of the Vessel Replacement Fund, $216,842, were retained in the

Fund, and the remainder, $267,162, was set aside as additional depreciation in view of the decision to dispose of certain of the older vessels in the immediate future.

With the cessation of hostilities and the consequent removal of wartime secrecy, it would seem appropriate at this time to review the activities of the Company during the war years. At the outbreak of war the fleet comprised the following eleven vessels:

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

During the year 1940 services operated with considerable irregularity as to scheduled times of departure and arrival, and on October 3, 1940, the "Lady Somers" was requisitioned by the United Kingdom naval authorities.

On July 15, 1941, the "Lady Somers" was lost through enemy action, her complement of 175 naval officers and men all being saved.

At the direction of the Canadian Shipping Board the "Cornwallis" was dispatched to the Far East in July 1941, followed by the "Chomedy" in August and the "Colborne" in September. Each vessel completed two voyages before the fall of Singapore on February 15, 1942.

On January 19, 1942, the "Lady Hawkins" was lost through enemy action. The vessel sailed from Boston on January 16th with 211 passengers and a crew of 110. Of the entire ship's company only seventy were saved. The survivors were landed at San Juan, Puerto Rico, on January 28, by the SS "Coamo."

On March 9, 1942, while lying in the port of Castries, St. Lucia, B.W.I., the "Lady Nelson" was torpedoed and seriously damaged. Fifteen passengers and three crew members were killed and many others seriously injured. The vessel was salvaged, however, and towed to Mobile, Alabama, arriving May 29, 1942. Whilst in drydock at Mobile for necessary repairs it was decided that the vessel should be fitted out as a hospital ship and chartered to the Department of National Defence. Repairs and conversion were completed on February 18, 1943. Her first sailing as a hospital ship was on May 1, 1943, from Halifax.

On May 4, 1942, the "Lady Drake" was torpedoed with a loss of six passengers and six crew members. The vessel left Bermuda on May 3 with a complement of 141 passengers, a crew of 113 and eleven members of the crew of the "Lady Nelson" who were being repatriated. The survivors were returned to Bermuda by the SS. "Owl".

In June 1942 it was decided that the "Lady Rodney" should be placed in Government service as a troopship plying between Canada, Newfoundland and Labrador and the vessel was consequently chartered to the Department of National Defence. In October 1945 this vessel, still under the charter to the Government, was transferred to troop repatriation service.

On September 11, 1942, the "Cornwallis" was torpedoed while lying at Bridgetown, Barbados. The vessel did not sink and after salvage operations was towed to Mobile for repairs, which were completed in July 1943.

In December 1943 the "Connector", which had been withdrawn from inter-island service in 1941 and brought to Canada for home duties, was chartered to the Jamaican Government for service between Kingston, Jamaica, and Tampa, Florida, and this charter is still in effect.

On December 3, 1944, the "Cornwallis" was torpedoed off the Coast of Maine. The vessel carried a crew of forty and one repatriate, of whom only five crew members were saved.

At the end of hostilities therefore the fleet had suffered considerably, being reduced to the following seven vessels, with the "Lady Nelson" and the "Lady Rodney" still in Government service:

	Gross Tonnage	Deadweight Tonnage
Lady Nelson	7,970	6,370
Lady Rodney	8,194	4,665
Cathcart	3,708	2,950
Cavelier	3,663	2,950
Chomedy	6,136	8,600
Colborne	6,230	8,650
Connector	1,789	2,781
	37,690	36,966

In its efforts to maintain service to the West Indies and undertake certain charter runs for the Departments of Transport and Munitions and Supply, the Company augmented the fleet at various times throughout the period by chartering or operating under management agreement vessels of other owners.

The SS. "Canatco" and SS. "Dalwarnic" were leased from the Canada Atlantic Transit Company, the "Canatco" being lost on October 21, 1942, off the Labrador coast. The entire crew of thirty-six men was rescued by the accompanying naval escort. The "Dalwarnic" is still under lease and is being operated under charter party.

For varying periods seventeen vessels have been operated under operating agreements with the Park Steamship Company Limited, eight of these vessels being still in the service at the end of 1945. These were operated on a management fee and commission basis.

Four vessels were also operated for the Ministry of War Transport of the United Kingdom. They were returned to the Ministry late in 1945.

During the years 1940 to 1945 inclusive, the operating results, including depreciation on vessels, were as follows:

Year	Operating Revenues	Operating Expenses	Operating Profit
1940	$ 5,750,341 42	$ 4,874,386 38	$ 875,955 04
1941	6,756,463 57	5,291,751 92	1,464,711 65
1942	5,600,496 25	4,380,852 94	1,219,643 31
1943	4,492,188 94	3,188,578 72	1,303,610 22
1944	5,378,058 55	3,403,725 74	1,974,332 81
1945	4,412,251 34	2,849,091 51	1,563,159 83
	$32,389,800 07	$23,988,387 21	$8,401,412 86

Out of this operating profit interest was paid in United States funds on the Company's outstanding bond issue, which absorbed $3,224,012. Payments to the Government for interest were $3,412,353, and in repayment of capital were $1,765,047, a total payment to the Government of $5,177,400.

The insurance and other recovery for vessels lost during the period, depreciation accruals, and fund earnings have been placed in a separate Vessel Replacement Fund which at December 31, 1945, amounted to $6,740,407. The fund is invested in Victory Bonds.

Canadian National (West Indies) Steamships Limited commenced operations in 1929 in conformity with the West Indies Trade Agreement of July 6, 1925. Since that time its ships, flying the Canadian red ensign, have materially assisted in the expansion of Canada's external trade with Bermuda, the Leeward Islands, Windward Islands, Barbados, Trinidad, British Guiana, the Bahamas, Jamaica and British Honduras. They have carried 3,381,159 tons of import cargo and 2,458,628 tons of export cargo. Employment has been provided at sea for Canadian citizens and work has been provided for Canadian shipyards.

The "Lady" ships have been extremely popular in the tourist trade and numerous enquiries are being received as to when sailings are to be resumed. The line should not be allowed to become a war casualty. Much consideration is being given to the future operations of the Company. To provide for the immediate requirements it has been decided to purchase from War Assets Corporation three diesel powered cargo ships, each of 7,500 deadweight tonnage, with 16,000 feet of refrigerated space and a speed of 15 knots. These ships, now building for Wartime Shipbuilding Ltd., should be delivered to the Company

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CONSOLIDATED

AT 31ST

ASSETS

INVESTMENTS:			
Vessels		$5,558,668 15	
Less Accrued Depreciation		*3,252,748 09*	
		$2,305,920 06	
Vessel Replacement Fund		6,740,407 66	
			$ 9,046,327 72
CURRENT ASSETS:			
Cash in Banks	$722,406 61		
Special Deposits	13,150 00		
		$ 735,556 61	
Accounts Receivable		1,115,719 67	
Freight, Passenger and Agency Balances		404,853 69	
Inventories		24,203 66	
Advances to Captains, Crews, etc.		26,938 29	
Due to Insurance and Vessel Replacement Funds		*257,048 24*	
			2,050,223 68
INSURANCE FUND			1,260,880 88
DISCOUNT ON CAPITAL STOCK			40,000 00
			$12,397,432 28

CERTIFICATE

We have examined the books and records of the Canadian National (West Indies) and subject to our report to Parliament, we certify that, in our opinion, the above Consolidated the Steamships as at the 31st December, 1945, and that the relative Income and Profit and

15th March, 1946.

during the late summer this year. One 4,700 tons (d.w.) ship has been purchased from the Park Steamship Company and four other similar "Park" ships will be acquired on a bare boat charter basis. The Company also desires the return of the "Lady Nelson" and the "Lady Rodney" as soon as they shall have completed troop repatriation duties and have been reconditioned to resume freight and passenger service.

The Directors desire to pay high tribute to the bravery and loyalty of the Company's officers and men during the dangerous and trying conditions of war-time operation. Many of them were called for naval service on the outbreak of war, and a good number both in naval service and the Company's own merchant service have been decorated for meritorious acts and faithful performance of duty. The Company will remember and honour those who were killed in the performance of duty, and to their bereaved families the Directors extend their deepest sympathy.

President.

BALANCE SHEET

DECEMBER, 1945

LIABILITIES

CAPITAL STOCK:		
Authorized and issued 400 Shares of $100 each		$ 40,000 00
FUNDED DEBT:		
25 Year 5% Dominion of Canada Guaranteed Gold Bonds due in 1955		9,400,000 00
DOMINION OF CANADA ADVANCES		5,059,960 94
CURRENT LIABILITIES:		
Accounts Payable	$1,136,423 60	
Interest Matured Unpaid	13,150 00	
Unmatured Interest Accrued	156,666 67	
Passage Money paid in Advance	26,392 35	
		1,332,632 62
UNADJUSTED CREDITS		267,591 06
INSURANCE RESERVE		1,260,880 88
PROFIT AND LOSS—*Deficit*		*4,963,633 22*
		$12,397,432 28

NOTE.—A reserve has been provided for pension contracts in force under the 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

OF AUDITORS

Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1945. Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of Loss Accounts for the year ended the 31st December, 1945, are correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

Operating Revenue:		
Freight	$3,155,714 43	$4,125,593 02
Passenger	55,325 89	8,231 61
Management Fees and Commissions, etc.	258,869 34	262,880 93
Subsidies	132,235 50	177,200 00
Charter	810,106 18	804,152 99
Total	$4,412,251 34	$5,378,058 55
Operating Expenses:		
Voyage Accounts	$2,397,075 48	$3,004,628 20
Depreciation on Vessels	279,466 28	243,158 05
Management and Office Salaries	132,436 44	119,685 66
Pensions	4,329 72	3,338 00
Other Expenses	35,783 59	32,915 83
Total	$2,849,091 51	$3,403,725 74
Operating Profit	$1,563,159 83	$1,974,332 81
Vessel Replacement Fund earnings	216,842 16	......
	$1,780,001 99	$1,974,332 81
Interest on Bonds held by Public	470,000 00	470,000 00
Exchange on U.S. Funds	50,916 66	51,700 00
Interest on Government Notes and Advances	142,999 42	181,246 06
Surplus	$1,116,085 91	$1,271,386 75

CONSOLIDATED PROFIT AND LOSS ACCOUNT

At 31st December, 1945

Balance at 31st December, 1944—*Deficit*	*$8,070,061 51*
Vessel Replacement Reserve at 1st January, 1945, transferred	2,257,505 14
Surplus as per Income Account, year 1945	1,116,085 91
Adjustment of Depreciation Accruals for prior years	*267,162 76*
Balance at 31st December, 1945—*Deficit*	*$4,963,633 22*

Mr. Picard: What would be the new capital expenditure necessary to restore the service to what it was before the war?

Mr. Vaughan: You will find that in the Canadian National (West Indies) budget.

Mr. Picard: Where do we find that?

Hon. Mr. Chevrier: That is at the back of the budget for the Canadian National Railways.

Mr. Pouliot: Mr. Vaughan, I want to ask you this question, because I am very sympathetic with you, and because ships are a most important factor in our trade with other countries: You gave a figure of $12,870,000 which would have been the total amount of subsidy paid if subsidies had been continued to the Royal Mail Steam Packet Company.

Mr. Vaughan: Yes, or to other private companies.

Mr. Pouliot: Now, what has the government paid?

Mr. Vaughan: The government paid the losses sustained in the early years of operation and have charged us five per cent on those amounts as loans, and they have not credited us in any way with subsidies they would have paid to private lines.

Mr. Pouliot: I understand you, but I want to make it clear; how much did the Canadian government pay for losses sustained in the first years?

Mr. Vaughan: You have that, Mr. Cooper.

Mr. COOPER: All the advances were in the form of interest bearing loans, $5,059,000.

Mr. POULIOT: No, no; you did not get my question. My question was, how much was paid by the Canadian government to refund the losses sustained by the Canadian National Steamships in the first year of operation?

Mr. COOPER: First year, or years?

Mr. POULIOT: The losses sustained in the first year; I want to know how much was paid or advanced by the Canadian government to the company.

Mr. COOPER: In the first years of operation?

Mr. POULIOT: No, the first year, the losses. What Mr. Vaughan referred to.

Mr. JACKMAN: I think what he wants is the breakdown of your losses by years.

Mr. COOPER: In 1929 they advanced us $862,269; that was the loss for the year 1929. In 1930 they advanced us $992,000; in 1931 they advanced us $916,000; in 1932 they advanced us $753,000; in 1933 they advanced us $967,-000; in 1934 they advanced us $566,000; and that makes a total of $5,059,000, they have not advanced us any money since that time.

Mr. POULIOT: $5,059,000; and how much did you pay in interest on that to the government?

Mr. COOPER: The interest on that was $3,266,000.

Mr. JACKMAN: Interest accumulated but not paid.

Mr. COOPER: Paid.

Mr. JACKMAN: Paid?

Mr. COOPER: Yes.

Mr. POULIOT: And it was at five per cent?

Mr. COOPER: It was five per cent up to the end of 1943 and then they reduced it to 2½ per cent.

Mr. POULIOT: And that amount of interest $3,266,000 is the interest paid until last year, including the interest at two and a half per cent?

Mr. COOPER: Five per cent up to the end of 1943, and 2·5 per cent from then down to the end of 1945.

Mr. POULIOT: That is the total of interest which has been paid by the Canadian National Steamships to the government on advances?

Mr. COOPER: For deficits.

Mr. POULIOT: And now if you will take your pencil, please; the Canadian government spent $7,811,000 less than if the subsidy had been paid.

Mr. COOPER: No, I do not think so. We paid the government $3,266,000.

Mr. POULIOT: No, no; I will come to that. If we consider in the first place the amount that would have been paid by the dominion government if a subsidy had been given, the total would have been $12,870,000; and, instead of spending that amount, the dominion government advanced $5,059,000 to cover the deficit in operation?

Mr. COOPER: Yes, sir.

Mr. POULIOT: Therefore the balance is $7,801,000.

Mr. COOPER: $7,811,000.

Mr. POULIOT: Yes, which the government did not spend because the subsidy was not granted on the same scale as it was paid before.

Mr. COOPER: You are absolutely right.

Mr. POULIOT: Well now beside that difference, that saving, the government received from Canadian National Steamships $3,266,000 for interest?

Mr. Cooper: That is correct, $3,266,000.

Mr. Pouliot: Yes, and if we add $7,811,000 to that amount of $3,266,000 it means that the money received by the government for interest, the difference between the potential amount that would have been paid for subsidies of $12,870,000 and the amount of $11,037,000, the difference would have been only $1,833,000?

Mr. Cooper: I do not follow that.

Mr. Pouliot: I want you to understand it, because it shows that the contribution of the government to the Canadian National West Indies Steamships was very small compared to the return in trade. In the first place we have the potential amount of subsidies that would have been paid, $12,870,000, less the advances made by the government, $5,059,000, leaving a favorable balance to the government of $7,811,000.

Mr. Cooper: Yes.

Mr. Pouliot: If we add to that favorable balance the amount that has been paid for interest we have a total sum of $11,037,000.

Mr. Cooper: That is correct.

Mr. Pouliot: The money that the government did not spend because the subsidy was not paid and the money that the government received for interest on advances, on deficits, and therefore the total of the savings and the receipt of interest is $11,037,000.

Mr. Cooper: Quite right.

Mr. Pouliot: If we deduct from the potential amount that would have been paid for subsidy, $12,870,000, what has been saved and received by the government, a total of $11,037,000, it means that the contribution of the government in money to the Canadian National West Indies Steamships has been only $1,833,000.

Mr. Cooper: I do not see why you make that deduction. May I put it this way? The government saved, by using the Canadian National West Indies Steamships in place of paying subsidies, $7,811,000.

Mr. Pouliot: Yes.

Hon. Mr. Chevrier: That is assuming that the government would have accepted the payment of a subsidy to the Royal Mail Steam Packet Company of $582,000.

Mr. Pouliot: Exactly.

Mr. Cooper: It is only on that assumption.

Hon. Mr. Chevrier: That is a very problematical assumption.

Mr. Vaughan: I might say that the $582,000 was only for one service. The government was obligated under the Canada West Indies agreement to provide two services, to the eastern island and the western island. The $582,000 was only for the eastern island service and no company would quote on the western island service, but it is fair to assume that the subsidy which would have been asked for the western service would have been higher than which was asked for the eastern service because traffic is not as profitable on the western service as the eastern service.

Mr. Pouliot: I understand that, but the only thing I want to do is to get the true picture. I want to help you because I find that the steamship company is of the utmost importance to Canada in many ways. What I want to point out to the committee is that if the government paid $5,059,000 to help the Canadian National West Indies Steamships they received interest from the company, and if we add the amount of interest which has been actually received by the government on the previous advances to the saving of money which occurred because a subsidy was not granted, although it is problematical, we have a total amount of $11,037,000.

Mr. COOPER: Yes. I think you should stop there. I think you should stop there because that is the advantage to government on the assumption, as the minister said, that they would have paid a subsidy. There was a gain to Canada on the subsidy account of $7,811,000, and in addition Canada received interest amounting to $3,226,000.

Mr. POULIOT: Yes, and you will understand me because I want to make my position just as clear as possible. We still have the potential amount of $12,870,000, the total amount of subsidy that would have been paid.

Mr. NICHOLSON: You have already taken that into account, have you not?

Mr. POULIOT: No, no. I have mentioned it. I am taking what the government has not spent and what the government has received, and if we add the two together we have $11,037,000 to deduct from that potential expenditure of $12,870,000 if the subsidy had been paid, and therefore the government has actually spent a total of $1,833,000.

Mr. COOPER: No, I think you are rather unfair to your own argument. I believe that the benefit to Canada by the operation of these services by our ships in respect of the matter we have been discussing is $11,037,000.

Mr. PICARD: I think the last figure submitted by Mr. Pouliot as the deduction of the $11,000,000 from the $12,000,000 is the amount that the government has saved, has not paid.

Mr. POULIOT: Has not paid.

Mr. PICARD: It might have paid $12,000,000, and it has received in fact, $11,000,000 so that the $1,000,000 odd left is the saving to the government.

Mr. POULIOT: Besides that you have carried the mail free?

Mr. VAUGHAN: Yes, sir.

Mr. COOPER: And we have brought in imports or made exports amounting to a value of $322,000,000.

Mr. POULIOT: Exactly. Were you the only company that gave a direct service on a regular schedule?

Mr. VAUGHAN: I think it is fair to say we were the only company giving a service on a regular schedule. I think Pickford and Black of Halifax operated a few small boats to the western islands, that is, to Jamaica. I do not think that any company operated to the eastern islands during that period except perhaps schooners.

Mr. POULIOT: You were the only Canadian company that gave regular passenger service?

Mr. VAUGHAN: Yes, sir.

Hon. Mr. CHEVRIER: Were there not some American companies calling at Halifax and Montreal, the United Fruit people?

Mr. VAUGHAN: There were no other passenger liners coming to Canada from the West Indies. We were the only company that gave any passenger service at all from or to Canada.

Hon. Mr. CHEVRIER: I think Mr. Pouliot's question included both freight and passengers.

Mr. VAUGHAN: There were occasional United Fruit boats which came into Saint John with bananas. I think they had a boat at irregular intervals come in there, but Mr. Pouliot is quite correct when he says we were the only company giving a regularly scheduled service.

Hon. Mr. CHEVRIER: What I am trying to bring to the attention of the committee is that there were other companies who were operating service to the Islands besides the Canadian National West Indies Steamships. For instance, the United Fruit people and the Saguenay boats were operating in that territory as well, were they not?

Mr. VAUGHAN: Oh yes, that is quite true. We did not have the field to ourselves.

Mr. MUTCH: The only point of that is that you achieved the results which you achieved in the face of regular competition.

Mr. POULIOT: Exactly.

Mr. PICARD: I think everybody is trying to be nice to the company.

Mr. POULIOT: They deserve it.

Mr. NICHOLSON: Following along Mr. Pouliot's argument I should like to know why the management did not make more effective representations to the government of the day in 1929, 1930 and 1931, and why these very large deficits were allowed to accumulate? In view of the fact that subsidies had been paid for the service I think there was a very good argument for them. Why was is not possible to have some adjustment made year by year rather than allowing the $5,000,000 total to accumulate by the end of 1934? Is it not possible at this stage to reach an adjustment? I think Mr. Pouliot's argument is very reasonable, that the company has been placed in an unreasonable position and some adjustment should be made rather than to carry on the balance sheet these very large liabilities as a result of failure to pay a subsidy in the early operations of the service.

Mr. VAUGHAN: I could not say what representations were made in the early days by Sir Henry Thornton when the service was started. I do know this that since I have been president in the last five years we have made representations. We were successful in getting the interest rate reduced in 1943 from 5 per cent to 2½ per cent, but that is as far as we have been able to go.

Mr. NICHOLSON: How far have you gone? Can you give the committee any additional information as to what you have done with regard to getting some adjustment on this score?

Mr. VAUGHAN: We have made representations to the Department of Finance, but that is all we can do.

Mr. MUTCH: The fact is though that you have been able to carry the load and pay a profit?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: If the government had had to pay a subsidy on the second route it would have been over a million dollars a year on the two.

Mr. VAUGHAN: Yes. Never in any year even in the early stages did we lose more money than the government would have had to pay in subsidies.

Mr. MUTCH: To a private company?

Mr. VAUGHAN: To a private company.

Mr. POULIOT: Mr. Minister, may I ask you if there are still any more 10,000 ton boats available?

Hon. Mr. CHEVRIER: No, they have all been sold, at least, those that were under the jurisdiction of Park Steamships. I am informed by the Department of Reconstruction that they have all been sold with the exception of those three that Canadian National West Indies Steamships have purchased.

Mr. POULIOT: Do you intend to replace the three Lady ships that wer sunk?

Mr. VAUGHAN: We do not intend to replace them in kind. This budget indicates that we are taking over from War Assets three diesel-driven boats that have a small passenger carrying capacity, but we do not intend at the present time or in the immediate future to replace the three Lady boats which have been lost.

Mr. POULIOT: Do you intend to charter new boats?

Mr. VAUGHAN: We are chartering at the present time certain boats from the Park Steamship Company, but beyond those we do not intend to purchase any more.

Mr. POULIOT: If you build other ships will you build them in Canada?

Mr. VAUGHAN: That is a hypothetical question, because we have not got it in mind to build any ships at the present time.

Mr. POULIOT: But if you do will you ask for tenders in Canada?

Mr. VAUGHAN: If we were going to build new ships we would certainly ask Canadian builders to tender, and give them an opportunity to figure with us.

Mr. REID: That would suit us in British Columbia, because we can produce the ships cheaper there.

Hon. Mr. CHEVRIER: Is that not what you propose doing with reference to your west coast steamships?

Mr. VAUGHAN: Yes.

Hon. Mr. CHEVRIER: I presume you would not follow any other policy.

Mr. VAUGHAN: One of these diesel boats is being built at the coast, Mr. Reid.

Mr. PICARD: That ties in with my previous question. You state here that the line should not be allowed to become a war casualty. I was wondering whether along the same lines that Mr. Pouliot has just mentioned you intend at some time to make further capital expenditures to bring the company back to its pre-war condition of five passenger and freight ships plus your cargo ships?

Mr. VAUGHAN: Unless Canada should assume a further obligation in connection with treaties between Canada and the West Indies it would only be our intention to replace the existing boats plus the boats covered in the budget by such other vessels as might be required to take the place of boats that we might lose or sell on account of obsolescence.

Mr. PICARD: You do not intend to go back to the same scale of operation with five passenger carrying ships?

Mr. VAUGHAN: We have not in mind at all to supplement those three passenger boats that we lost.

Mr. MUTCH: It would be fair to say that you are directing the emphasis in your reconstruction program to freight carrying rather than to passenger carrying?

Mr. VAUGHAN: Yes.

Mr. MUTCH: I assume that would be influenced to some degree by the fact that passenger traffic to the area is primarily a luxury traffic, and you are probably figuring on possible air competition as to the passenger traffic? Is that correct?

Mr. VAUGHAN: That is one reason, and besides that there is no obligation now. There is no trade agreement requiring Canada to provide passenger facilities. We will have some passenger accommodation. We will in due course get back Lady Rodney and Lady Nelson. It will take three or four months to recondition those boats before they go in that service. Then the three diesel boats will have accommodation for twelve passengers each. Then we have two other vessels which have accommodation for twenty passengers each, so that we will still be able to carry some passengers.

Mr. MUTCH: There is more money in freight?

Mr. VAUGHAN: Yes.

The ACTING CHAIRMAN: Will they be any faster than the Lady boats?

Mr. VAUGHAN: I think that those three diesel boats will be a little faster than the Lady boats.

The ACTING CHAIRMAN: They took about fourteen days for the round trip?

Mr. VAUGHAN: Yes.

Mr. JACKMAN: How many knots are the new ships?

Mr. VAUGHAN: The new ships will have a sea speed, cruising speed, of about 15 knots, but can be pushed to 16 or 17 knots.

Mr. JACKMAN: Some of these new United Fruit ships are 19, are they not?

Mr. VAUGHAN: Yes, they are.

Mr. REID: In leasing some of these Park steamships did you take over the crews as well when you took them over under agreement and operated them? Did you take them over with the crews that were on the Park Steamships at the time?

Mr. VAUGHAN: If we took boats over from the Park Steamships which we had not been operating before, we put our crews on them.

Mr. PICARD: When you say that you do not intend to replace the Lady ships that were lost do you mean that the tourist traffic is not so profitable that it is worth while to look to that right now?

Mr. VAUGHAN: One of the principal reasons is that at the present time owing to the tremendous cost of building passenger boats we would not feel justified in asking the government to put up the money.

Mr. POULIOT: Mr. Vaughan, will you please tell us what subsidiary companies there are of the Canadian National West Indies Steamships?

Mr. VAUGHAN: Canadian National West Indies Steamships so far as I know has not got any subsidiary companies.

Mr. POULIOT: And on the Pacific coast, what have you?

Mr. VAUGHAN: We are only operating one coasting vessel at the present time. That does not come under the Canadian National West Indies Steamships. That comes under our western operations.

Mr. POULIOT: But you have one ship; is it the Prince George or the Prince Robert?

Mr. VAUGHAN: The Prince Rupert.

Mr. POULIOT: What is the name of that ship?

Mr. VAUGHAN: Prince Rupert.

Mr. POULIOT: It travels from Vancouver to Prince Rupert?

Mr. VAUGHAN: It travels between Vancouver to Prince Rupert, and in the summer time to Skagway, Alaska.

Mr. POULIOT: And is it under the Canadian National West Indies Steamships?

Mr. VAUGHAN: No, sir.

Mr. POULIOT: It is directly under you?

Mr. VAUGHAN: Directly under the Canadian National Railways.

Mr. POULIOT: And is the West Indies service under the Canadian National West Indies Steamships under you?

Mr. VAUGHAN: Well, it is operated by the Canadian National West Indies Steamships, but it comes under our jurisdiction. We have a separate organization to handle it. I happen to be the president.

Mr. POULIOT: Why is there a separate organization?

Mr. VAUGHAN: Because Canadian National Railways does not own the stock of the Canadian National West Indies Steamships. The stock of the

Canadian National West Indies Steamships is owned entirely by the Dominion of Canada.

Mr. HAZEN: How many directors has the Canadian National West Indies Steamships?

Mr. JACKMAN: It is set out in the front of the book.

Mr. VAUGHAN: It is in the front of the report. The directors are practically the same as the Canadian National Railways directors.

Mr. HAZEN: They are the same directors?

Mr. VAUGHAN: Yes.

Mr. HAZEN: How often do the directors of the Canadian National West Indies Steamships meet?

Mr. VAUGHAN: Oh, they usually meet at the same time or following the meeting of the Canadian National Railways directors.

Mr. HAZEN: How often do you have a meeting of the Canadian National directors?

Mr. VAUGHAN: We have regular monthly meetings and occasionally we call special meetings.

Mr. HAZEN: Where are these regular monthly meetings held?

Mr. VAUGHAN: They are held in our board room in Montreal.

Mr. HAZEN: Are they usually attended by all directors?

Mr. VAUGHAN: Yes, sir. It is very seldom that a director is absent from one of these meetings.

Mr. HAZEN: What are these directors paid? Are the directors of the Canadian National Railways paid certain fees and the directors of the Canadian National West Indies Steamships paid fees as well?

Mr. VAUGHAN: No. There is only one director fee paid and that is to the directors of the Canadian National Railways. The directors of the Canadian National West Indies Steamships or Trans-Canada Air Lines do not get any fees.

Mr. HAZEN: Are the directors of the Trans-Canada Air Lines the same seven men or are they different?

Mr. VAUGHAN: No, there are only some of the directors of the Canadian National Railways who are directors of the Trans-Canada Air Lines.

Mr. HAZEN: What are the directors of the Canadian National Railways paid a year?

Mr. VAUGHAN: They are paid $5,000 per annum.

Mr. NICHOLSON: If we may return to the matter raised by Mr. Pouliot, I think we have all followed him very closely, and it would appear to me to be a conservative estimate that the operation of this company has saved the taxpayers at least $11,037,000.

Hon. Mr. CHEVRIER: Mr. Nicholson, I think in fairness you should add that is only on the assumption that the government would have paid a subsidy of $534,000, back in 1929. There is no assurance that the government would have accepted the tender of the Royal Mail Steam Packet Company.

Mr. NICHOLSON: The fact is that the government did pay a subsidy.

Mr. POULIOT: It is not a reflection against the government.

Hon. Mr. CHEVRIER: No, but the argument is based only on that assumption, and I think that should be made clear.

Mr. VAUGHAN: I think it is fair to say that this government had a definite obligation under the Canada-West Indies trade agreement to provide this service. Somebody had to provide it, because they had entered into an agreement with the various West Indies islands. They actually did not accept the tender of the Royal Mail Steam Packet Company because apparently they came to the conclusion that the Canadian National West Indies Steamships could perform the service cheaper and to better advantage. As a matter of fact, the tender of the Royal Mail Steam Packet Company did not by any means provide for the service that was required under the Canada-West Indies trade agreement.

Hon. Mr. CHEVRIER: The point I am making is that in 1929, when tenders were asked for, there was no assurance that the government would have paid that amount. Tenders are called for every day and when they are considered they are not always accepted.

Mr. MUTCH: Is it not fair to say it was the best tender offered?

Mr. VAUGHAN: It was the only tender.

Hon. Mr. CHEVRIER: I do not know what the position was in 1929 nor have I any way of knowing at this moment, but I presume that was the position.

Mr. NICHOLSON: If I may be permitted to proceed a little further, I think it is recognized that it is important that this trade agreement should be honoured and that some service should be given. In the early days a subsidy was paid, and if there was to be continued trade with the West Indies some subsidy apparently would have had to be paid to some company. The government of the day very wisely decided that rather than pay such large subsidies to a privately owned corporation something else should be done, and as a result of what was done, according to Mr. Pouliot's estimate, we have saved $11,037,000. That, of course, assumes that the same subsidy would have been paid, but I think we can make that assumption.

Mr. VAUGHAN: I think that perhaps I should make this clear. Before this service was turned over to Canadian National West Indies Steamships for operation the government had for many years paid a subsidy to the Royal Mail Steam Packet Company and I think to the Pickford and Black Company. The Royal Mail had four small boats, and I think they got well over $300,000 a year for many years for operating that service, and Pickford and Black also had a subsidy at one time so that this subsidy was not anything new.

Mr. NICHOLSON: The point that I want to make is that we now have on the balance sheet, under liabilities, an item of $5,059,000 which, in my opinion, should not appear there. I should like to move, if Mr. Pouliot will second it—

Mr. POULIOT: Yes.

Mr. NICHOLSON: —that this committee recommend that the management make representations to the government to have this item written off the balance sheet.

Hon. Mr. CHEVRIER: Why should that amount be written off the balance sheet?

Mr. NICHOLSON: Because I think that—

Hon. Mr. CHEVRIER: Any more than it should be written off in the Canadian National Railways accounts.

Mr. POULIOT: It should be written off in both places.

Mr. NICHOLSON: It so happens that we are discussing the report of the Canadian National West Indies Steamships. Here is an item which, in my opinion, should not appear in this balance sheet. I think we should recognize that and try to right it.

Mr. PICARD: I have never seen so many people at one time trying to be nice.

Mr. VAUGHAN: I would submit that perhaps it is a matter that the committee would like to discuss amongst themselves when we are not here. We would be very glad to have that done.

Mr. POULIOT: You see we are sympathetic to the company.

Mr. MUTCH: Speaking to the motion, it is apparent that we are having a competition in expressing appreciation of what the committee believes to be the very fine record of the company. As far as the resolution is concerned I submit there is no harm in the members of this committee co-ordinating all their complimentary expressions in a statement to the president that he should continue his negotiations with the minister, because that is what it means. As the president of the company he is in the position, I should think, of always being under an obligation to strive to the best of his ability to make his company appear in the best possible light. It does not commit the directors to doing anything they have not been doing before, and it certainly does not put any compulsion on the government to listen any more attentively than they have been listening before.

If I interpret your remarks correctly it is mainly an opportunity for the committee to say that in their view the company, having achieved a certain standard of service and returns, should be put in the best possible light in their financial structure. The actual situation is that under the load of this $5,000,000 the company under extremely difficult circumstances has paid the interest on the loan and shown a profit. It is not a question of their survival. It is a matter of bookkeeping and is of no financial significance.

Mr. POULIOT: Mr. Vaughan, I should like to ask you another question, and I should like to have it clearly stated. The ships that belong to the government-owned company are mentioned in the record as Canadian National Steamships?

Mr. VAUGHAN: Yes.

Mr. POULIOT: What are the other ships that belong to the company controlled by the Canadian National Railways besides the Prince Rupert?

Mr. VAUGHAN: We do not operate any ocean going ships other than barges and tugs.

Mr. POULIOT: They are just for the river service?

Mr. VAUGHAN: Yes.

Mr. POULIOT: Inland service?

Mr. VAUGHAN: Yes, if service between Vancouver Island and the mainland may be called inland service. We have barges and tugs operating in that service.

Mr. POULIOT: They are all freight vessels?

Mr. VAUGHAN: Yes.

Mr. POULIOT: No passengers?

Mr. VAUGHAN: No passengers at all. The only boat we have carrying passengers on the Pacific coast at the present time is the Prince Rupert.

Mr. NICHOLSON: I believe there is a motion.

Mr. HARRIS: I am going to speak to the motion. It is one we discussed in this committee last year in some detail, and I should like to have time to think over how I should vote on it. It is 1 o'clock, and I move that we adjourn.

The ACTING CHAIRMAN: Gentlemen, there is a motion before the committee.

Mr. MUTCH: Before you put that, would you read the motion again slowly.

The ACTING CHAIRMAN: Mr. Nicholson moved, seconded by Mr. Pouliot, that the government give consideration to the debt that is owed to them now and has been collected by the government from the Canadian National West Indies Steamships.

Mr. NICHOLSON: No my motion was: That this committee recommend that the management make representations to the government with a view to having this deficit item wiped off the balance sheet.

Mr. MUTCH: There is no recommendation to the government at all.

The ACTING CHAIRMAN: All in favor of that motion?

Hon. Mr. CHEVRIER: Mr. Harris has moved the adjournment.

Mr. HARRIS: I move that we adjourn.

The ACTING CHAIRMAN: All right.

The committee adjourned at 1.00 o'clock p.m. to resume at 4 o'clock p.m.

The committee resumed at 4.20 o'clock p.m.

The ACTING CHAIRMAN: Gentlemen, order. Are there any more questions you would like to ask?

Hon. Mr. CHEVRIER: Before we adjourned at one o'clock we were discussing the question of $5,059,000 loans for deficits to the steamships from 1929 to 1934, and there was a motion made with reference to it. I should like to say just one word about the matter. I appreciate, of course, the co-operation of the committee and its willingness to come to the assistance of the Canadian National Steamships, which has done such a fine job and whose report has been outstanding, and the government is anxious to assist it in every way possible. The motion that was made, I am sure, was made with the intention of assisting the steamships, but it involves a question of principle in which I think I should say a word. The wiping out of the deficit here is an important matter, for these reasons: that there are other corporate bodies, three or four corporations, which are in the same position. I can think of representations that have been made to me by the people in Vancouver with reference to the wiping out of the debt on the harbour debentures. There is a question which involves a matter of principle. The Department of Finance has not seen fit to consider wiping it out. The same position obtains in the City of Montreal where the government is now entering suit against the city for a large sum of money, and if this deficit were wiped out the City of Montreal would, I think, be able to say then: if it was done for the steamships why should it not be done for and why should we be sued. I just wanted to make that statement because I thought it should be made at this juncture.

Then there are one or two other things involved in connection with the motion. I do not think it was the intention of the mover that the government should be asked to wipe out the deficit, although that might have been the inference from the discussion that was carried on this morning; because, if that is the inference, then I have to point out that we have no such powers. Section 54 of the British North America Act gives certain powers to the Crown, and as I understand it no member of the House of Commons or of one of the committees would have the right to adopt or pass any vote, resolution, address, or bill having to do with the appropriation of any part of the public revenues. And I think the powers of this committee also are fairly clear, in that there is a saving clause to the effect that the powers of the committee of supply are exempted from the order of reference to this committee on railways and shipping.

I think the steamships are well advised in seeking to make representations that their position be bettered. I see no objection to this committee acting on a resolution of that kind, but I think I should draw to the attention of the committee the principle involved here. It would be very embarrassing to the Minister of Finance with reference to the other bodies with which he has to deal and which are indebted to the government.

Mr. NICHOLSON: Our discussion here was confined to one specific problem, and I do not see any reason why, if an injustice has been done in a matter of this kind, the case should not be considered on its merits. There is no point in going over ground that has already been covered in discussion. I think this committee is quite within its rights in making a recommendation to the management as to how operations might be carried on in the public interest. And, if my resolution was not worded correctly, perhaps I had better write it out.

Hon. Mr. CHEVRIER: I was not addressing myself to your resolution exclusively, I was addressing myself to the inference that could be derived from the discussion of this matter. If your resolution has to do with a recommendation to the management, there could be no objection to that.

Mr. NICHOLSON: That was my recommendation. I didn't have it written out, but when I started the discussion we had this morning I thought that I, as a member of the committee, would be justified in recommending that the management press for a change in their financial set-up, so that this item would not continue to appear as a liability. I think that is the opinion we got from the discussion here this morning. I was merely asking that with respect to the future they should be permitted to operate without this $5,059,000 of a liability which I think should not be there.

Mr. REID: I am somewhat inclined to agree with the motion and the statement made by Mr. Nicholson, still as a member of the committee I must make this further statement: that I think the committee unless it has full information as to the circumstances at the time the $5,059,000 was offered and go into that matter—they are not competent to know whether there would be a saving or not; because, let us visualize conditions as they could have been. A firm in those days tendering for something might have realized that they were the only firm tendering and they might have thought, here is a place we could pad a little bit—and contracts were padded in the days gone by—and that might have been a thought in their mind when they asked for this subsidy of $582,000, which I think was wisely turned down. I think it is unfair for anyone to come along at this time and say that that is the amount the government would have had to pay had they not had this steamship service. I do not think the statement should be made that there was a saving of $12,800,000 just on that account.

Mr. VAUGHAN: I think the statment I made explained the situation very fully. We have not asked this committee to do anything about it at all. We simply have placed the position before the committee, because in the past there has been a lot of unfair criticism about the Canadian National (West Indies) Steamships operating at a loss in the early stages, while no consideration was ever paid to the amount of subsidy which would have had to have been paid had the steamship service not been organized. I think I should point out, however, that the Canadian National Steamships are in a different position from the Canadian National Railways. We do not own its stock, the government owns it.

Mr. HARRIS: That is what I was coming to, Mr. Vaughan; but before I discuss that I would like the chairman to read the resolution as he has it before him.

Hon. Mr. CHEVRIER: We will have to ask the reporter for that to be done.

Mr. REID: Mr. Nicholson now has it written out.

Mr. HAZEN: May I point out, while the resolution is being written out, that at the bottom of the consolidated balance sheet we have the certificate of the auditors which says:

> We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1945, and subject to our report to parliament, we certify that, in our opinion, the above Consolidated Balance Sheet is properly drawn up so as to exhibit a true and correct

> view of the affairs of the Steamships as at the 31st December, 1945, and that the relative Income and Profit and Loss Accounts, for the year ended the 31st December, 1945, are correctly stated.

I am prepared to accept the statement of the auditors that this presents a true and correct view of the affairs of the steamship company. I feel that they know a great deal more than we do after the cursory discussions we have had here to-day. In view of their statement that that is a true and correct view of the affairs of the company I do not think any effort should be made to delete from the liability side of the balance sheet the Dominion of Canada advances of $5,059,960.94. I think it should remain as it is, it is not a matter of accounting, and unless we have some more expert advice it should stay.

Mr. NICHOLSON: I was not casting any reflection on the auditing or on the accounting.

The ACTING CHAIRMAN: Would you so move, Mr. Hazen?

Mr. HAZEN: I would so move, Mr. Chairman.

Mr. NICHOLSON: I do not know that another motion would be in order until this one has been disposed of.

Hon. Mr. CHEVRIER: As I understand it, you have made a motion and Mr. Hazen has made an amendment to it; his amendment is the adoption of the balance sheet as it stands.

Mr. NICHOLSON: Has he moved that as an amendment?

Hon. Mr. CHEVRIER: He has moved that as an amendment to your motion.

Mr. POULIOT: Why not put it the other way and have Mr. Nicholson's revised motion appear as a sub-amendment. If that does not carry the report will be adopted.

Hon. Mr. CHEVRIER: I have no objection to that. Mr. Nicholson is writing his motion out. Will he hand it to the chairman?

Mr. NICHOLSON: I understood you had accepted an amendment.

Hon. Mr. CHEVRIER: Mr. Pouliot suggested that we take yours as an amendment, and if it is defeated the other carries.

Mr. JACKMAN: Before we take a vote on that, I am not very clear in my mind as to all the figures that have been given out. I was not able to follow them as well as I would have liked to have this morning. This is the railway which is operating this company for the government asking that the Dominion of Canada advances amounting to $5,059,000 be eliminated; is it that, or is it the profit and loss deficit?

Hon. Mr. CHEVRIER: Mr. Vaughan says he is not asking for anything out of the discussion which arose this morning. Mr. Nicholson made a motion that it be eliminated from the balance sheet.

Mr. JACKMAN: Which amount?

Hon. Mr. CHEVRIER: The $5,059,000.

Mr. VAUGHAN: In the discussion this morning we tried to point out as best we could the exact position of the Canadian National (West Indies) Steamships, and my point was that I did not think it was fair in the first place that these charges should be debited against the Canadian National (West Indies) Steamships. Now, there they are, and I have done nothing more than point out the situation.

Mr. JACKMAN: Then what you want to have written off is the amount of advances to cover operating deficits.

Hon. Mr. CHEVRIER: Advances to cover deficits amounting to $5,059,000; is that not right, Mr. Cooper?

Mr. COOPER: Yes.

Mr. JACKMAN: Then the answer is that if we take the one out the other disappears.

Mr. VAUGHAN: As far as the auditors' statement is concerned, that statement is perfectly correct. I do not know whether this committee would want to ask the auditor whether he agrees with our views or not. I think he is here.

Mr. POULIOT: I do not want to interrupt anybody, but I do not question what has been done in the past. We are now faced with the future and we have to make the best possible of the past so that the future is just as encouraging as possible. That is my stand in the matter. I do not question the accounts or the accounting at all; from their viewpoint, all is perfectly correct. That is not what I asked. What I wanted to stress, what I wanted to point out, is the fact that because the Canadian National Steamships did not have the same number of Lady ships their sources of revenue are not the same as before, and they have to resume trade that has been disturbed by the war, and they will have difficulties to face. What they will do is in the interest of promoting trade for this country.

Hon. Mr. CHEVRIER: I think you will find, Mr. Pouliot, that the president is entirely in agreement with you on that. I think you will find, too, that the government in making available to the steamships the three Parks' vessels, which it did at half cost, is trying to assist them in every way it can. I am anxious to see passenger travel operated if it can be found possible, but I do not think at this time it would be possible because of the fact that the agreement has not yet been renewed. When it will be renewed, I do not know; but if it is renewed then I think is the time to consider passenger service.

Mr. VAUGHAN: We have not suggested that any more passenger boats be bought at this time.

Mr. POULIOT: You have made a statement, Mr. Vaughan; but you have drawn no conclusions, you have left that very discreetly to the committee.

Mr. VAUGHAN: Exactly.

Mr. POULIOT: You make no suggestions whatever.

Mr. VAUGHAN: I made no suggestions at all, simply drew the facts to the attention of the committee.

Mr. POULIOT: I think you have been very discreet and we appreciate it.

Mr. JACKMAN: Mr. Chairman, the point Mr. Vaughan brings up is exactly what was adopted in 1937 in connection with the accounts of the Canadian National Railways, if they had a deficit on interest account it was to be forgiven them, it was not treated as a charge against the railways. I take it that what he is drawing attention to now is that an adjustment should be made in the accounts of the Canadian National (West Indies) Steamships in the same way so that these deficits would not have to be carried in the books. That is the same thing, that is what the point amounts to, is it not?

Mr. VAUGHAN: That is the same thing exactly.

Mr. JACKMAN: I can see that that is a most difficult situation, leaving aside all question of private or public ownership—and in those cases my view is well known—but I think that in previous committees I have suggested that this profit and loss deficit of $4,963,000, which corresponds to the Dominion of Canada advances of $5,059,000 is an illusory thing, and we are only fooling ourselves as owners of this line. The railways are out of it. The Dominion of Canada is the owner of this line and as such they are accepting for their own misinformation each year a balance sheet which, while fully reflecting the accounting figures—and that is no reflection on the auditors, because they are reporting what the books of the company show, and that is all their certificate represents. But there is no asset in this company to cover this profit and loss deficit of $4,963,000; and it has largely arisen, according to the evidence which has been given to us in this memorandum, from the capitalization of the deficit in the early years of the operation of the line, plus the accumulated interest on those deficits. I think the thing is most unsound from the ordinary corporation point of view, and I believe the situation is quite different from the Canadian National. We are asking exactly what we did in the Canadian National when the C.N. had losses from 1937 on—operating losses—and had not sufficient income to pay interest on its indebtedness to the government. It was forgiven that interest; it was not accumulated, much less was interest on interest accumulated just to fool ourselves—and that is all we have been doing in these lines for many years, and now that has grown to a very substantial amount. And I think that if we are to have a true picture of this line we should seriously consider recommending to the government that they give consideration to eliminating the profit and loss deficit, or the Dominion of Canada advances—which amounts to the same thing, do they not, Mr. Cooper?

Mr. Cooper: Substantially, yes.

Mr. Jackman: Just going on from year to year like this is perfectly unsound. I recall in the Home Bank case, where the bank failed, they had loans down in Florida at high rates of interest and they had interest outstanding which they had not received, and they took the interest on the interest and the American exchange, and that piled up a big asset which only served to fool the depositors and the stockholders, too. That is what we are doing in this case. I do not think that is a debt as far as the lines are concerned, yet here we are treating it quite differently from the way we treated the deficits of the Canadian National in the years since 1937.

Hon. Mr. Chevrier: I see no difference at all.

Mr. Jackman: All they are asking to have done is what you are doing in respect to the Canadian National Railways at the present time; if they cannot pay interest to the government, that interest is not accumulated, much less is it charged on interest which is not paid. Is not that the fact? That is a question of fact. That was one of the specific recommendations of the 1937 Act.

Mr. Nicholson: Do they not bring in a bill each year to pay the deficit, clear them up every year rather than accumulate them in the form of deficits?

Mr. Vaughan: If there were a deficit shown it would have to be taken care of in the form of a bill, or loan of some kind.

Mr. Nicholson: Through a contribution of some kind?

Mr. Vaughan: Yes.

Mr. Nicholson: That should be disposed of in the same way, instead of carrying it on our books for all time to come. We ought to have it cleared up.

Mr. Vaughan: This has provoked a discussion I did not intend. When I brought it up I was simply giving facts to the committee to indicate that the Canadian National Steamships had not been the white elephant some people represent it to have been.

The Acting Chairman: Gentlemen, it has been moved by Mr. Nicholson, seconded by Mr. Pouliot, that this committee recommend to the management of Canadian National (West Indies) Steamships, Limited, that they make representations to the dominion government to have absorbed $5,059,960, Dominion of Canada advances appearing in the liability side of the Consolidated Balance Sheet for the year ending December 31, 1945.

Mr. Harris: And the amendment to that.

Mr. Hazen: I move an amendment: That the committee adopt the consolidated balance sheet of the Canadian National West Indies Steamships Limited as shown on the 1945 report of that company.

Mr. Nicholson: Is that an amendment?

The Acting Chairman: That is an amendment. All those in favour of the amendment please signify. Eight. I declare the amendment carried.

Mr. Pouliot: Now, Mr. Vaughan, will you please tell me at what ports of call the ships of the Canadian National West Indies Steamships Limited stop?

Mr. Vaughan: I do not think I can do better than this. I have here a statement showing where the boats were on May 11th. The Sutherland Park was due at Halifax on May 13th. The Maisonneuve Park was due at St. Kitts on May 17th; the Cathcart at Bermuda on May 10th; the Lorne Park at Guadeloupe on May 10th; the Chomedy at Dominica on May 11th; the Cartier Park at Demerara on May 11th; the Canadian Observer sailed from Kingston on May 5th; the Colborne arrived at Barbados on May 5th and sailed from Barbados on May 10th and arrived at Dominica on May 11th. The Cavelier sailed from Antilla on May 8th. The Liscomb Park arrived at Halifax on May 5th. The Lady Nelson arrived at Halifax on May 7th. The Lansdowne Park sailed for Vera Cruz on May 14th. The Dalwarnic sailed for St. John's Nfld., on May 8th. The Lady Rodney arrived at Reykjavik, Iceland on May 5th. The Rockliffe Park was at St. John's on May 11th. The Connector was at Kingston on May 13th.

Mr. Pouliot: Now, will you please tell us who are your agents at each place?

Mr. Vaughan: I could get that information for you. I could not give the names now. We have different agents at almost every place. I do not remember all the names.

Mr. Pouliot: But they are like maritime brokers. They act for several companies at the same time?

Mr. Vaughan: In some cases they do and in others they do not. They are all well recognized steamship men in the various places referred to.

Mr. Pouliot: Oh, yes, but would it be agreeable to have that list added to the report of today?

Mr. Vaughan: We will be glad to file it.

Mr. Pouliot: Are they natives of these various places or Canadians who have been sent to each port?

Mr. Vaughan: I think most of them originally were British firms. Take in Demarara. There is a British firm there. In Kingston, Jamaica, the firm is Johnson & Company. They are local people. In fact, Johnson is a coloured man, and a very able man. He has white partners.

Mr. Pouliot: That is not a question, as long as the trade is good, but do they do some canvassing for the company?

Mr. Vaughan: Oh yes, they are very active.

Mr. Jackman: On a commission basis?

Mr. Vaughan: On a commission basis, yes.

Mr. Pouliot: Do some of your men in the line speak Spanish?

Mr. Vaughan: I do not think we have any who speak Spanish, except our own agents at these various places.

Mr. Pouliot: You have one agent in Mexico?

Mr. Vaughan: Yes.

Mr. Pouliot: But I mean do you have inspectors on the line who speak Spanish?

Mr. VAUGHAN: No, we have not.

Mr. POULIOT: Do you not think it would be a good suggestion for you to have a man who is well acquainted with the business of the company and who speaks Spanish, English and French fluently to visit all these ports and report to you?

Mr. VAUGHAN: Our freight traffic manager in Montreal makes frequent trips to these various places.

Mr. POULIOT: Does he speak Spanish?

Mr. VAUGHAN: I couldn't tell you that. He is a French Canadian. He speaks French very well and he may speak Spanish. I could not tell you that.

Mr. POULIOT: If he does not speak Spanish do you not think that it would be a good thing that he should be accompanied by someone who has spirit and initiative and who speaks Spanish?

Mr. VAUGHAN: We do not go to many points where Spanish is required. Most of these places we go to are British possessions. Occasionally we do go to some places like Cuba or Mexico.

Mr. POULIOT: Vera Cruz?

Mr. VAUGHAN: Yes, that service has just been started.

Mr. POULIOT: Two trips?

Mr. VAUGHAN: Yes.

Mr. POULIOT: A direct service to Vera Cruz?

Mr. VAUGHAN: Direct service.

The ACTING CHAIRMAN: Will you give us the budget of the Canadian National West Indies Steamships?

Mr. HAZEN: Do you anticipate that the airplane will interfere much with passenger service on the steamships? Have you ever made any estimate about that?

Mr. VAUGHAN: We have given that some consideration. It is a very difficult thing to estimate. Some people think the airplane business will be complementary to the steamship business, They think that the airplane will create new business rather than take away from the existing business. There is no doubt that people who want to go some place in a hurry will travel by air, but we do not think it will interfere with our business very much.

Mr. HAZEN: If I may just go back for a minute. You have no doubt given some consideration to that question on the railways. Do you feel that it is going to affect your railways very much?

Mr. VAUGHAN: We believe it will affect our railways ultimately, particularly in what we call the long haul rear end business. That is the sleeping car business. I think as time goes on and more airplanes are in operation our business to points like Vancouver will be affected.

Mr. HAZEN: You have never made any attempt to work it out on a percentage basis? Have you ever made any estimate as to what extent it will be affected?

Mr. VAUGHAN: It would be difficult to do that because both the railways and the airplanes have been full during the war period, but that is something that probably can be determined in the next five years.

Mr. REID: I have two questions regarding ships. Have you considered on the run to the West Indies the use of a larger cargo ship instead of the 4,700 ton ships? I am thinking from an economical point of view. Have you considered putting on larger ships instead of keeping on with your 3,500 to 4,700 ton ships?

Mr. VAUGHAN: These boats that are now on order and will be delivered this fall are 7,500 ton deadweight ships. They are larger boats. We have to have some of the smaller boats because many of these ports have not a very great depth of water, and the facilities are not very good for handling large vessels. Then, too, sometimes we would not get enough cargo to operate a 10,000-ton boat. Our service would not be so frequent.

Mr. REID: On a point of information, why is it that on a lot of these vessels listed with us this morning in some instances the gross tonnage is heavier or greater than the deadweight tonnage whilst in other ships the deadweight tonnage is greater than the gross tonnage?

Hon. Mr. CHEVRIER: Where is that?

Mr. REID: If you look at ships and weights.

Mr. VAUGHAN: As you know, there is a different method of computing gross tonnage and deadweight tonnage. They are two entirely different things.

Mr. BOURGET: What is the difference between gross tonnage and deadweight tonnage?

Mr. VAUGHAN: Deadweight really means cargo weight that can be carried including storage and fuel.

The ACTING CHAIRMAN: Can we proceed now with the budget?

Mr. VAUGHAN: There is gross tonnage and net tonnage and deadweight tonnage and displacement tonnage. They are all calculated on a different basis.

Mr. REID: It is interesting because there are ships that must be more economical to run because some ships that have less gross tonnage are carrying more deadweight tonnage.

Mr. VAUGHAN: Yes.

Mr. REID: So those ships that carry more deadweight tonnage must be more economical because the same size of crew would probably be put on each of the ships.

Mr. VAUGHAN: Of course, there is this about it, that all these boats are not ideal for trade. If we were going out to buy or build new boats we would probably build boats of a different type to-day. These boats were the ones that were available at the time and they were put into service.

Mr. REID: That is why I think it might be advisable not to get loaded up with too many Park steamships.

Mr. VAUGHAN: We have bought only one Park steamship and we have chartered three of them on the bare boat basis, so we are not loaded up with them.

Mr. REID: They were a splendid war vessel and did a splendid job.

Mr. VAUGHAN: These Park vessels have fitted in very well for some of our West Indies business.

Mr. POULIOT: What was your proportion of trade during the war compared to pre-war?

Mr. VAUGHAN: Oh, we had more trade during the war. We had more boats in service preceding the end of the war.

Mr. POULIOT: You carried troops also?

Mr. VAUGHAN: We carried troops on the Lady boats. Someone asked about the budget for the Canadian National West Indies Steamships. It is on page 8.

Hon. Mr. CHEVRIER: Page 8 of the Canadian National Railways budget, the last page. Will you deal with that, Mr. Vaughan?

Mr. VAUGHAN: Yes. We show there in our operating budget that we expect to have a net operating income of $887,000. We are budgeting for gross revenue of $3,677,000, operating expenses of $2,790,000 and a net of $887,000, and after all the various charges, interest due the public and government interest are taken into account we budget for a surplus of $416,000 in 1946.

Mr. Reid: Was the statement not made that interest charges had been reduced from 5 to 2½ per cent?

Mr. Vaughan: That is correct. Down below there is the capital budget. There is the purchase of these three diesel vessels we have been speaking about at a total cost of $3,750,000, and the purchase of one Park vessel at a cost of $450,000, or a total for new vessels of $4,200,000. There is a note to the effect that the funds for the purchase of these four vessels will be taken from our vessel replacement fund.

Mr. Reid: What size vessels are the three diesel-driven cargo vessels?

Hon. Mr. Chevrier: 7,500 tons.

Mr. Vaughan: They are mentioned in the report. I have a description of them here. The length of these boats is 436 feet, breadth 59 feet, depth 36 feet, load draft 25 feet, sea speed 15 knots. They have a cargo capacity of 371,000 cubic feet and a refrigerator capacity of 15,400, a fuel oil capacity of 890 tons, a fresh water capacity of 218 tons and salt water ballast of 753 tons. They have passenger accommodation for twelve passengers with five two-berth rooms and two single-berth rooms fitted with showers and toilets in each room. The cargo winches and auxiliaries will be electrically operated, and they will be first-class boats in every respect.

Mr. Hazen: For whom were they being built in the first place?

Mr. Vaughan: They were not built for anybody in particular. Some time before the end of the war it was considered by the wartime shipbuilding that they ought to, if possible, order an improved type of cargo boat, so that these three vessels were ordered. We knew they were there and after some negotiations with the government they agreed to turn them over to us.

Mr. Hazen: What companies are building those?

Mr. Vaughan: There is one being built by Vickers in Montreal, one by the Davies Shipbuilding Company in Levis and I think one by the Burrard Company in Vancouver.

Mr. Bourget: They were new ships?

Mr. Vaughan: Yes, they are brand new ships. They are not completed, and they will not be finished until September.

Mr. Reid: I move that the report be adopted.

Hon. Mr. Chevrier: The report and the budget.

Mr. Reid: And the budget.

The Acting Chairman: It has been moved that the report and the budget be adopted. All in favor?

(Carried)

The Next item is the annual report of the Canadian National Railways Securities Trust for the year ended December 31, 1945.

Mr. Vaughan: I think I will ask Mr. Cooper to read that.

Mr. COOPER:

Ottawa, 18th March, 1946.

The Honourable Lionel Chevrier, K.C., M.P.,
Minister of Transport,
OTTAWA.

Sir,

In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees submit the following report of the transactions of The Canadian National Railways Securities Trust for the calendar year 1945.

The book value of the capital stock of the Securities Trust has been increased during the year by $22,631,041.47, as shown hereunder:

Surplus earnings of the Canadian National Railway System for the year 1945	$24,756,130.00
Abandonment of St. Lin Subdivision between Mile 0.94 and Mile 11.10, and between Mile 15.75 and Mile 33.21 (27.62 miles)	*1,167,121.47*
Loss on retirement of rolling stock equipment	*957,967.06*
Net Gain credited to Proprietor's Equity	$22,631,041.47

Application was made by the Canadian National Railways for the release, for cancellation and cremation, of $160,680.00 Canadian Northern Manitoba Railway Company 4½ per cent First Mortgage Bond due June 30, 1930, and $486,666.66 Canadian Northern Saskatchewan Railway Company 4½ per cent First Mortgage Debenture Stock due December 19, 1943, held by the Securities Trust as part collateral in respect of indebtedness of the Canadian Northern Railway Company to the Dominion Government refunded by the Government under Chapter 24, 1917, and Chapter 11, 1918, in order that the underlying trust mortgages might be discharged. These matured securities constitute the total issued under the trust mortgages, which could not be discharged until the securities had been cancelled and cremated.

In support of the application, officers of the railway company gave opinions in regard to savings and other benefits (e.g. facilitating future legal amalgamation of constituent corporations) which would result from the discharge of the mortgages, and the trustees were satisfied that the advantages to the National Railways which would follow such action are more than sufficient to offset any possible improvement in the position of any securities of the National Railways in the hands of the public which might result therefrom. The trustees thereupon authorized, by resolution of August 1, 1945, the release of the above-mentioned securities to the Canadian National Railways, for cancellation and cremation, subject to the approval of the Governor in Council as required by Section 21 of the Canadian National Railways Capital Revision Act, 1937. Such approval was granted by order in council P.C. 6099 dated September 18, 1945, and the securities have been released, cancelled and cremated.

Pursuant to Chapter 8, 1945, an Act to amend the Canadian National Railways Capital Revision Act, 1937, the board of directors of the Canadian National Railways passed a resolution at a meeting held on January 18, 1946, naming Mr. R. C. Vaughan, Chairman of the Board of Directors and Mr. N. B. Walton, Executive Vice-President, as Trustees of the Securities Trust.

The trustees present herewith the balance sheet of the Securities Trust as at December 31, 1945.

W. C. CLARK,
For the Trustees.

Mr. POULIOT: If you will permit me, Mr. Cooper, will you please tell me what is the amount of outstanding securities and bonds of the Canadian National Railways, the Grand Trunk, etc., held in Canada and on the other hand what is held outside of Canada?

Mr. COOPER: The funded debt of the Canadian National Railways at December 31, 1945, amounted in all to $573,179,997. Of that amount, $155,090,022 is payable in Canadian Funds. $33,351,000 is payable in United States funds. $292,240,942 is payable three ways; that is, United States, Canadian and sterling. $64,136,000 is payable either in United States or Canadian. $28,362,032 is payable in sterling. In percentages, 27·06 is payable in Canadian; 67·99 is payable either in United States, Canadian or sterling, which means under present conditions that it is payable in United States funds; and 4·95 is payable in sterling.

Mr. POULIOT: What amount has been redeemed since the beginning of the war, or repatriated, if you wish to so describe it?

Mr. COOPER: The amount repatriated?

Mr. JACKMAN: You want to know who owns these things. He is just telling how it is paid. He does not understand your question, Mr. Pouliot.

Mr. POULIOT: I will go into it.

Mr. COOPER: The par value of the securities repatriated since the war was $410,577,906.

Mr. POULIOT: What is left outside of Canada? Who owns the securities and bonds of the Canadian National Railways? I am speaking of all of them.

Mr. COOPER: Which were repatriated?

Mr. POULIOT: No. I thank you for the information that you have given, but I am speaking of the outstanding securities and bonds. Who owns them?

Mr. JACKMAN: The beneficial owners.

Mr. VAUGHAN: They are spread all over, amongst the insurance companies and others.

Mr. POULIOT: What part is in Canada and what part is outside Canada?

Mr. COOPER: I have just read that.

Mr. JACKMAN: No. That is how they are paid.

Mr. COOPER: I beg your pardon. I cannot tell you that.

Mr. POULIOT: You cannot tell us that?

Mr. COOPER: No.

Mr. JACKMAN: Are there any left in England, or in the United Kingdom?

Mr. VAUGHAN: I do not think there are any left in England. Any that were in England were repatriated and vested, except those over which the British government had no jurisdiction, such as securities which were held in foreign countries; perhaps some in Holland, Belgium, France and so on.

Mr. JACKMAN: You refunded one issue in the United States recently?

Mr. VAUGHAN: Yes. We have been refunding issues in the United States as they became due and borrowing the money from the Canadian government to pay them off, so the debt was transferred to the Canadian government from the public.

Mr. POULIOT: Were the perpetuals all repatriated?

Mr. VAUGHAN: All perpetuals that were in England were vested and brought out here and are now in the possession of the government.

Mr. JACKMAN: May I just ask this question? I do not recall the passing of that Act in the House last year where we revised the Canadian National Railways Capital Revision Act pursuant to chapter 8, 1945, as it says here. Why was it found necessary to add Mr. Vaughan and Mr. Walton to the trustees? After all, they are to be trustees on behalf of the people of Canada.

Mr. COOPER: The original Act which set up the securities trust provided that there should be three railway officers as trustees and it named them by positions. I beg your pardon, I am wrong there. I should have said two officers. It was provided that there should be two officers, the chairman of the board of directors and the vice-president of finance. The position of vice-president of finance was abolished in 1945, and therefore it became necessary to amend the Act. The situation now is that two persons nominated by the board of directors of the Canadian National Railways are trustees of the securities trust. The other trustees are officers of the government.

Mr. JACKMAN: The majority are non-railway people?

Mr. COOPER: Yes.

Mr. VAUGHAN: That is correct.

Mr. COOPER: The directors are shown at the front of the Report.

Mr. JACKMAN: Yes; I see them there now.

Mr. VAUGHAN: There has been no additional representation as far as the railway is concerned.

Mr. JACKMAN: I do not recall the change being made in the House. From the note which the trustees make about the cancellation and cremation of these bonds, the inference is that the total issue is not retired, but that there are some bonds under the same mortgage in the hands of the public. Is that the understanding? That is in the first three paragraphs.

Mr. COOPER: The securities which were released were some collateral securities which were being held by the securities trust. The trustees of the mortgages enquired of the railway—as one of them matured in 1943—if it was the desire of the railway to cancel the mortgage. The matter was looked into and it seemed to be an advantage to get that mortgage cancelled, so application was made by the railway to the securities trust. There was no reason why they could not be cancelled and it has been done.

Mr. JACKMAN: It says here:

> ...and the trustees were satisfied that the advantages to the National Railways which would follow such action—

Namely, cremation.

> —are more than sufficient to offset any possible improvement in the position of any securities of the National Railways in the hands of the public which might result therefrom.

I was wondering why that statement had been made and wondered if it was because some bonds of some issue which was cremated were still outstanding in the hands of the public, so that against that specific charge on a piece of the railway you had now less bonds outstanding, and all the bonds so outstanding were in the hands of the public in the place of some of them being in the hands of the securities trust.

Mr. COOPER: Since 1937, from time to time, some of the collateral has been cancelled, for reasons which the railway felt were worth while. The trustees of the securities trust asked the railway for the reasons why they felt these securities should be cancelled, and we gave reasons. Certain language was adopted at the time, that the advantages to the railway in getting these securities out of the way more than offset any possible disadvantage there might be in improving the position of any junior securities; and we continue that language every time we make an application to the securities trust for cancellation. In respect of these particular securities, there is no important advantage accruing to the railway from the cancellation of the securities, except the fact that they served no particular purpose, they were a mortgage on the property, and we were paying fees to outside trustees for no good purpose. It is one of the things necessary to clean up our situation as we have the opportunity to do so.

Mr. JACKMAN: I have not put my question across to you yet, Mr. Cooper. I am simply asking this. You retired certain obligations on certain parts of the line. Are there obligations on those same parts of the system ranking equally or junior to the obligations which you have retired, and are those junior obligations in the hands of the public?

Mr. COOPER: I would say yes, in all probability, without checking that up.

Mr. JACKMAN: But you think there is no improvement?

Mr. COOPER: We do not think that the improvement in the position of the junior securities is important at all.

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

Mr. BOURGET: I second that.

The CHAIRMAN: It has been moved that the report be adopted. What is your pleasure, gentlemen?

(Motion agreed to.)

Hon. Mr. CHEVRIER: The next thing is the auditors' report.

Mr. JACKMAN: I might say, Mr. Chairman, that I think we should take a look at the certificate of the auditors. I think, under the Companies' Act, it has to be read at ordinary company meetings.

Mr. COOPER: Do you wish me to read the balance sheet of the securities trust?

Mr. JACKMAN: Oh, you do not have to do that, I do not believe. It is the same as last year, except for the verbal report, I take it.

64552—4½

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st, December, 1945

Assets

Claims for Principal of Loans—			
Canadian Northern Railway		$312,334,805.10	
Grand Trunk Railway		118,582,182.33	
Grand Trunk Pacific Railway		116,006,599.08	
Canadian National Railway Company		96,936,971.75	$ 643,860,558.26
Claims for Interest on Loans—			
Canadian Northern Railway		$ 309,702,897.65	
Grand Trunk Railway		103,250,802.95	
Grand Trunk Pacific Railway		107,326,622.84	
Canadian National Railway Company		54,501,313.57	574,781,637.01
Transactions subsequent to 1st January, 1937, affecting the book value of the capital stock of the Securities Trust—			
Canadian National Railway System:	Year 1945	Total to Date	
Surplus Earnings	$24,756,130 00	$112,502,061.64	
Capital Gains	....	19,105,651.38	
Capital *Losses*	*2,125,088 53*	*19,933,594.12*	111,674,118.90
Collateral Securities—			
As per Schedule A.1			....
			$2,330,316,314.17

Liabilities

Capital Stock Owned by His Majesty—		
5,000,000 shares of no par value capital stock:—Initial stated value	$ 270,037,437.88	
Gain from transactions subsequent to 1st January, 1937—per contra	111,674,118.90	$ 381,711,556.78
Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value		948,604,757.39
		$1,330,316,314.17

T. H. COOPER,
Comptroller.

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1945.

There have been produced for our inspection the Notes and Other Evidences of Indebtedness, the Collateral Securities and the Certificate of the Special Depositary, as set out in Schedule A.1 attached hereto.

We certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the accounts of the Trust as at the 31st December, 1945, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937,

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1946.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST — Schedule A.1

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NORTHERN RAILWAY:			
3½% Loan, Chapter 6, 1911	$ 2,396,099.68	None. Charge is on premises mortgaged October 4, 1911.	
4% Loan, Chapter 20, 1914	5,294,000.02	None.	
5% Loan, Chapter 4, 1915	10,000,000.00	None.	
6% Loan, Chapter 29, 1916	15,000,000.00	Mortgages dated June 23 and June 26, 1916.	
Temporary Loan, 1918, repaid	....	6% Demand Notes	$ 497,566.80
†6% Loan, Chapter 24, 1917	25,000,000.00	6% Demand Notes	33,012,414.32
†6% Loan, Vote 110, 1918	25,000,000.00	6% Demand Notes	27,203,003.65
†6% Loan, Vote 108, 1919	35,000,000.00	6% Demand Notes	40,031,122.27
†6% Loan, Vote 127, 1920	48,611,077.00	6% Demand Notes	53,008,779.65
†6% Loan, Vote 126, 1921	44,419,806.42	6% Demand Notes	50,259,312.47
†6% Loan, Vote 136, 1922	42,800,000.00	6% Demand Notes	46,691,634.60
6% Loan, War Measures Act, 1918	1,887,821.16	{6% Demand Note	5,700,000.00
		{3½% and 4½% Debenture Stocks	7,139,399.00
†6% Equipment Loan, Chapter 38, 1918	56,926,000.82	6% Demand Notes	56,858,496.44
Indebtedness refunded by Government under Chapter 24, 1917 and Chapter 11, 1918	....	{Miscellaneous Bonds and Debentures	14,097,470.59
		{Miscellaneous Bonds and Debentures	20,721,191.12
†Mortgage covering loans above	....	Mortgage dated November 16, 1917	....
Total Canadian Northern	$ 312,334,805.10		
GRAND TRUNK RAILWAY:			
6% Loan, Vote 478, 1920	$ 25,000,000.00	6% Demand Notes	$ 25,479,226.97
6% Loan, Vote 126, 1921	55,293,435.18	6% Demand Notes	56,646,816.12
6% Loan, Vote 137, 1922	23,288,747.15	6% Demand Notes	23,288,747.15
4% Loan to G.T. Pacific Chapter 23, 1913, guaranteed by Grand Trunk	15,000,000.00	{4% Demand Note	15,000,000.00
		{4% G.T.P. Debentures	15,000,000.00
Temporary Loans, repaid through subsequent issues of guaranteed securities and loans	....	{4% Debenture Stock	60,801,700.00
		{6% 2nd Mortgage Equipment Bonds	1,693,113.33
Total Grand Trunk	$ 118,582,182.33		
GRAND TRUNK PACIFIC RAILWAY:			
3% Bonds, Chapter 24, 1913	$ 33,048,000.00	3% 1st Mortgage Bonds	$ 33,048,000.00
6% Loan, Chapter 4, 1915	6,000,000.00	4% Sterling Bonds	7,499,952.00
6% Loan, Vote 441, 1916	7,081,783.45	Mortgage, June 28, 1916	....
6% Loan, Vote 444, 1917	5,038,053.72	Mortgage, October 18, 1917	....
6% Loan, Vote 110, 1918	7,471,399.93	Mortgage, October 18, 1917	....
Receiver's Advances, P.C. 635, March 26, 1919	45,764,162.35	Receiver's Certificates	53,339,162.74
Interest Guaranteed by Dominion	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest Guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certificates, coupons destroyed	2,925,723.88
Agreement with Government under Chapter 71, 1903	....	Grand Trunk Pacific Development Company Capital Stock	2,999,000.00
Total Grand Trunk Pacific	$ 116,006,599.08		

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Summary of Indebtedness Transferred from the Government to the Securities Trust

Loans Outstanding		**Notes and Collateral Held*	
Canadian National Railway Company:			
6% Loan, Vote 139, 1923	$ 24,550,000.00	6% Canadian Northern Demand Note	$ 12,655,019.57
		G.T.P. Receiver's Certificates	3,313,530.01
		G.T.P. Interest Coupons	1,530,831.96
5% Loan, Vote 137, 1924	10,000,000.00	5% Canadian Northern Demand Note	1,318,315.86
		G.T.P. Receiver's Certificates	4,691,173.58
		G.T.P. Interest Coupons	1,530,822.24
5% Loan, Vote 377, 1925	10,000,000.00	5% Canadian Northern Demand Note	9,496,718.21
		G.T.P. Receiver's Certificates	*Cr.* *1,422,425.17*
		G.T.P. Interest Coupons	1,530,802.80
5% Loan, Vote 372, 1926	10,000,000.00	5% Canadian Northern Demand Note	9,062,624.30
		G.T.P. Receiver's Certificates	*Cr.* *364,898.78*
		G.T.P. Interest Coupons	1,530,880.56
5% Loan, Vote 336, 1929	2,932,652.91	5% Canadian National Railway Company Demand 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
		166,877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
Temporary Loan 1930, repaid	....		
		5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr.* *1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$ 643,860,558.26		

*The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa' excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

Hon. Mr. CHEVRIER: Who is looking after the auditors' report?

Mr. VAUGHAN: Mr. Matthews.

The CHAIRMAN: Is it the wish of the committee to read the auditors' report?

Mr. HAZEN: Yes.

The CHAIRMAN: All right, Mr. Matthews.

Mr. O. A. MATTHEWS: Mr. Chairman and gentlemen, we deal with the Canadian National Railways annual report first. The auditors' report is as follows:

15th March, 1946.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—

Acting under authority of The Canadian National-Canadian Pacific Act, 1933 as amended 1936, and Chapter 6, 1945, "An Act respecting the appointment of Auditors for National Railways," we have audited the accounts of the Canadian National Railway system for the year ended the 31st December, 1945, and we now submit, through you, our report to parliament.

Supplementing our audit certificate appended to the accounts published by the railway, we comment on the consolidated income account, consolidated balance sheet and general scope of audit as follows:

CONSOLIDATED INCOME ACCOUNT

The surplus amounting to $24,756,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before fixed charges and depreciation	$92,306,000
Less: fixed charges	49,009,000
Surplus before depreciation	43,297,000
Less: depreciation	18,541,000
Surplus	$24,756,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Replacements and retirements of fixed properties—excluding the St. Lin line abandonment charged to proprietor's equity;

(*b*) Deferred maintenance on a reduced scale from the previous year—in respect of fixed properties and equipment;

(*c*) Pensions covering

(I) Railway's portion of payments to retired employees under all plans, and

(II) Increase in pension contract reserve for the railway's portion of estimated capital amount of all pension contracts in force at the year end under the 1935 Plan;

(*d*) Insurance premiums mainly on risks carried outside of the insurance fund;

(*e*) Foreign exchange;

(*f*) General taxes, and

(*g*) Balance of amortization of certain defence projects considered as having no potential economic value in post-war operations.

It was not considered necessary to increase the wartime price reserve for material and supplies inventories in 1945.

Fixed charges, shown in the foregoing summary and in accordance with the principles defined by the Interstate Commerce Commission, cover interest on funded debt held by the public, interest on loans from the Government, interest on unfunded debt, amortization of discount on funded debt and rent for leased roads and equipment. The ratio of these fixed charges to operating revenues was 11·3 per cent as compared with 11·4 per cent in the previous year.

Interest and discount on funded debt averaged 4·37 per cent and interest on loans from the dominion government 3·12 per cent or a composite rate of 3·70 per cent at the year end. These percentages are exclusive of foreign exchange.

Depreciation provision has been made for the equipment of both the Canadian and United States lines of the National System. The normal depreciation rate for the Canadian lines has been increased for the full year to equal the latest available composite of the rates used by the Class I railroads in the United States, the special provision made in prior years for abnormal wartime use of equipment being discontinued for the year 1945.

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—depreciation provision has been made during the year for the United States lines of the National System in accordance with the 1943 order but not for the Canadian lines which continue on the retirement basis.

Replacements and retirements of fixed properties, as charged to operating expenses through the appropriate primary accounts in maintenance of way and structures, are matters on which some explanatory comment may be helpful. The term "replacements" refers to major renewals of facilities continued in service whereas the term "retirements" refers to facilities withdrawn from service and not replaced. The aforementioned charges to maintenance of way and structures accounts covering loss of service life, i.e. ledger value less salvage, relate mainly to the following:—

(*a*) Replacements of bridges, buildings, stations, shops, etc. on the Canadian lines only;

(*b*) Replacements of track structure i.e. ties, rails, other track material and ballast, on both the Canadian and United States lines;

(*c*) Retirements of bridges etc. on the Canadian lines only, and

(*d*) Retirements of track structure on both the Canadian and United States lines. The foregoing replacements of bridges etc. are charged to the relative primary accounts for each class of property as are the replacements of track structure with the addition of the track laying and surfacing account and the retirements of bridges etc. together with track structure are charged to road property—retirement account. In addition to these charges for replacements and retirements, the maintenance of way and structures accounts include the cost of "day-to-day" or "running" repairs and renewals on both the Canadian and United States lines. The loss of service life in replacements and retirements of bridges, etc. on the United States lines is charged against the depreciation reserve established under the 1943 order of the Interstate Commerce Commission. In the broad consideration of replacements and retirements, it should be borne in mind that the wartime reserve for deferred maintenance of fixed properties applies partly to such replacements and retirements as were postponed because of traffic demands during the period of military hostilities.

In the matter of current maintenance policy we have received certificates from the responsible officers to the effect that, subject to the war-time conditions which necessitated the provision for deferred maintenance, the fixed properties and equipment of the National System have been maintained in a proper state of repair and in an efficient operating condition during the year.

With respect to physical retirements of fixed properties and equipment, we have been furnished with certificates from the responsible officers to the effect that, insofar as traffic demands would permit, such physical retirements as should have been made during the year 1945, 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 surplus for the year shows an increase of $1,729,000 in comparison with 1944. The decline in operating revenues was more than offset by decreased war-time provisions for deferred maintenance, equipment depreciation and inventory price adjustments; decreases in interest and the net amount of miscellaneous income accounts; that portion of the wage adjustments retroactive to 1943 which was taken up in the 1944 accounts—less additional maintenance work, costs of moving traffic and charges for pensions.

The term "surplus" used in the consolidated income account is synonymous with the term "surplus earnings" used in the Dominion of Canada—proprietor's equity account the composition of which is defined in the Capital Revision Act of 1937.

In the five year period of 1941 to 1945 the National System, with a record volume of traffic, has been able to make loan repayments to the government of $112,502,000 out of working capital created by surpluses. Whilst this has demonstrated that, given the traffic volume, the National System can be operated to the benefit of the broad economy of Canada, we would, nevertheless, commend to Parliament, for such consideration as it may deem practicable and necessary, the impact of the accumulated war-time increases in wage rates and material prices as carried into the post-war period on the operating results from prospective post-war revenues.

Consolidated Balance Sheet

The total amount of the investments in fixed properties and equipment as brought into the National System accounts at the 1st January, 1923, from the books of the several corporations and the Canadian Government Railways was accepted by us. As against the corporate portion of such property investments, there have been applied the substantial reductions authorized by The Canadian National Railways Capital Revision Act, 1937. Since the 1st January, 1923, the net additions and betterments as a whole of the National System have been shown on the basis of cost. During the year 1945 the net additions and betterments amounted to $10,584,000, the principal expenditures being for the purchase of rolling stock and the construction of the Bout de l'Ile Branch Line.

The several special funds of the National System including sinking funds, capital and other reserve funds, deferred maintenance fund, insurance fund and pension contract fund, amounting in total to $85,921,000, are composed principally of investments in the securities of dominion, provincial and municipal governments and in the securities of companies within the National System together with cash. The year-end market value of the securities held in these special funds in total exceeded the book figure. During the year 1945 the total amount of the funds increased $8,780,000.

The insurance fund includes the amount set aside for unadjusted loss claims at the date of the balance sheet. The fund decreased $330,000 during the year as a result of heavier than usual fire losses but, in view of the fact that the long term level of the fund was maintained, no adjustment through operating expenses has been made in 1945.

Investments in affiliated companies, as detailed in the relative schedule, are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, this type of "unlisted" investment is made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. Apart from the Trans-Canada Air Lines, the 1945 financial statements issued by the companies representing the larger investments indicate that:—

(*a*) The affiliates have utilized the funds from the sale of their securities up to the 31st December, 1945, mainly for investment in Fixed Properties Equipment;

(*b*) No operating losses of major importance were sustained during the year 1945 excepting that of $884,000 in the case of the Northern Alberta Railways Company, 50 per cent of which loss has been taken up as an income charge by the National System, the other 50 per cent being chargeable to the Canadian Pacific Railway;

(*c*) Having regard to their working capital position, reasonably liberal dividend policies are followed by those affiliates showing substantial earnings, and

(*d*) No corporate deficits have been accumulated up to the 31st December, 1945. This indicated position, however, should be considered in conjunction with the varying accounting policies relating to accrued depreciation of fixed properties. Generally speaking, the principal affiliates in Canada do not accrue such depreciation whereas those in the United States have done so since the 1st January, 1943, in accordance with the relative order of the Interstate Commerce Commission.

During the year investments in affiliated companies increased $632,000, mainly with respect to the purchase of additional bonds of the Northern Alberta Railways Company and Toronto Terminals Railway Company in order to finance 50 per cent of the capital requirements of those companies in 1945, the other 50 per cent being subject to financing by the Canadian Pacific Railway.

Other investments are comprised partly of securities of the Dominion Government and those of companies within the National System in the amount of $619,000, the balance being represented by "unlisted" investments of a miscellaneous character valued at or below cost. The year-end market value of the Dominion Government and National System securities in total exceeded the book figure. Other investments as a whole decreased $930,000 during the year.

Temporary cash investments are represented by Dominion of Canada securities held principally in respect of the reserves for material and supplies inventories and amortization of defence projects. The year-end market value of these securities exceeded the book figure.

Current assets exceed current liabilities in the amount of $68,873,000 equivalent to a working capital ratio of 2·2 to 1. This compares with $69,376,000 and 2·2 to 1 respectively in 1944. The working capital position of the National System is regulated, broadly, by the application of the cash from depreciation, amortization and surpluses in the reduction of capital debt and requirements for capital additions and betterments.

Other deferred assets are composed mainly of contracts receivable in connection with the sale of land in Western Canada. It may be of interest to note that the unsold land is included in miscellaneous physical property.

Discount on funded debt represents the unamortized portion of the discount incurred at the time the relative securities were sold, which will be written off against income in annual instalments during the remaining life of each issue.

Other unadjusted debits consist of the unamortized cost of opening ballast pits which is to be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Long term debt does not include securities held in the treasury of the railway nor those held as collateral by The Canadian National Railways Securities Trust and the Dominion Government.

The combined capital debt was reduced by the net amount of $27,176,000 during the year. Generally speaking, this net reduction results from loan repayments to the government out of working capital created by surpluses, plus serial debt payments—less the balance of capital requirements for additions and betterments.

The corporate reserves for pension contracts, insurance, depreciation, amortization of defence projects, deferred maintenance and material and supplies inventories aggregate $185,631,000, of which $89,616,000 is represented by special funds and other specific investments. Furthermore, of the aforementioned $185,631,000 some $71,843,000 represents the amount carried forward in respect of special war-time provisions for depreciation of equipment in excess of normal rates, amortization of defence projects, deferred maintenance and material and supplies inventories. The reserves as a whole increased $25,464,000 during the year.

Accrued depreciation—Canadian Lines—applies only to equipment and dates from the 1st January, 1940, retirement accounting continuing in effect for fixed properties.

Accrued depreciation—United States Lines—applies to equipment from a date prior to the 1st January, 1923, and to fixed properties (excluding track structure) mainly from the 1st January, 1943.

Other deferred liabilities are comprised principally of the outstanding capital amounts of the workmen's compensation awards by the Provinces of Ontario and Quebec, and the balance of the obligation to the State of Michigan in respect of the wider Woodward Avenue extension in Detroit.

Other unadjusted credits are made up of the Canadian Lines' estimated proportion of prepaid revenues on freight in transit; estimated liability for injuries to persons; estimated liability for loss and damage claims, and credit items not otherwise provided for or which can not be disposed of until additional information is received.

Dominion of Canada—Proprietor's Equity—is set forth in the balance sheet and the relative schedule in accordance with section 2 (*f*) of The Canadian National Railways Capital Revision Act, 1937, which defines the composition of the account. The dominion's equity increased in the net amount of $22,631,000 during the year as the result of surplus earnings less capital losses on the abandonment of the St. Lin subdivision and the retirement of equipment. In respect of the latter item it should be pointed out that as no depreciation accruals were made prior to 1940, the loss of service life, i.e., ledger value less salvage, has been charged against the reserve to the extent of depreciation accruals from 1940 the balance being charged against the equity account, which procedure is in line with the principle adopted by the Interstate Commerce Commission when depreciation accounting for equipment was first instituted for United States railways. The following explanatory comments may be of some value in clarifying this account;

(*a*) The Proprietor's Equity Account, as detailed in the relative schedule, may be compared in principle with the shareholders' equity in privately owned corporations represented by the combined book value of capital stock and surplus.

(*b*) The Capital Stock of the Canadian National Railway Company is the medium through which the Dominion controls the corporations which formerly were privately owned but now form part of the National System.

(*c*) The initial stated value of the capital stock of The Canadian National Railways Securities Trust is shown as at the 1st January, 1937, and represents the total amount of the corporate loans by the Dominion utilized for capital purposes prior to that date as converted to share capital.

(*d*) The surplus earnings of $112,502,000 are for the years 1941 to 1945 inclusive and the capital gains on repatriation of securities and capital losses on major retirements of road and equipment not covered by depreciation accruals are for the years 1937 to 1945 inclusive. These surplus earnings, capital gains and capital losses of the National System have been applied in their entirety to the capital stock of the Securities Trust. Section 12 of The Canadian National-Canadian Pacific Act, 1933 as amended 1936, stipulates that "Income deficits shall not be funded".

(*e*) The capital expenditures by Dominion of Canada on Canadian Government Railways represent the direct appropriations by parliament prior to entrustment and are exclusive of certain capital expenditures on the Crown property financed by the Canadian National Railway Company out of funded debt issues and government loans.

Major contingent liabilities are outlined in the relative schedule. In respect of Pension Plans referred to therein, we would point out that:—

(*a*) Under the 1935 Contractual Plan a reserve is set up on the books of the railway against the estimated capital value of contracts in force but not against pensions conditionally accruing. The reserve is represented by the Pension Contract Fund the assets of which, amounting to $29,671,000, are in the form of Dominion of Canada securities together with accrued interest and cash. The contributions by employees presently in service are invested through the separately administered Pension Trust Fund, the accounts of which are not included with those of the railway. The assets of the separate Pension Trust Fund amounting to $21,197,000 are in the form of Dominion of Canada and Dominion Guaranteed National System securities together with accrued interest and cash. The total amount of the two funds in operation under the 1935 Plan is $50,868,000.

(*b*) Under prior non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

In considering the foreging, it should be borne in mind that operating expenses are charged with pension costs covering

(I) Railway's portion of payments to retired employees under all Plans, and

(II) Increase in Pension Contract Reserve for the railway's portion of the estimated capital amount of all Pension Contracts in force at the year end under the 1935 plan.

Where foreign currencies are involved, the accounts of the National System are stated in Canadian funds converted mainly at the par of exchange.

During 1945 the Interstate Commerce Commission prescribed changes in the composition of certain primary accounts in the balance sheets of United States railways. In so far as they were applicable, the National System has adopted such changes in the Consolidated Balance Sheet.

General Scope of Audit

The general scope of the test audit of the National System accounts for the year 1945 may be outlined briefly as follows:—

(*a*) Examination of major expenditure authorities in conjunction with the recorded resolutions of the directors, which in turn are related to Corporate By-Laws, Orders in Council and Acts of Parliament;

(*b*) Audit tests in the offices of regions, separately operated properties and system headquarters, limited to a cross-section of the major expenditures so authorized;

(*c*) Examination into the adequacy of the internal audit control in general as exercised by the accounting staff of the system. In this connection we work in collaboration with the executive accounting officers at headquarters having as a common objective the securing of maximum internal protection to the system in the control of cash receipts and expenditures, securities held, material stores, accounts receivable, etc., and through the carrying of Fidelity Bond Insurance with outside Underwriters, and

(*d*) Audit and certification of the Consolidated Income Account and Consolidated Balance Sheet for presentation to parliament, which body is thus placed in possession of facts upon which conclusions can be reached as to the stewardship of the duly appointed administrators of the system.

The test audit covers the various balance sheet accounting units in Canada, the United States and Great Britain with Income Accounts originating in the Revenue Offices, Regions, Separately Operated Properties and System Headquarters. These accounts apply to some 86 companies, as detailed in the relative schedule, and the Canadian Government Railways which comprise the National System as an operating entity.

Apart from those pertaining to the Canadian Government Merchant Marine Limited and the Trans-Canada Air Lines, the holdings in the capital stocks of the affiliated companies, as set out in the relative schedule, are insufficient to give voting control and accordingly the companies are not treated as units of the National System nor are their accounts audited by us. In a few instances their accounts are certified by public accountants but for the most part they are audited by joint committees composed of National System accountants and representatives of outside interests.

Canadian National Railways Securities Trust

The constitution of the Securities Trust is set out in Section 12 of The Canadian National Railways Capital Revision Act, 1937 as amended 1945, as follows:—

> There shall be a corporation to be known as "The Canadian National Railways Securities Trust," hereinafter in this Act referred to as the "Securities Trust," consisting of five trustees who shall be the persons who, respectively, hold the offices from time to time of Deputy Minister of Finance, Deputy Minister of Transport and Deputy Minister of Justice and such two officers of the National Railways as may be named from time to time by resolution of the Board of Directors of the National Railways. The trustees shall serve without remuneration.

The primary function of the securities trust, as provided in Section 13 of the Capital Revision Act, is the holding alive of the corporate indebtedness (formerly to the Dominion but now to the Trust) and relative collateral securities, for the purpose of preserving any priority rights of the Dominion in respect of certain unguaranteed securities and subsidiary company capital stocks held by the public. This function of the Trust lessens in importance with the passing of time as unguaranteed securities are redeemed and the relative subsidiary companies are liquidated.

Supplementing our audit certificate appended to the accounts published by the Securities Trust, we comment on the balance sheet as follows:—

The Securities Trust, under authority of Section 22 of the Capital Revision Act, has been treated as a constituent unit of the National System. There is, however, a provision in Section 23 of the Act requiring presentation to Parliament annually of a Trustees' Report and a separate balance sheet for the Trust. It is further provided that the Trustees' Report is to set forth the transactions of the Trust during each year, which are deemed to comprise the net change in the book value of its capital stock originating in the accounts of the Railway and, subject to the approval of the Governor in Council, any releases of indebtedness or collateral securities belonging to the Trust.

The next is the Canadian National West Indies Steamships Limited.

Mr. REID: I think we can take a rest right there. You have done very well.

Mr. LACROIX: I suggest the adoption of the report.

The Acting CHAIRMAN: Is that seconded?

Mr. JACKMAN: We might ask a few questions on it. You mention insurance premiums mainly on risks carried outside of the insurance fund. Later on you speak of certain fidelity insurance being carried by the company?

Mr. MATTHEWS: Yes.

Mr. JACKMAN: As we heard before there is no substantial amount of insurance carried outside the system itself, is there? They carry their own insurance with what exceptions?

Mr. MATTHEWS: In 1945 the total of the premiums approximated $170,000. That is premiums paid by system companies of which about $100,000 were reinsured and about $70,000 was contributed to the fund principally by the Grand Trunk Western. That is the principal exception. In other words, outside of the Grand Trunk Western the premiums within the fund are not charged.

Mr. JACKMAN: As I understand it from what you have said $170,000 was paid in premiums?

Mr. MATTHEWS: That is right, into the fund, premiums collected by the insurance fund and paid in there by system companies, of which $170,000 approximately $100,000 was used as premiums for reinsurance with outside underwriters.

Mr. REID: You state that repayments have been made to the government of $112,502,000. What has that meant in the reduction of interest charges?

Mr. MATTHEWS: It would reduce the capital outstanding at the end of each of those years and to the extent and on the basis of the interest rate then charged by the government.

Mr. REID: That is a substantial reduction.

Mr. MATTHEWS: It has been a reduction in the capital indebtedness.

Mr. REID: I think I asked this question last year but I always come back to it. These are round figures that you gave us on page 1. On page 1 you have $24,756,000 and in the balance sheet it is $130 out.

Mr. MATTHEWS: That is right. We go to the nearest thousand for those figures.

Mr. JACKMAN: What was the nature of the risks that required $100,000 of reinsurance and at the same time may I ask if there is any ruling under I.C.C. practice in regard to a railway carrying its own insurance?

Mr. MATTHEWS: No.

Mr. JACKMAN: They may carry it themselves or outside?

Mr. MATTHEWS: As far as this insurance fund is concerned, it applies principally in Canada, in any event.

Mr. JACKMAN: You mentioned the Grand Trunk Western.

Mr. MATTHEWS: The Grand Trunk Western. You wanted a general statement.

Mr. JACKMAN: Just generally the nature of the risks. Perhaps some of the officers would have that.

Mr. MATTHEWS: No, I can give it to you. The reinsurance covered the Grand Trunk Milwaukee Car Ferry, the Ontario Car Ferry, Pacific Coast Steamships, a war risk, the Eastern Car Ferry, employees' automobile liability insurance, London office, and a few others. Those are the main items.

Mr. JACKMAN: Is there any particular principle behind this carrying of reinsurance with outside companies that does not apply to the risks which the company carries itself?

Mr. MATTHEWS: That is a matter of corporate policy. I think perhaps you might direct that question to Mr. Vaughan.

Mr. VAUGHAN: What was that question?

Mr. JACKMAN: You paid $100,000 for reinsurance in connection with certain risks, and Mr. Matthews outlined the particular risks that were insured outside. I was just wondering what principle determines whether or not you will carry it yourself or whether you will resort to an outside underwriter.

Mr. VAUGHAN: Where we have an outside risk of that kind there is always a particular reason for it. Mr. Matthews mentioned the Milwaukee Car Ferry. The Pennsylvania Railway have an interest in that. As to the Ontario Car Ferry, the B. & O. railway have a half interest. That is a joint account. We do not think it is wise for us to carry the entire risk in those cases.

Mr. JACKMAN: And as you say under I.C.C. practice the railway may or may not carry its own insurance?

Mr. MATTHEWS: I have no knowledge of any prohibition in that regard.

Mr. VAUGHAN: Mr. Cooper would know that.

Mr. COOPER: Under I.C.C. there is no prohibition against a company carrying its own risks, none whatever.

The ACTING CHAIRMAN: Are there any other questions?

Mr. HAZEN: I do not know how you pronounce it but there is the construction of the Bout de l'Ile line.

Mr. VAUGHAN: That runs on the Island of Montreal from where the tunnel comes out from the new station to the eastern end of the Island of Montreal.

Mr. HAZEN: How many miles?

Mr. WALTON: 14 miles.

Mr. HAZEN: It cost about half a million dollars?

Mr. VAUGHAN: It cost more than that. I think the total cost was $2,500,000 or $3,000,000.

Mr. WALTON: About $2,800,000, in round figures.

The ACTING CHAIRMAN: It has been moved by Mr. LaCroix and seconded by Mr. Reid that the report be adopted.

Mr. JACKMAN: I am sorry but on page 4 in paragraph (*c*) you say:

> Having regard to their working capital position, reasonably liberal dividend policies are followed by those affiliates showing substantial earnings.

May I ask about how much was added to their earned surplus that was not disbursed to the owning company?

Mr. MATTHEWS: I could file that. I have not the details for each company.

Mr. JACKMAN: Would it amount to some hundreds of thousands, or some millions?

Mr. MATTHEWS: Oh, no, not millions. I can get that for you.

Mr. JACKMAN: It is a relatively small amount?

Mr. MATTHEWS: Yes. It does not run into millions or anything like that, as far as annual dividends are concerned.

Mr. JACKMAN: Do you know how much was paid in dividends by affiliated companies to the parent?

Mr. MATTHEWS: Yes, I can get you that, but I do not think I have got it in my papers right here, but I will file it for you.

Mr. JACKMAN: Are there not quite large affiliated companies from which the system derives substantial dividends? I was wondering how much was held back to build up the affiliates.

Mr. MATTHEWS: That is a point we make that from examination of the accounts taking into consideration the working capital position of each of the companies there is no indication they are piling up net current assets, in other words, withholding dividends.

Mr. JACKMAN: I quite appreciate it may be sound corporate policy for an affiliate to retain a large or small part of its surplus earnings and not declare them in dividends, but if the affiliate was in a bad position and needed working capital greatly it might only pay out 15 or 25 per cent of its earnings to the parent?

Mr. MATTHEWS: That is a point we make in the Report—

Mr. JACKMAN: How much better off is the system by reason of its share of the increased earned surplus in the affiliated companies which has not been declared out in dividends?

Mr. MATTHEWS: Would you like to have the dividends paid for any given year? Is that what you want? A list of the dividends paid or information on their working capital position?

Mr. JACKMAN: I only want to ask a question which will bring out information as to whether or not the system is earning a considerable amount of money in its affiliates which has not been declared out to the system?

Mr. MATTHEWS: We say not, that from examination of the accounts of the affiliated companies we do not think there is any evidence they are withholding dividends beyond a reasonable proportion of working capital.

Mr. JACKMAN: The word "reasonable" does not answer my question. If an affiliated company needs to build up its own position, it would be very unreasonable for them to pay out a substantial amount of earnings to the parent?

Mr. MATTHEWS: Quite right.

Mr. JACKMAN: But it might be earning money all the same.

Mr. MATTHEWS: Perhaps in these affiliate companies it is well to bear in mind the purpose of the investments. They are not made primarily as an investment to earn money on the investment. They are of a character for traffic interchange and terminal facilities. For instance, the Toronto Terminal Railways is a sample and, of course, we have indicated to you about the Northern Alberta. Dividends are not available there but on two or three of the American affiliates, we could give you that.

Mr. JACKMAN: I see that the total book value of investments in affiliated companies is only $10,000,000 anyway. It is not very substantial.

Mr. MATTHEWS: In affiliates?

Mr. JACKMAN: $10,000,000 is the total investment.

Mr. MATTHEWS: That is in stocks but in the bonds there is $28,000,000. There is only $10,000,000 for stocks.

Mr. JACKMAN: Oh yes, I see.

Mr. MATTHEWS: And $28,000,000 for bonds.

Mr. JACKMAN: And $41,000,000 for advances?

Mr. MATTHEWS: No, $2,500,000 for advances.

Mr. JACKMAN: A total of $41,000,000.

Mr. MATTHEWS: Yes. The Northern Alberta is the road to which we referred as to the amount of the deficit, and the Toronto Terminals are strictly a terminal facility.

The ACTING CHAIRMAN: Are there any other questions on that report?

Mr. JACKMAN: On page 6, paragraph (*b*) you say:

> Under prior non-contractual plans no reserve is set up against either the capital value of pensions now being paid or those conditionally accruing.

You are speaking of the pensions. Is the amount which will be charged to current operations to meet these pensions likely to be in an ascending scale or a descending one from now on?

Mr. MATTHEWS: I could not answer you that. I would not want to project a figure. I would rather you would ask the company that.

Mr. VAUGHAN: I think Mr. Cooper can give us that figure, roughly.

Mr. COOPER: There is no doubt that our pension costs will increase for some years to come; I would think for the next 15 years.

Mr. JACKMAN: Do you know approximately how much they were for last year?

Mr. COOPER: Last year they were $9,000,000.

Mr. JACKMAN: This is under the non-contractual plan?

Mr. COOPER: No. This is under all plans.

Mr. JACKMAN: I presume the contractual plans are pretty well self-supporting?

Mr. COOPER: Under the old pension plan—and that fund was closed in 1935—anybody who had been pensioned at that date today must be at least, say, 76 years of age, and it cannot go on very much longer.

Mr. JACKMAN: The contractual plan, I take it, is self-supporting?

Mr. COOPER: The non-contractual plan in 1945 cost us $684,000. In the previous year it was $770,000. So there is a reduction for the year of $90,000. I would think that reduction per annum would accelerate. But actuarially, a pensioner could live to, say, 100 and it is possible for the non-contractual plan to involve charges against the railway for the next 20 years, but they are on a diminishing scale. It is only a matter of a few years before that plan will be no burden whatever on the railway.

Mr. JACKMAN: And under the contractual plan, the pensions are self-supporting, actuarially?

Mr. COOPER: Yes. That is to say, when an employee goes on pension, he gets a contract under which the Canadian National Railway company agrees to pay him a fixed amount per month as long as he shall live, or in the case of a joint and survivor, or a guaranteed type of pension according to the terms of the contract. The actuarial value of each one of those contracts is computed and the amount is taken and charged to operating expenses and is invested in securities.

Mr. JACKMAN: They are self-supporting; and the non-contractual plan will shortly disappear and will diminish from year to year.

Mr. COOPER: At the end of 1945 we had in our contractual plan fund $29,671,000. That was something we began in 1944, it has been going only three years. We have done very well.

Mr. JACKMAN: Mr. Matthews, you are quite in agreement with the action under the securities trust in cancelling those securities?

Mr. MATTHEWS: Yes, sir. That is in strict accordance with the Act. It was also approved by Order in Council.

Mr. JACKMAN: But it passes your judgment as auditors?

Mr. MATTHEWS: Yes. It is all leading up to a simplification of the internal capital structure of the system.

The ACTING CHAIRMAN: Are there any other questions, gentlemen?

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

The ACTING CHAIRMAN: Now, will you read the Canadian National (West Indies) Steamships Limited?

Hon. Mr. CHEVRIER: Could we not take that as read?

The ACTING CHAIRMAN: Will you take that as read?

Mr. REID: I think we could very well take it as read. It is very well written.

Mr. JACKMAN: What is the use of having a report, then?

Hon. Mr. CHEVRIER: We have spent quite a lot of time on the steamships this afternoon, and there are still some items of estimates to go through. I wondered whether we could not just consider this as read.

Mr. REID: I move that it be taken as read, and considered and adopted.

Mr. JACKMAN: I might just ask this. Is there anything in it to which he wishes to direct our attention especially? Is there anything, Mr. Matthews, that you want to draw to our attention in this West Indies report?

Mr. NICHOLSON: Would you care to make any comment on the discussions earlier in the day about this item of $5,039,000?

Mr. MATTHEWS: Only to say, Mr. Nicholson, that so long as the Department of Finance furnishes us with a certificate to the effect that the $5,000,000 is owing, there is no other course.

Mr. NICHOLSON: I appreciate that, but from the point of view of audit, what do you say?

Mr. MATTHEWS: I would not consider that would be part of our function. I think it is a matter of government policy, and our job we regard to be the setting out of facts. As long as the Department of Finance regard it as a liability, we have no alternative.

Mr. NICHOLSON: The taxpayer of Canada is also interested.

Mr. REID: As an auditor, it would be an easy figure for you to add each year.

Mr. JACKMAN: May I ask this question of Mr. Matthews? Are there many companies which your firm audits, and with which you are familiar, where a deficit has been carried for 15 years or more and interest has accrued each year and piled up there?

Mr. MATTHEWS: No.

Mr. JACKMAN: Do you know of any?

Mr. MATTHEWS: No. It is in the same category as the Canadian National Railway system was in 1937 when the Capital Revision Act was brought in; the same principle.

Hon. Mr. CHEVRIER: Do you audit any other railway company besides the national system?

Mr. MATTHEWS: Not in Canada. But we regard that as a matter of policy outside our function. Our job is to set out facts to the committee and not matters of policy.

Mr. NICHOLSON: I appreciate that very much. But if you were auditing for a private company, would you not have some comment to make?

Mr. MATTHEWS: If we were auditing a commercial corporation with a deficit of $5,000,000 and which owed the bank or anyone else the same amount, that would be set out in the balance sheet as it is in the case of the West Indies steamships; and it would again be a matter of corporate policy as to re-organization.

Mr. NICHOLSON: Would you not have some comment to make regarding the carrying on of this for 15 years?

Hon. Mr. CHEVRIER: Has not that matter been disposed of pretty much by the committee?

Mr. NICHOLSON: I think it is quite relevant.

Hon. Mr. CHEVRIER: I do not want to interrupt you, but what you want the witness to say is exactly contrary to what the committee has already said by way of decision.

Mr. NICHOLSON: Yes. But I think I am quite in order in getting the auditor's comment regarding a matter of bookkeeping of this nature.

Mr. JACKMAN: Perhaps the auditor would simply say whether or not there is any difference so far as accounting principle is concerned here.

Hon. Mr. CHEVRIER: He has already said, has he not, that it is not a matter for him to say.

Mr. REID: As an auditor, it would not be difficult to add that $5,000,000 to a balance sheet. What is the use of asking the auditor about it, if it makes no difference to him?

Mr. MATTHEWS: Based upon the liability, the legal liability—the Department of Finance says it is a liability, and so long as that remains there is no other course.

Mr. JACKMAN: If I may say so, the minister seemed to be endeavouring to discredit the witness by asking whether or not the firm audited any other railways. But what I am asking the witness is if there is any difference in accounting principles, whether these are railway accounts or whether they are accounts of any other corporation?

Mr. MATTHEWS: I think as long as a company—it matters little what kind of a company it is—has a liability, regardless of why or for what purpose the money is borrowed, there is no alternative but to state it so long as the corporate owners of that property make no alteration in their capital structure.

Hon. Mr. CHEVRIER: May I point out, Mr. Jackman, that I was asking a question, not attempting to discredit the witness. In order to discredit a witness one proceeds otherwise. You know that, being a lawyer.

Mr. JACKMAN: I was not serious.

(The auditors' report on Canadian National (West Indies) Steamships Limited follows.)

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

15th March, 1946.

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir:—

Acting under your authority we have audited the accounts of the Canadian National (West Indies) Steamships, Limited for the year ended the 31st December, 1945, and we now submit our report thereon.

The accounts of the Steamships and its subsidiary companies are not consolidated with those of the National System, the 100 per cent stock ownership of the parent steamship company being vested in the Dominion government.

Supplmenting our audit certificate appended to the accounts published by the Steamships, we comment on the consolidated income account, consolidated profit and loss account and consolidated balance sheet as follows:—

Consolidated Income Account

The consolidated income account reflects the results of the Canada-West Indies operations, agency services rendered mainly to Park Steamships and to the war-time Canadian Government Merchant Marine and the temporary chartering of certain ships to the Dominion government and others.

The surplus amounting to $1,116,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before interest and depreciation	$ 2,008,000
Less: interest	613,000
Surplus before depreciation	$ 1,395,000
Less: depreciation	279,000
Surplus	$ 1,116,000

The general expenses of operation include the cost of wages, materials, etc. together with the following items which may be of interest:—

(*a*) Administrative charges by Canadian National Railways;

(*b*) Pension payments to the Canadian National Railway Company as pension contract underwriter;

(*c*) Insurance premiums on risks carried both by the insurance fund and outside underwriters;

(*d*) Foreign exchange, and

(*e*) General taxes.

Interest and discount on funded debt averaged 5·03 per cent and interest on loans from the Dominion government 2·5 per cent or a composite rate of 4·15 per cent at the year end. These percentages are exclusive of foreign exchange.

Depreciation covers both the Lady ships and the freighters at the uniform rate of 5 per cent for the year.

We have received the customary certificates from the responsible officers of the Steamships relating to current maintenance and physical retirements of capital assets.

The surplus for the year show a decrease of $155,000 in comparison with 1944. The reduction in operating revenue caused a decrease in the direct operating profit, and the adjustment to a 5 per cent rate for freight vessels added to the depreciation charges. As against this, however, the cost of government interest was reduced and replacement fund earnings were credited to the income account for the first time.

Consolidated Profit and Loss Account

The deficit decreased in the net amount of $3,106,000 during the year as the result of the surplus in 1945 and the transfer of the replacement reserve representing the accumulated capital gains and earnings of the fund up to the end of 1944—less certain adjustments of past depreciation accruals.

Consolidated Balance Sheet

Investment in vessels is carried on the basis of cost. During the year this investment was reduced by $30,000 as a result of insulation retirements on the SS. "Cavelier". Plant and equipment were written off to operating expenses and office furniture and fixtures were transferred to inventories in 1945.

Accrued depreciation covers the period from the inception of operations in 1929 to 1945.

Replacement and insurance funds aggregating $8,001,000 are composed principally of investments in the securities of Dominion, provincial and municipal governments together with cash and unsettled claims against underwriters. The year-end market value of the securities held in these funds exceeded the book figure.

The replacement fund is maintained for the purpose of providing either for vessel replacement or redemption of the outstanding bonds at their maturity. The fund increased $627,00 during the year.

The insurance fund includes the amount set aside for unadjusted loss claims at the date of the balance sheet. The risk coverage is exclusive of the Lady ships which were under charter at the end of 1945 to the Dominion government. The fund increased $106,000 during the year.

Current assets exceed current liabilities in the amount of $717,000 equivalent to a working capital ratio of 1·5 to 1. This compares with $959,000 and 1·8 to 1 respectively in 1944. The working capital position of the Steamships is regulated, broadly, by the depositing of the cash from depreciation in the replacement fund and by the application of the cash from surpluses in reduction of Dominion government loans and any requirements for capital additions and betterments.

Discount on capital stock represents the intangible book value set up at the time of incorporation to offset the par value of the 400 shares at $100 each issued without cash or equivalent consideration.

Capital stock and funded debt remained unchanged in 1945.

Dominion of Canada advances were reduced by $1,033,000 during the year as a result of loan repayments to the government out of working capital created by surpluses and out of the replacement fund.

Unadjusted credits are comprised largely of uncompleted voyage suspense items, miscellaneous accruals and estimated provisions for liabilities the actual amounts of which were not determinable at the date of the balance sheet.

Profit and loss covers the period from the inception of operations in 1929 to 1945. In considering the deficit it is well to remember that interest on advances for deficits has been charged for the entire period.

With reference to the contingent liability for steamships pensions, we would point out that a funded reserve is provided through the C.N.R. as pension contract underwriter against the estimated capital value of contracts in force under the 1935 plan but not against pensions conditionally accruing. In this connection it should be borne in mind that operating expenses of the Steamships are charged with pension payments to the C.N.R. pension contract fund. The contributions by the Steamships employees presently in service are invested through the separately administered pension trust fund under the C.N.R. 1935 plan.

Where foreign currencies are involved, the accounts of the Steamships are stated in Canadian funds converted mainly at the par of exchange.

The test audit of the Steamships for the year 1945 was similar in scope to that of the National System previously outlined in this report.

The ACTING CHAIRMAN: Gentlemen, there were three items of estimates referred to us. Could we pass those?

Mr. NICHOLSON: Could they not stand until the T.C.A. report is before us?

Hon. Mr. CHEVRIER: No. These are items of the Department of Transport. They have nothing to do with T.C.A. They were passed, if you remember, at the end of these sittings last year. There are three small items. I wonder if I could just say a word about them? But first might I mention the Hudson Bay Railway. There is an ordinary capital item. It is covered by vote No. 416, and it is for $15,500.

Mr. JACKMAN: It is an ordinary capital item? You mean it is to make up the annual deficit?

Hon. Mr. CHEVRIER: No. There is another vote for that. The 416 vote is the one having to do with capital money for construction and improvements. It is a small amount that is voted each year for capital account. This year the railway wants $15,500. The details of that are set out here.

Mr. JACKMAN: Whereabouts?

Hon. Mr. CHEVRIER: In the book of estimates that I have. They are:

Capital portion of cost of filling trestle at mileage 352·4	$14,000	
Engineering and supervision	1,000	
		$15,000
Provision for payment for land acquired at Churchill, Manitoba, for railway right-of-way		500
		$15,500

Mr. HAZEN: Where are you reading from?

Hon. Mr. CHEVRIER: I am reading details concerning vote 416.

Mr. NICHOLSON: Do we require the Canadian National officials here for this discussion?

Hon. Mr. CHEVRIER: I do not think so, unless you want to ask some questions on the operations of the Hudson Bay Railway.

Mr. NICHOLSON: If there are several more items, and as it is almost 6 o'clock, I am wondering if we do have to have them.

The ACTING CHAIRMAN: There are just three items referred to us.

Mr. NICHOLSON: The committee has to meet again the week after next. We are not finished with our business.

Hon. Mr. CHEVRIER: It has been the practice to finish the railway business. It has been the practice to dispose of the railway business, and in the past it has been disposed of in a very short time. If you want me to come back to-morrow, I will. But I would ask the committee to dispose of it tonight, if we can do so. I think we ought to do that.

Mr. HAZEN: Let us try to do it.

Mr. JACKMAN: May I suggest that we at least have tabled a similar statement to the one which we had last year on the operations of the Hudson Bay Railway.

Hon. Mr. CHEVRIER: I have it here, and I will file it.

Mr. JACKMAN: I should like to have a copy myself.

Hon. Mr. CHEVRIER: I will see that it is distributed.

Mr. JACKMAN: Perhaps I can just ask a general question. Is there anything new in the Hudson Bay Railway operations?

Mr. VAUGHAN: No, there is not. The railway has to be operated. It is operated with a minimum of service. There is no change in the situation.

Hon. Mr. CHEVRIER: Mr. Jackman, there is a very up-to-date report by Mr. Fairweather on the present position of the Hudson Bay Railway, which I would be glad to file.

Mr. JACKMAN: You will be asking for a vote for the Hudson Bay Railway of how much?

Hon. Mr. CHEVRIER: There will be a capital vote of $15,500; and for operations, deficit account, $525,000.

Mr. JACKMAN: It will probably mean throwing good money after bad, I suppose.

Hon. Mr. CHEVRIER: Vote 422, Maritime Freight Rates Act, is a statutory item which is paid to the Canadian National Railways by virtue of section 9 of the Maritime Freight Rates Act, amounting this year to $3,042,000.

Mr. REID: I move it be passed.

The ACTING CHAIRMAN: That is carried?

(Motion agreed to.)

Hon. Mr. CHEVRIER: Vote 423, other companies under the Maritime Freight Rates Act, the difference between the tariff tolls and the normal tolls, $900,000.

Mr. LACROIX: I move that it be passed.

(Motion agreed to.)

Hon. Mr. CHEVRIER: Vote 469, deficit on Prince Edward Island car ferry, $707,000.

Mr. LACROIX: I move it be passed.

(Motion agreed to.)

Hon. Mr. CHEVRIER: Then, if I understand this aright, votes 422, 423 and 469 are approved; but I am to file Mr. Fairweather's report later on.

Mr. JACKMAN: Is that P.E.I. estimate a statutory one?

Hon. Mr. CHEVRIER: No.

Mr. JACKMAN: Then on behalf of Mr. McLure, I think I should object to the passing of that deficit until we get the rates on the ferries adjusted.

Hon. Mr. CHEVRIER: Well, yes. Is my understanding correct?

Mr. LACROIX: I so move.

The ACTING CHAIRMAN: Those three items are carried, then.

Hon. Mr. CHEVRIER: I file now, Mr. Jackman, a statement of the Hudson Bay Railway covering consolidated income account, fiscal year 1945-46 and fiscal year 1944-45. It gives you a detailed statement of what you wish. (Printed as Appendix "C".)

Mr. JACKMAN: Thank you.

Hon. Mr. CHEVRIER: A copy for every member of the committee has now been distributed.

Mr. HAZEN: That statement of the Hudson Bay Railway causes some concern.

Hon. Mr. CHEVRIER: It certanly does.

Mr. HAZEN: It seems to me something will have to be done some of these days.

Hon. Mr. CHEVRIER: I received a note from Mr. Howe a moment ago with reference to Trans-Canada Air Lines. I wonder if it would be agreeable to the committee to sit on the 28th of May? That jumps next week. We will meet on Tuesday, the 28th. That I think, follows the suggestion of the committee a day or two ago.

The committee adjourned at 6.10 p.m. to meet again on Tuesday, May 28, 1946.

DEPARTMENT OF TRANSPORT — Appendix C

HUDSON BAY RAILWAY

Consolidated Income Account Fiscal Year 1945-46 and Fiscal Year 1944-45

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Railway Operating Revenues		
Freight	$ 157,472 03	$ 150,481 22
Passenger	41,917 04	42,074 39
Mail	2,420 01	3,654 22
Express	11,224 06	6,601 50
Telegraphs	15,978 39	21,704 54
All Other	16,275 67	21,713 25
Total Operating Revenues	$ 245,287 20	$ 246,229 12
Railway Operating Expenses		
Maintenance of Way and Structures	$ 364,482 94	$ 396,331 54
Maintenance of Equipment	55,908 89	52,984 96
Transportation	190,944 51	216,307 65
Miscellaneous Operations	14,718 83	18,943 53
General	25,345 08	26,580 54
Total Operating Expenses	$ 651,400 25	$ 711,148 22
Net Operating Revenue	$ 406,113 05*	$ 464,919 10*
Taxes	$ 3,284 85	$ 3,648 38
Railway Operating Income	$ 409,397 90*	$ 468,603 48*
Equipment Rentals		
Hire of Freight Cars—Debit	$ 33,982 90	$ 31,058 97
Rent for Locomotives	34,753 83	43,965 25
Rent for Passenger Train Cars	8,022 14	4,807 86
Rent for Work Equipment	25,399 12	28,178 38
Total Equipment Rentals	$ 102,157 99	$ 108,010 46
Joint Facility Rents—Credit	$ 11,780 00	$ 11,510 00
Miscellaneous Rent Income—Credit	111,66	163 92
	$ 11,891 66	$ 11,673 92
Net Deficit	$ 499,664 23*	$ 564,940 02*

* Loss.

HUDSON BAY RAILWAY

Railway Operating Revenues and Expenses

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Railway Operating Revenues		
Freight	$ 157,472 03	$ 150,481 22
Passenger	41,917 04	42,074 39
Baggage	404 29	447 94
Sleeping Car	....	3,081 35
Mail	2,420 01	3,654 22
Railway Express	11,224 06	6,601 50
Other Passenger-train	622 17	283 69
Milk	143 40	206 16
Switching	90 00	600 60
Dining and buffet	....	1,238 90
Restaurants and Boarding Cars	9,553 72	11,019 95
Station, train and boat privileges	391 30	688 58
Storage-Freight	88 54	25 14
Demurrage	1 65	131 16
Telegraphs	15,978 39	21,704 54
Power	415 52	541 63
Rents of buildings and other property	17,795 19	2,319 76
Miscellaneous	2,769 89	1,128 39
Total Operating Revenues	$ 245,287 20	$ 246,229 12
Railway Operating Expenses		
Maint. of Way and Structures	$ 364,482 94	$ 396,331 54
Maintenance of Equipment	55,908 89	52,984 96
Transportation	190,944 51	216,307 65
Miscellaneous Operations	14,718 83	18,943 53
General	25,345 08	26,580 54
Total Operating Expenses	$ 651,400 25	$ 711,148 22
Net Revenue	$ 406,113 05*	$ 464,919 10*

* Loss.

HUDSON BAY RAILWAY

Railway Operating Expenses

Maintenance of Way and Structures	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Superintendence	$ 32,766 61	$ 30,057 24
Roadway maintenance	54,169 38	69,356 05
Bridges, trestles, and culverts	8,148 76	13,361 22
Ties	42,106 14	39,173 69
Rails	48 38	28 69
Other track material	2,135 04	1,180 31
Ballast	25,046 19	24,274 69
Track laying and surfacing	138,472 20	156,616 83
Fences, snowsheds and signs	371 92	151 46
Station and office buildings	6,530 82	9,253 18
Roadway buildings	1,680 50	2,843 56
Water stations	4,035 43	5,193 24
Fuel stations	196 01	1,207 89
Shops and enginehouses	1,968 79	1,195 72
Telegraph and telephone lines	7,083 38	7,855 60
Signals & Interlockers	16 90	....
Roadway machines	6,310 01	2,995 41
Small tools and supplies	14,865 49	13,048 56
Removing snow, ice, and sand	23,227 03	19,925 48
Insurance	....	2,987 50
Stationery and printing	....	....
Maint. jt. tracks, yards, etc., Dr	1,095 66	1,087 58
Maint. jt. tracks, yards, etc., Cr	5,791 70 *	5,462 36 *
Protective Services	....	....
Total Maint. of Way & Structures	$ 364,482 94	$ 396,331 54

Maintenance of Equipment	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
Superintendence	$ 4,149 27	$ 3,991 81
Shop machinery—Repairs	1,162 70	1,365 61
Power plant machinery—Repairs	1,688 69	16 78
Steam locomotives—Repairs	25,520 28	30,048 41
Freight-train cars—Repairs	994 82	1,126 69
Passenger-train cars—Repairs	6,827 08	8,790 41
Work equipment—Repairs	12,866 76	5,152 97
Insurance	....	943 42
Other expenses	2,699 29	1,548 86
Total Maintenance of Equipment	$ 55,908 89	$ 52,984 96

* Loss.

	Fiscal Year 1945-46 Not Final	Fiscal Year 1944-45
TRANSPORTATION RAIL LINE		
Superintendence	$ 21,018 13	$ 22,037 03
Dispatching trains	4,261 81	4,408 60
Station employees	16,902 54	19,992 77
Station supplies and expenses	7,487 32	7,216 48
Yardmasters and yard clerks	....	238 77
Yard conductors and brakemen	....	55 83
Yard switch and signal tenders	....	15 63
Yard enginemen	....	44 50
Yard switching fuel	....	....
Water for yard locomotives	....	....
Other supplies for yard locomotives	....	33 41
Enginehouse expenses—Yard	....	....
Yard supplies and expenses	....	6 00
Operating joint yards and terminals—Dr.	10,788 37	11,627 48
Train enginemen	14,406 75	16,769 17
Train fuel	50,416 47	51,278 43
Water for train locomotives	22,331 48	28,170 99
Lubricants for train locomotives	56 47	81 57
Other supplies for train locomotives	28 94	44 54 *
Enginehouse expenses—Train	5,087 98	8,411 73
Trainmen	18,962 38	23,388 24
Train supplies and expenses	16,965 53	20,234 99
Operating sleeping cars	....	1,179 78
Drawbridge operation	327 43	116 36
Stationery and printing	550 53	683 95
Clearing wrecks	792 80	31 27
Loss and damage—Freight	217 24	304 15
Injuries to Persons	342 35	25 06
Total Transportation Rail Line	$ 190,944 52	$ 216,307 65
MISCELLANEOUS OPERATIONS		
Dining and buffet service	....	$ 1,863 89
Restaurants and Boarding Cars	14,007 13	16,402 45
Producing power sold	711 70	677 19
Total Miscellaneous Operations	$ 14,718 83	$ 18,943 53
GENERAL		
Salaries and expenses of general officers	$ 12,000 00	$ 12,000 00
Law Expenses	4 50	....
Pensions	13,340 58	14,580 54
Total General	$ 25,345 08	$ 26,580 54

* Loss.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MAY 28, 1946

WITNESSES:

Mr. H. J. Symington, C.M.G., K.C., President, Trans-Canada Air Lines;
Mr. W. F. English, Vice-President, T.C.A.

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1946

MINUTES OF PROCEEDINGS

ROOM 268, House of Commons,

TUESDAY, 28 May, 1946.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government, met this day at 11.45 o'clock a.m. Mr. S. M. Clark in the Chair.

Members present: Messrs. Clark, Bourget, Emmerson, Gibson (*Comox-Alberni*), Harkness, Harris (*Grey-Bruce*), Hazen, Jackman, Kuhl, Maybank, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid. 15.

In attendance: (Representing Trans-Canada Air Lines): Mr. H. J. Symington, C.M.G., K.C., President; Mr. W. F. English, Winnipeg, Vice-President; Mr. T. H. Cooper, Montreal, Comptroller; Mr. W. S. Thompson, Montreal, Director of Public Relations; (Representing G. A. Touche & Company, Auditors for T.C.A.), Mr. O. A. Matthews; (Representing Department of Transport): Mr. C. P. Edwards, O.B.E., Deputy Minister of Transport and a member of Board of Directors of T.C.A.

Hon. C. D. Howe, Minister of Reconstruction and Supply, was present and took part in the proceedings.

Mr. Symington read the Annual Report of Trans-Canada Air Lines for the calendar year 1945 and was questioned thereon.

At 1.00 o'clock p.m. the Committee adjourned to meet at 4 o'clock p.m.

AFTERNOON SESSION

The Committee resumed at 4 o'clock p.m.

Members present: Messrs. Clark, Belzile, Bourget, Emmerson Gibson (*Comox-Alberni*), Harkness, Harris (Grey-Bruce), Hazen, Jackman, Kuhl, LaCroix, Maybank, McCulloch (*Pictou*), Moore, Nicholson, Pouliot, Reid. 17.

In attendance: the same officials as are named above.

Questioning of Mr. Symington continued.

On motion of Mr. Emmerson, it was

Resolved: That the Annual Report of Trans-Canada Air Lines for the calendar year 1945, and the Report of the Auditors in connection therewith, be adopted.

At 6 o'clock p.m., the Committee adjourned to meet again at the call of the Chair.

T. L. McEVOY,
Clerk of the Committee.

64666—1½

MINUTES OF PROCEEDINGS

[illegible] Room [illegible], House of Commons,

[illegible], 28 May, 1963.

The [illegible] Committee on [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] in the Chair.

Members present: Messrs. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible], [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]—15.

In attendance: [illegible] Trans-Canada Air Lines: Mr. G. R. McGregor, C.B.E., D.F.C., President; [illegible] [illegible] [illegible] [illegible]; Mr. [illegible] [illegible] [illegible]; Mr. [illegible] [illegible] [illegible]; [illegible] Board of Directors of T.C.A.

[illegible] [illegible] [illegible] Minister of [illegible] [illegible] [illegible] [illegible] present and took part in the proceedings.

Mr. [illegible] [illegible] the Annual Report of Trans-Canada Air Lines for the calendar year 1962 and was questioned thereon.

At [illegible] the Committee adjourned to meet at [illegible] [illegible].

AFTERNOON SITTING

The Committee resumed at [illegible] p.m.

Members present: Messrs. [illegible], [illegible], [illegible], [illegible], [illegible]—[illegible].

In attendance: the same officials as are listed above.

[illegible] of Mr. [illegible] [illegible].

On motion of Mr. [illegible], it was

Resolved: That the Annual Report of Trans-Canada Air Lines for the calendar year 1962 and the Report of the Auditors in connection therewith be adopted.

At [illegible] [illegible] the Committee adjourned to meet again at the call of the Chair.

T. L. McEVOY,
Clerk of the Committee.

MINUTES OF EVIDENCE

House of Commons,

May 28, 1946.

The Sessional Committee on Railways and Shipping met this day at 11.45 o'clock a.m. The Chairman, Mr. S. M. Clark, presided.

The CHAIRMAN: Gentlemen, have you all got copies of the report of Trans-Canada Air Lines? In the first place I would like to apologize for my not being here for the other meetings, but I just could not make it. I would also like to thank Mr. McCulloch for stepping into the breach. I tried to insist that he carry on, but he refused.

I believe, ordinarily, that we ask the head of T.C.A. to read his report. Mr. Symington is here, and if that is in order we will have him read his report; then we can have some discussion afterwards on the balance sheet and so on. Is that O.K.? Come forward, Mr. Symington.

I might say that this committee was scheduled to meet at 11.30, but the Indian Affairs committee were in here earlier and did not finish their business on time. Very well, Mr. Symington.

Mr. H. J. Symington, President, Trans-Canada Air Lines.

Mr. H. J. SYMINGTON, (President, Trans-Canada Air Lines,): The Board of Directors submit the Annual Report of Trans-Canada Air Lines for the calendar year 1945.

As a wartime air transport operator, T.C.A. served the nation until the day of final victory. The rapid transport of domestic passengers, mail and express contributed to the co-ordinated effort of Government, essential industry and the military forces.

Trans-Canada Air Lines has emerged from the war with its energies undiminished and with a full realization of its peacetime responsibilities as an organization of public service both at home and in the field of international air transport.

The Air Line's transition from war to peace has been accomplished without difficulty. Loads have remained heavy, although the more tranquil times have brought some reduction in volume of mail.

In 1945, the number of passengers carried increased by 17% and air express volume by 11%, while air mail volume declined by 8% as compared with last year. Passenger miles increased by 26% over 1944; air mail pound miles decreased 11%, and express pound miles decreased by 4%. Passenger traffic was limited only by the capacity of the Air Line's fleet.

At December 31, daily scheduled miles totalled 32,354, an increase of 6,090 miles per day or 23% as compared with December 31, 1944. During the year, 11,546,227 miles were flown, as compared with 10,034,805 miles in 1944, an increase of 1,511,422.

On February 1, T.C.A. completed a third daily transcontinental flight by extending an existing Montreal-Winnipeg operation through to Vancouver. On December 1, a beginning was made on a fourth such schedule with the inauguration of another flight between Vancouver and Lethbridge. Traffic has been more than sufficient to support these additional services.

Schedules were doubled on the Alberta inter-city route between Lethbridge, Calgary and Edmonton. Third and fourth flights were added coincidentally with the February and December increases in transcontinental service.

On August 1, the Air Line began a fourth daily flight between Montreal and Halifax and a second daily flight between Halifax and Sydney.

The company also increased its operational flexibility by flying an alternative Toronto-Winnipeg route through the United States when weather so required. This was the first implementation of the two Air Freedoms of innocent passage and non-traffic stops.

While operational expansion was on a modest scale during 1945, there was much preparation for the greater progress that is impending. Planning reached a new intensity as additional aircraft and manpower became available towards the end of the year. Training of new personnel was undertaken by all sections of the organization. Careful study was given to matters of such basic concern to Canada's aeronautical well-being as air line communications, navigational installations and hangar accommodation. Where action lay beyond the jurisdiction of the Air Line, recommendations were made to the appropriate authorities.

RESULT OF OPERATIONS

	1945	1944
Operating Revenues	$10,512,587	$ 9,192,522
Operating Expenses	$10,250,271	$ 8,948,388
	$ 262,316	$ 244,134
Income Charges and Interest on Capital Invested	$ 229,544	$ 236,725
Surplus	$ 32,772	$ 7,409

Operating revenues totalled $10,512,587, an increase of $1,320,065 or 14 per cent over the previous year. Passenger revenues increased $1,006,172 or 23 per cent; mail revenues increased $448,544 or 12 per cent; express revenues decreased $18,850 or 6 per cent; incidental revenues decreased $119,311 or 21 per cent. This latter account reflects the net revenue to the Company (after deducting the related expense) of sales and services and other incidental revenues. Passenger revenue contributed 52 per cent of total revenue. Mail revenue contributed 40 per cent of total revenue. The rate of compensation received by the Company from the Post Office for the carriage of air mail was 41·98 cents per plane mile flown, as compared with 42·03 cents in 1944; 42·90 cents in 1943; 45·57 cents in 1942; 48·16 cents in 1941 and 60 cents in 1940.

Operating expenses totalled $10,250,271, an increase of $1,301,883 or 15 per cent over the preceding year. Major expenditures involved the Company's extensive development and personnel training activities, the cost of increased traffic and services, rising material and labour costs and a heavy program of aircraft overhaul. Included in 1945 operating expenses, for example, are costs of $489,208, largely for the training of an increased number of flight personnel, made necessary by development of the Company's services.

After the payment of interest on the Company's capital, and other income charges, amounting to $229,544, the surplus for 1945 was $32,772.

PROPERTY AND EQUIPMENT

The Company's plant and equipment have been well maintained and are in good condition. T.C.A.'s fleet underwent a program of major overhaul to assure its continued high efficiency of performance. A reorganization of maintenance and overhaul practices was begun in anticipation of delivery of other aircraft types.

Flight equipment in service as of December 31, 1945, consisted of:—

11 Lockheed 14-08 aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horse-power.

14 Lockheed Lodestar aircraft, equipped with two Pratt and Whitney Twin-row Wasp engines, each of 1,200 horse-power.

3 Douglas DC-3 aircraft, equipped with two Wright Cyclone engines, each of 1,200 horse-power.

Proposed service extensions in Canada and the United States require an enlarged twin-engine fleet. Accordingly, the Company in 1945 negotiated for the acquisition of twenty-four military transport versions of the DC-3 aircraft and contracted for their conversion in Canada to commercial transport form. Three of these had been placed in service by the end of the year and the remainder will follow in 1946. Each of these aircraft has capacity for twenty-one passengers.

Construction of a T.C.A. forty-passenger aircraft proceeded in the factory of Canadair Ltd. at Montreal under close Company supervision. This is a major program of Canadian manufacture, intended to provide T.C.A. with the best in flight equipment. The airframe design, based on the Douglas DC-4M, incorporates important modifications made by T.C.A. engineers to meet Canadian conditions. Power will be provided by four liquid-cooled Rolls-Royce engines of British manufacture. Initial deliveries of this high-speed aircraft are anticipated in late 1946. It will fly on international and transcontinental services.

The Company, in 1945, procured more hangar accommodation at Winnipeg, its operations headquarters.

Moncton was established as a major aircraft maintenance base.

Additional space was obtained in the ramp building at La Guardia Airport, New York.

An experimental radar station was established at Winnipeg for the study of radar application to civil air operations. This was the first such project undertaken by a commercial air line.

ROUTES AND SERVICES

At December 31, 1945, Trans-Canada Air Lines was providing service—passenger, air mail and express—over domestic routes totalling 5,299 miles between the Atlantic and Pacific seaboards. This mileage was unchanged from 1944. The routes operated are as follows:—

	Miles
Halifax—Victoria (via Moncton and Toronto)	3,303
Halifax—Sydney	201
Halifax—Blissville	172
Moncton—St. John's, Newfoundland	751
New York—Toronto	365
Toronto—Windsor	206
Lethbridge—Edmonton	301
	5,299

Passenger Service

Revenue passengers carried by Trans-Canada Air Lines numbered 183,121 in 1945, as compared with 156,884 in 1944, an increase of 26,237 or 17 per cent. The average passenger journey was 579 miles, as compared with 538 miles in 1944. Passenger revenue per revenue passenger was $29.83 and per revenue passenger mile 5·15 cents, as compared with $28.41 and 5·28 cents respectively in 1944.

Air Mail Service

During the year, 3,429,232 pounds of mail were carried, as compared with 3,739,105 pounds in 1944. Mail revenue per plane mile on domestic services was 41·98 cents, as compared with 42·03 cents in 1944.

Air Express Service

Air express traffic continued its steady growth during 1945 and, as industrial reconversion proceeds, this trend is expected to continue. Pounds of air express increased from 856,016 in 1944 to 950,323 in 1945, but the average haul was shorter.

Airway Facilities

Although labour and materials remained in short supply during 1945, the Department of Transport continued its improvement of the runways, field facilities, airport lighting and navigational aids necessary for the growth of civil aviation in Canada.

PERSONNEL

Trans-Canada Air Lines' staff at December 31, 1945, numbered 3,272, as compared with 2,790 at the end of 1944. In engaging new personnel, it is the policy of the Company to employ only those who have seen military service. At the end of the year the number of employees who had served with the Armed Forces was 1,161.

Instruction of former R.C.A.F. pilots in the techniques of civil air transport was accelerated during the year. Eight classes were completed, comprising seventy-six men. The quality of these pilots is high and their acquisition, together with the supply of new aircraft, is rapidly making service extensions possible.

Training was similarly given to new radio operator, passenger agent and traffic personnel. The return of former male staff was reflected in a further decline in the proportion of female employees. At December 31, women comprised 23% of all T.C.A. personnel, as compared with 29% in 1944 and 35% in 1943.

SPECIAL ACTIVITIES

Canadian Government Trans-Atlantic Air Service

Throughout the year, Trans-Canada Air Lines continued operation of the Canadian Government Trans-Atlantic Air Service. Organized in 1943 for the swift transport of mail to and from Canada's Armed Forces Overseas and of priority passengers and freight, the Service performed these functions until war's end and then into the peace. Its nature remained an official one, with limited passenger capacity being largely reserved for those persons travelling on missions of national importance. Approximately 900,000 pounds of mail were transported during the year. Ownership of the Trans-Atlantic fleet still rested with the Canadian Government.

However, by the close of 1945, evolution towards a full commercial operation was well advanced, with the Service losing some of its specialized identity. Passenger tickets were being sold in conformity with prevailing rates. A ticket office had been opened in London, England. T.C.A. pursor-stewards were catering to passenger comfort over the Atlantic. A trans-Atlantic air express service had been inaugurated. The functions of piloting, aircraft maintenance, communications, flight control and navigation had been facilitated by the assignment of increased numbers of experienced T.C.A. personnel. Very high frequency ground radio installations for trans-Atlantic purposes had been completed in Eastern Canada and in Newfoundland. Loran, a modern navigational device, was employed for the first time by a non-military air service. Four more Lancaster aircraft were added to the trans-Atlantic fleet, bringing the complement to six. Of Canadian manufacture, they were built to Company's specifications and will shortly be utilized in schedule increases. Each of these aircraft has comfortable accommodation for ten passengers. This is sufficient for the maintenance of an interim trans-Atlantic passenger service, pending delivery, late in 1946, of the first Canadian-built DC-4 M's. At that time, the Service is expected to assume full commercial form.

The route flown is one of approximately 3,000 miles between Montreal and Prestwick, Scotland. Trans-Canada Air Lines personnel had, at December 31, 1945, completed over five hundred trans-Atlantic crossings.

Work for British Overseas Airways

At Montreal, the Company's maintenance, servicing and conversion of the Liberator aircraft used by British Overseas Airways Corporation on the North Atlantic Return Ferry Service continued unabated. There were 780 employees engaged in this work at the year's end, as compared with 523 at December 31, 1944. The experience gained by this large staff will be of value in the future development of trans-oceanic operations.

Overhaul of Military Equipment

The contract with the Department of Munitions and Supply for the overhaul of military equipment at Winnipeg was completed early in 1945. For three years a large volume of R.C.A.F. engines, propellors, instruments and accessories passed through T.C.A.'s shops.

International Negotiations

T.C.A. personnel participated in the various international councils that, in 1945, sought to chart a constructive future for world aviation. As members of the various committees of the Provisional International Civil Aviation Organization and of the International Air Transport Association, they acquired a knowledge of the wider significance of air transport that will be of value in the healthy growth of T.C.A. No other air line in the world made a greater contribution to these international discussions. An indication of the high repute in which Canadian aviation is held throughout the world was seen in the choice of Canada as the temporary headquarters of both P.I.C.A.O. and I.A.T.A.

PROPOSED SERVICES

The Company is entering on a year of rapid expansion. The route mileage will probably be increased by at least 67 per cent in this one year and the establishment of the many new routes and frequencies will entail large expenditures for equipment and training of personnel. It may be that until patronage of these new services is built up over the next few years the Company will experience a difficult financial period.

Plans for new domestic services include: establishment in the spring of 1946 of a fourth daily transcontinental schedule; an operation between Winnipeg and Edmonton via Saskatoon as soon as airport facilities are adequate at the latter city; a shortened transcontinental service across the Great Lakes when airport and airway facilities are available; operations along the lower St. Lawrence, and direct flight between Edmonton and Vancouver. Other projected services are between Halifax and Boston and Port Arthur and Duluth.

It is anticipated that service over the Toronto-Chicago, Toronto-Cleveland and Victoria-Seattle routes will commence in 1946. The established Trans-Atlantic Service will assume full commercial identity and, with delivery of DC 4M aircraft, undertake large-scale operations. Scheduled service to the West Indies, South America and via the Pacific will follow in due course.

LEGISLATION

The Directors call attention to the fact that the legislation passed at the fall session of Parliament is a basic change in the structure of Trans-Canada Air Lines. Under the previous legislation, the postal rate varied with the operating results of the Company, with a consequent large measure of control in the Post Office Department over the frequencies and times of operation. This method, while desirable during the early years of the Company, had become unsuited to the times if much-demanded expansions were to be made. Accordingly, a firm contract is to be made with the Post Office Department for carrying mail on a pound mile basis instead of on a mileage basis, removing on one hand the necessity of Post Office control of operations and on the other hand, removing the protection against deficits through increased mail rates. Only in this way could the Company properly direct its operations and expand in order to obtain the fullest measure of non-mail revenue and give a maximum of service to the users of the line.

THE STAFF

The Directors wish to record their appreciation of the loyal and efficient services of the officers and employees of the Company who, through their efforts, have earned for Trans-Canada Air Lines so creditable a reputation in the air transport industry. Their skill and enterprise, which enabled the Air Line to render high public service in time of war, are indicative of what may be expected in the future.

In the war now happily closed many of the Company's employees enlisted with the Armed Forces. They served with valour, bringing honour to themselves and their country, and the Directors record the Company's pride in their achievements and sacrifices. To the families of those who will not return they extend their deepest sympathy.

The CHAIRMAN: Gentlemen, I think ordinarily we have a general discussion before we go on to the financial statement. I would like to point out to this committee that the Hon. Mr. Howe and Mr. Symington have appointments tomorrow afternoon. As you know, there is an international conference at Montreal and while there will be no method used to curtail any discussion, yet, if we could complete our meetings so that these men and their staffs could get away, I know it would be appreciated.

Mr. JACKMAN: You mean, get away today, Mr. Chairman?

The CHAIRMAN: To-day, or by to-morrow noon.

Hon. Mr. HOWE: Tomorrow noon would be quite all right.

The CHAIRMAN: I do not want to curtail discussion, but with this air conference on they would like to get away, if possible.

Mr. JACKMAN: They are always busy people; we quite realize that. I wonder if Mr. Symington would like to say anything to us about the conference at Montreal, about the fifth freedom, and the decisions there having a general bearing on the policy of T.C.A.?

Mr. SYMINGTON: No decisions have been reached as yet. They are sitting in committees discussing various matters which will go back to the plenary session, the first plenary session being on Wednesday. There are the usual difficulties as at all international gatherings. Local and national ambitions, naturally play a part. You have a situation where one country in the world is so much more able to give air services than any other country, that in certain sections there is a tendency to fear domination by that country, and they naturally want protective clauses granting the fifth freedom.

The assembly did not go on record very definitely that they are in favour of, and consider a necessity, the adoption of multi-lateral conventions, which have been causing a great commotion, including the fifth freedom, subject to proper protection to the smaller lines of the various countries. It is around that phrase and that result of what is proper protection, that the result will depend. Whether the result will be reached at this conference or at the next conference I am quite unable to say; but I doubt, in view of the many great questions involved and the many difficulties whether we will reach final conventions this year. But there will be displayed on the floor of the conference what the various nations consider to be the safeguards in order to achieve a multi-lateral convention.

The situation is almost identical with what it was at Chicago, where we tried for seven weeks, with as much ingenuity as we had, to suggest this solution or that solution. We got very close, but not quite there. We are doing the same thing here, and whether we will be successful or not, we certainly will be succesful in making progress; but whether we will achieve it, remains to be seen.

Mr. JACKMAN: Is Russia a member?

Mr. SYMINGTON: Russia is not a member, no.

Mr. JACKMAN: May I ask, without requesting you to give away Canada's hand: just what it is that we want for the development of air policy in Canada?

Mr. SYMINGTON: We are taking the position that we want nothing. Really, we consider ourselves the giver rather than the taker. We are quite content to have the full fifth freedom, provided there be an international body having power to check abuses and decide differences of opinion, and decide whether the fifth freedom should be limited in various circumstances. It is a little difficult to explain, perhaps, the whole situation; but the third and fourth freedoms are the traffic originating in countries through which a world route runs.

Naturally, each country, particularly the smaller countries in Europe, consider that they require the great bulk of the originating traffic in their own country. Once you introduce the fifth freedom which gives through lines the right to pick up, and thus decrease what is known as the third and fourth freedom traffic in those smaller countries, they naturally fear that the through line will dominate because of their money, their better planes and their better organization.

Naturally, as we put it, any policy which destroys or tends to destroy a national air line of any country is going to fail. Therefore, those who get the fifth freedom rights must recognize that principle and put in proper safeguards for the protection of national lines of those countries.

Mr. POULIOT: What is it that you said about freedoms?

Mr. SYMINGTON: Well, the original start of freedoms, Mr. Pouliot, was that there were two freedoms; first, the right to fly over a country but not to land, but just to fly over its air.

Freedom two was the right to land in order to take on gas or for measures of safety, but with no commercial or traffic right. They could not pick up or put down passengers.

Now, at Chicago, Canada got the third and fourth freedoms which meant this: let us say, a passenger gets on a Trans-Canada plane in Canada and he flies to Britain and on to the continent. We can take passengers from our own country to Britain as well as take them to their ultimate destination, say France. That is the third freedom.

Mr. POULIOT: Or to any other country?

Mr. SYMINGTON: Or to any other country, yes. Then, coming back to the fourth freedom, that would be that our plane could pick up passengers in Britain and bring them back to Canada. You could take on passengers originating in your own country, or coming to your country, but you could not take passengers between countries.

Now, the fifth freedom means, if it goes in, that our lines could run, let us say, from Canada to Rome. We could land at Great Britain and pick up passengers in Great Britain and take them to Paris, and pick up passengers from Great Britain and take them to Prague and to Rome, and so on.

Mr. POULIOT: That would be the full freedom?

Mr. SYMINGTON: There is still more than that; but the result of that is that the French line, for instance, would say: but you are going to feed your line out of the passengers that we would ordinarily carry between France and Prague, and we must have that traffic in order to allow our national air lines to operate. Czechoslovakia would say the same thing. Now, the question which arises is: how much restriction on the rate of that intermediate traffic can be put in order to get these countries to sign the right to pick up, at all?

Mr. POULIOT: It is a most difficult matter?

Mr. SYMINGTON: Yes, it is a most difficult matter; but on the other hand, you can see the desirability of bringing people closer together throughout the world. You start off with a full load from Canada, let us say; half of that load get off at Britain; another quarter of the load will get off at Paris, and you arrive with an empty plane. You cannot operate commercially that way, because it would be too expensive; so you have to find a reasonable meeting between those two difficulties.

Mr. MAYBANK: What is the nature of the safeguards that such nations as you mentioned, the smaller nations, propose?

Mr. SYMINGTON: There have been many propositions; the last one, or the one now being considered, is the right of those nations to compel the through route to charge a rate differential between two adjoining countries so as to give them some advantage in price as opposed to the big planes and the highly developed service.

Mr. MAYBANK: That would be, say, a through route operator picking up at an intermediate point and carrying to another intermediate point?

Mr. SYMINGTON: Yes just between the two countries.

Mr. MAYBANK: But picking up at an intermediate point, he would be required to charge a higher rate than the local rate would be.

Mr. SYMINGTON: If the local countries so elect. It is a permissive thing. This is only one method which is being considered. It is being objected to very strongly by the United States.

I would say, for instance, if I were running from here to Paris, and my rate was $375 through, that is all right; but if I picked up a passenger in London to go to Paris, and say the London fare was £5 for their local lines, they might insist that I charge £6 or as much as 5 or 10 per cent more in order to preserve to them a certain percentage of their own traffic. That is one test. That naturally raises the question of rates and there are many questions, you see. There have been many other solutions.

Mr. MAYBANK: One of the sort of safeguards they wish to introduce.

Mr. HARRIS: Would it affect the rates of a man transporting from this country?

Mr. SYMINGTON: No.

Mr. POULIOT: Would the American rate between New York and Paris or England be the same as the Canadian rate?

Mr. SYMINGTON: Practically the same, yes.

Mr. MAYBANK: Would it not tend, if you adopted that sort of thing, to change the rate from here to Paris.

Mr. SYMINGTON: No; your through rates are fixed, you see. Your through rate will be fixed.

Mr. MAYBANK: But will they not be fixed, taking into consideration that disability under which you would labour?

Mr. SYMINGTON: No, I do not think they would, as far as competition is concerned; it would be purely to prevent too much filling up, as opposed to the old theory that your capacity should be based upon your requirements to your ultimate point of destination.

Mr. NICHOLSON: But you will be obliged to charge a higher rate to Paris?

Mr. SYMINGTON: No. The suggestion is: that, if England—which would not do it—or any of the countries want to do it, they can say to the international people: we want a through line to charge from 5 to 10 per cent more—whatever the limit be adopted; it is not set and compulsory. This provision would be made as a similar suggestion to the imposition of that freight rate differential, disclosed in practice with the local lines. Does it hurt the through line? Then they can make their complaints to the international council who can look into it and they have the right to say: it is not necessary in this case.

Mr. REID: If the principle were adopted, would the same thing apply to planes flying from California to Alaska and dropping down in British Columbia?

Mr. SYMINGTON: Yes, it would apply to every international route. Canada could say, in that case, if a plane flew from California to British Columbia to Alaska: we are giving services on that route and it is not a very densely populated route. If you want to pick up our passengers you must charge 5 per cent more than the Canadian line on that route. But I am not suggesting for a moment that that is the test which will be applied. I was just asked for an example of what was meant, and I am not suggesting that that will be the test.

Mr. JACKMAN: I suppose this fifth freedom will give some of the smaller countries which are air conscious—take for example, Sweden—a chance to become a great air transport country?

Mr. SYMINGTON: Sweden, being at the perimeter and not at the middle, might benefit; but it might mean, also, that countries of smaller population are really, to some extent, living off other people's traffic.

Mr. JACKMAN: But on a competitive basis, the rate structure is entirely in the hands of the international body?

Mr. SYMINGTON: The present idea is that the operators fix their rates and that they be approved by P.I.C.A.O. Any state can object to the rates as being unreasonably high or unreasonably low.

Mr. JACKMAN: But only as to international rates?

Mr. SYMINGTON: Only as to international rates.

Mr. JACKMAN: For instance, if the United States were to subsidize trans-continental lines, we would have no control over their rates; it would not prevent Canadian people going to New York and flying from New York to California and there taking a train up to Vancouver?

Mr. SYMINGTON: There is no theory that I know of where any country could interfere with the domestic policies of another country.

Mr. JACKMAN: Are many of those lines owned by the various countries concerned, or are we about the only one?

Mr. SYMINGTON: I think the United States is about the only one that is not.

Mr. MAYBANK: It is definitely settled, is it, that all international rates are to be approved by the international board.

Mr. SYMINGTON: That will be part of the permanent multi-lateral, permanent convention that we are endeavouring to secure.

Mr. MAYBANK: There is pretty sound agreement on that point?

Mr. SYMINGTON: I cannot answer for them all, but for the vast majority I would say, yes.

Mr. Reid: The fact that United States planes might be subsidized would have a bearing upon their acquiescence or acceptance of a lower rate?

Mr. Symington: I suppose so. We are trying, in the convention, trying very hard to avoid subsidies; and all international operations must be kept separate, and the figures must all be filed with the international authorities so that they can see what subsidies there are, what they are actually, whether the rates are justified, or too low; and you cannot subsidize for the purpose of interfering with or obstructing competition. The information will all be passed to the international authorities in order that they may deal with abusive practices of that kind.

The Chairman: Are there any other questions?

Mr. Hazen: Speaking about rates: I understand that the cost of transportation from Vancouver to Victoria is $5; and that until recently—I do not know the date—you could get a return ticket for $7.50; but that recently—I do not know just how long ago—the return rate was fixed so that you had to pay the full fare of $10. I am informed also, that if a I got a ticket, if I bought a return ticket from Montreal to Victoria, I would get a reduced rate as far as Vancouver but I would have to pay the full rate from Vancouver to Victoria. And the people in Victoria, I am informed, regard this as being a discrimination.

I am informed, also, that the air distance both ways from Victoria to Vancouver is about 50 miles, and the return ticket costs $10; while the air distance from Winnipeg to Regina is about 300 miles, yet the return ticket is $16. Now, there seems to be a discrimination in rates there as well. Could you tell me why the rate, the return rate from Vancouver to Victoria was increased from $7.50 to $10? And could you tell me why there is no reduction as in the other cases?

Mr. Symington: I can tell you the whole story without any difficulty and it is one which I may say I objected to, but there it is.

Your statement or your information is wrong with respect to buying a ticket to Victoria. You pay the same mileage rate as you would if you bought to Vancouver. But if you go from Vancouver to Victoria, you would then have to pay a higher rate from Vancouver to Victoria, for that portion of the journey. The problem arose this way: the Canadian Pacific Air Lines, or their predecessors, had been running a boat service, a flying boat service between Vancouver and Victoria and had been charging—if my memory serves me right—about 11 cents a mile. But when Trans-Canada came into the picture, it was in a position to run to Victoria. They were flying land planes and landed at Patricia Bay, some distance north of Victoria, and they charged exactly the same mileage rate between Vancouver and Victoria as they did between any other points in Canada.

Then, the Canadian Pacific Air Lines discovered that equipment difficulties existed, and that the water was spoiling their planes, and there was erosion and so on, and that they had to change over to land planes. They produced evidence to the Air Transport Board that they could not afford to run that service at the 5 cent rate or the 5·29 cent rate that T.C.A. was running it for, and so they applied to fix the rate from Vancouver to Victoria at a rate which gave them a fair profit, or at least a reasonable profit. So then the question arose, naturally: can we survive or are we to be allowed—are T.C.A. to be allowed—to charge a less local rate than we are; and it is destroying our business, and we do not think that is fair. When they were in that position, that is, Canadian Pacific Air Lines, they go before the Transport Board and the Transport board go into it and say: it cannot be run at the Trans-Canada rate, and therefore it must be raised, and Trans-Canada, on the local business, must also raise it. That is the story.

Mr. GIBSON: But you were not prepared to give an adequate service between Victoria and Vancouver?

Mr. SYMINGTON: We were not prepared to run all our flights at that time; we naturally could not give them 10 or 11 flights a day that the Canadian Pacific Air Lines could; we could give them 4 a day. Naturally, I do not like to see any differences in mileage rates throughout Canada. Personally, I think I have been through too much of that kind of thing in other directions.

Mr. GIBSON: After all, the cost of selling a ticket and the cost of servicing back and forth from the airport would mean something?

Mr. SYMINGTON: That is exactly what the Air Transport Board found; they found that we, who were running over all, could do it, but that the local line could not.

Mr. HAZEN: The Air Transport Board made this finding, you say?

Mr. SYMINGTON: Yes.

Mr. HAZEN: Under what Act does that board come?

Mr. SYMINGTON: The Aeronautics Act.

Mr. HAZEN: The Aeronautics Act; but it was taken away from the Air Transport Board?

Mr. NICHOLSON: Was there not a period when you were not allowed to carry local passengers between Vancouver and Victoria?

Mr. SYMINGTON: Yes, but we got over that difficulty.

Mr. NICHOLSON: How long have you been allowed to sell local tickets between Vancouver and Victoria?

Mr. SYMINGTON: I think this is the second or third year now.

Hon. Mr. HOWE: There is quite a principle involved there, Mr. Gibson. To put one's finger on the crux of the situation: there is a great amount of traffic between Vancouver and Victoria and the Canadian Pacific Air Lines ran 11 flights a day; but Trans-Canada was not in a position to run more than 4 flights a day, and all the seats, however, were not available for local traffic. It was not felt to be desirable that Trans-Canada should, with its earnings made over a 5,000 miles of operation, put the Canadian Pacific Air Lines out of business by quoting a rate which would not have permitted Canadian Pacific Air Lines to function. There is no doubt that the service required a greater frequency of planes there, and it seemed to the Air Transport Board—at least in my own judgment—that T.C.A. should not do anything to destroy a service like that unless it could put on a service to replace it. The same situation arises in the Halifax to Boston run. The Maritime Central Air Lines operates between Yarmouth and Halifax. It is desirable, in the interests of public service, probably, that T.C.A. will put in a stop at Yarmouth to pick up passengers for Boston, and naturally they wish to carry passengers between Halifax and Yarmouth. The question will arise: can they put in for a rate of 5 cents in a position where the Maritime Central rate is perhaps double that amount, which rate is perhaps quite correct for a short service. The ruling will probably be the same: that T.C.A. must not charge a rate which would be hurtful to the local run.

Mr. HAZEN: Might I bring up another matter now. I would like to ask the President of T.C.A. what is the present position in regard to the proposed Clover Valley air field that was to be developed to serve the city of Saint John and vicinity? I would like to point out that on March 30th, I think it was, 1943, when this committee was sitting, the honourable Mr. Howe said: that if we, the T.C.A., can get a suitable airport within 20 miles of Saint John, I assure you we will go in.

Now, the city of Saint John employed a gentleman, whom I understand was a noted United States airport authority, named Harvey F. Law, to look over the situation. Mr. Law went down there and he looked it over and he recommended as a suitable site a place called Clover Valley, situated on the main highway within 10 miles of Saint John.

In the next year, 1944, as a result of representations made by Mr. Howe, the municipality of Saint John went ahead with the Clover Valley air field project. It obtained the necessary legislation from the legislature of the province of New Brunswick and it acquired the land, and it spent about $100,000 or over $100,000 in acquiring the land, and for other services; and it also committed itself to another $50,000 or more in connection with this project.

On July 3rd of last year, the county secretary of the municipality of Saint John wrote to Ottawa advising that all the land required had been obtained, and that it was now in order for the departmental engineer to start work. In reply to that letter, the county secretary received a letter from Mr. A. D. McLean, Controller of Civilian Aviation, dated July 13, 1945. In that letter Mr. McLean said: that due to the lateness of the season, it is unlikely that it will be possible to undertake any heavy construction work on the project this year, but that an attempt will be made, however, to start clearing and to undertake such work as will be necessary in order to enable construction work to be started immediately in the spring of 1946.

Now, no clearing or other work was done in 1945. In January of this year, on January 25th of this year, a delegation representing this municipal airport committee from Saint John came to Ottawa and, accompanied by the honourable H. F. G. Bridges, the Minister of Fisheries, met the honourable Mr. Howe and some of his officials. The purpose of the visit, as I understand it, was to learn when construction work would begin and also what the next step by the municipality should be and the next step by the Dominion government.

The delegation, I am informed, was told: that an answer to the questions they asked would be furnished to them within three or four weeks. And a few weeks later, or a short time later, the committee received from Ottawa word that the site was not available because weather conditions were unsuitable.

I would point out that in 1944 and 1945—perhaps to go back as far as 1943—nothing was ever said about weather conditions; and, as I read the correspondence, the municipality was given the green light sign to go ahead.

The mayor of the city of Saint John said in his report to the municipal council, in February of last year, that the project was approved in August, 1945, by the heads of civil aviation in Canada. The committee of the municipality that had this matter in hand, I am informed, requested the data about the weather conditions. They claim that the site is a suitable one, and they have the support of Mr. Harvey F. Law, in their contentions. What I would like to know is: what is the present position of affairs? Are further investigations as to weather conditions to be carried on, or is the matter a closed book, so far as the government is concerned? That is, I think, the real sum and substance of what I would like to find out. Has the whole thing been killed? Does the municipality have to face the fact that it has gone to this extent, so far as T.C.A. is concerned?

Mr. SYMINGTON: I am here as operating head of T.C.A. I know nothing about what you just said, about the remarks you just made. I could not answer you at all. All that I do is to run the air fields that are provided, and I know nothing about it, Mr. Hazen; I know nothing about it at all. You will have to go to the government.

Mr. HAZEN: Well, here I am. Maybe the Hon. Mr. Howe would care to say something on the matter?

Hon. Mr. HOWE: Yes. It is rather unfortunate, that story about the city of Saint John, as you said, employing an engineer to lay out an airport, to choose a site and lay it out for an airport. The plans of the project were approved, but nothing was said about weather at that time. And on the strength of the approval of the officers, I told Saint John to go ahead and acquire the land. In the meantime, the meteorological department lost no time in stationing two men at the airport to study the weather; and when the delegation came to Ottawa to discuss the commencement of operations, these weather reports were all in, reports covering, I think a year of observation. They showed that the weather would permit use of the air field only to a very limited extent. It was very subject to ground fogs, and on certain days the airport would not be usable by T.C.A. planes. The ratio of operation was far worse than anything we had on the line, and it seemed to me to be folly to undertake construction of an airport with weather reports on hand of that type.

On behalf of the government, I accept full responsibility for having instructed the city to go ahead and acquire the land, and I undertook that the government would bear any loss that might arise, if the land is disposed of. I imagine the loss would not be serious, in view of the present real estate market. But, if there be a loss, the federal government will make it good to those who suffered such a loss.

The city was not satisfied to accept our report, so the department agreed to carry on a further study. But, if the report of the next year shows no improvement in the weather situation as far as the use of the field is concerned, I would say that the city of Saint John, which would be responsible for the cost of operation, would be foolish to go ahead with the project.

Mr. HAZEN: Who carried on those investigations, or are they being carried on now?

Hon. Mr. HOWE: I cannot tell you the actual names of the people, but I could get them if I had my notes.

Mr. HAZEN: Who is doing that work?

Hon. Mr. HOWE: The Meteorological Service of Canada.

Mr. HAZEN: And they report to whom?

Hon. Mr. HOWE: They report to the director of the service in Toronto, and he, in turn, reports to the deputy minister of Transport, who, in turn, reports to me.

Mr. HAZEN: And they are now carrying on an investigation that will extend over a year?

Hon. Mr. HOWE: The investigation that was reported upon had extended over a year; but they are now continuing an investigation; they are giving it a two-year study rather than a single-year study.

Mr. HAZEN: Was the municipality of Saint John furnished with a copy of that report?

Hon. Mr. HOWE: I cannot say, but I will be glad to find out for you. I have no doubt that the director of civil aviation would furnish them with a copy of the report.

Mr. HAZEN: Thank you?

Mr. HARRIS: With respect to the Vancouver-Victoria run, how many times in the past has the board decided similarly? Every time that T.C.A. is given an opportunity to run in competition with another line, is the rate set on the basis of the rates established by the local run?

Hon. Mr. HOWE: I would say yes. This is the first occasion that the T.C.A. has come into direct competition with a well established line, over the years, giving the necessary service; and I think a reasonable interpretation of the air regulations would indicate that a local service should be protected just as Mr. Symington suggested be international services.

If there be an international service between two points—take for example the service between Montreal and New York—if there were complete freedom on the part of any one to poach on that line, it is conceivable that there would be so many international flights operating on that line that the local service would be put out of business, which would be very unfortunate for the people of Montreal, should the Trans-Atlantic service stop operations.

Mr. REID: What percentage of traffic would be carried on planes between Victoria and Vancouver whose destination would be Vancouver compared to those getting on the planes at Victoria and heading east?

Mr. SYMINGTON: I could not tell you that; perhaps Mr. English could tell us. I cannot give you the percentage but it would be quite a lot.

Mr. GIBSON: I understand that you used to sell tickets from Lethbridge and give a rebate?

Mr. SYMINGTON: Yes, we used to sell tickets from Lethbridge and give a rebate, but that was before we were able to carry on there at all.

Mr. ENGLISH: We carry an average of 60 per cent occupancy on the Vancouver-Victoria service. Our planes are 60 per cent filled; and of that 60 per cent, approximately 25 per cent is through traffic.

Mr. REID: In other words, you are adding to your revenue by picking up local traffic?

Mr. ENGLISH: Yes.

Mr. REID: I know that most bus lines running between the United States and Canada will not pick up local traffic because they are through bus lines?

Mr. SYMINGTON: Well, they are not allowed to do so, Mr. Reid.

Mr. HARRIS: I do not want to rush things at all: I am only concerned with one sentence in this report under the heading of "proposed services", where you say:—

> It may be that until patronage of these new services is built up over the next few years the company will experience a difficult financial period.

Mr. SYMINGTON: I thought it well to call the attention of the committee to that fact: I am hopeful that it is pessimistic and I think it is pessimistic; but after all, you must remember that we have been starved and the people of Canada have been starved for air transportation because of the fact that we did not have, and just could not get, either the planes or the personnel or the ground facilities. And when you undertake to do something, to make up for a past shortage, and when you have to act very quickly—if you wanted the planes at all—I bought these 21 planes—really 24 planes—all in one gulp, because we had to take them so or not get them at all. Everybody in the world was after them: and they have got to be used. And we trained personnel; we spent over $1,000,000 in training personnel and they have to be used.

Now, as to how quickly the people will want to travel, I do not know. We are going to put on these services; we have got the planes, and we have got the personnel to run them. Now, it may be, that for three months or six months—it will take us a while to fill up that capacity, in which case, of course, the financial side may be difficult. That is all.

Mr. HARRIS: You have got the money to buy the planes.

Mr. SYMINGTON: Oh yes, we are in a very good position, as you will see, if you will look at the diagram on page 11. Remember that up to this stage and up to all that increased equipment, we never increased our capital, and we have still got all our old planes. We have done pretty well and in addition, we have got $1,500,000 in cash and we have got an insurance fund of $1,200,000;

and we have got a pension fund of $1,000,000 or more than $1,000,000; and we have paid 5 per cent on the money all that time it has been in T.C.A. I may tell you that foreign air lines wonder how we do it.

Mr. McCulloch: Can a passenger go from Montreal to Vancouver via New York cheaper than he could from Montreal to Vancouver?

Mr. Symington: No. He might do so, he might be able to travel from Vancouver to New York much cheaper than from Vancouver to Montreal to New York. That is a matter which you cannot always just prove. Their system of tariffs is a little different from ours. They have no air travel cards and no return discount. Their mileage rate single is a little lower than ours. On the other hand, we have a reduction for air travel cards, and we have a ten per cent return fare reduction; so there is not very much difference.

Mr. Harkness: I think there is quite a difference. The United Air Lines rate from Vancouver to New York is $118.30 while your rate is $152.50.

Mr. Symington: You mean our single rate?

Mr. Harkness: Yes. There is quite a considerable difference there?

Mr. Symington: Yes, there is quite a considerable difference on the single rate; but on the return rate, there is not a great deal of difference, and, of course, mind you we may have to meet that rate if we find we cannot get the traffic; but we are still, for some reason or other, getting a great deal of American traffic on our lines. They say that they prefer to travel that way.

Mr. Harris: You have a better line. The answer is obvious.

Mr. Jackman: Does the same principle that applies in the railroad passenger business creep in with respect to air lines, whereby you can travel from Boston to Montreal to Toronto as cheaply, a further distance—that is, you pay as cheaply—as you can from Boston to Toronto?

Mr. Symington: Not yet; it has not, and I hope it will not.

Mr. Jackman: May I ask in connection with the Vancouver to Victoria air route, the rate is about 10 cents per mile, while it was about 5 cents last year. Do you have a similar discrepancy for any other approximately 50 mile route in Canada?

Mr. Symington: That is the only place where we charge over 5.15 cents per mile. You have to meet those circumstances.

Mr. Jackman: Why is it that the return rate from Victoria to Vancouver is on the same mileage basis cost as the straight single fare?

Mr. Symington: Because the Air Transport Board has put in the rate.

Mr. Jackman: Is it not customary to grant some discount for a return fare?

Mr. Symington: That was fixed on the basis of giving to Canadian Pacific Air Lines a reasonable profit; and not on what we wanted to charge.

Mr. Jackman: I wonder why they did not charge more for a single rate?

Mr. Symington: I do not know; it was not our business.

Mr. Pouliot: What is the basis?

Mr. Symington: 10 per cent; am I right?

Mr. English: Yes.

Mr. Hazen: I notice that you carried 183,121 passengers for a revenue in 1945?

Mr. Symington: Yes.

Mr. Hazen: Did you carry many passengers free?

Mr. Symington: We carried between points 3,393 people which number was made up of T.C. employees on business, 2,163; T.C.A. dependents, and employees on vacation, 733; employees of Department of Transport on business, 348; courtesy trips to press, Canadian Broadcasting Corporation, and so on, 70; employees of Post Office Department on business relating to air mail service, 43; employees of other air lines, 10; and others, consisting of inspectors, Department of Commerce, Air Transport Board, R.A.F., and deportees, 17.

Mr. HAZEN: Were any passengers injured while being carried?

Mr. SYMINGTON: No.

Mr. HAZEN: Was any damage done to equipment during the year.

Mr. SYMINGTON: Yes.

Mr. HAZEN: What equipment suffered damage as a result of accidents?

Mr. SYMINGTON: We had a crash landing at Moncton, when two of our employees were taking a plane up for instruction purposes, and there was $41,777 written off, the value of the plane which was actually destroyed. It got about 100 feet off the ground and then nose dived.

At Lethbridge a plane landing struck a truck. At Lethbridge unfortunately, the road is very close to one of the runways which is only used very seldom. It depends on the direction of the wind; and there was a truck with high boards with some grain in it. The runway being short and the wind being bad, the pilot had to take the full length of the runway, and whether it was the rain or whatever it was, he did not see the truck. The wheels of the plane struck the top of the high boards carrying grain. He really made a remarkable recovery and landed on his belly. Ultimately it was $11,502 damage done to the plane.

At Dorval on March 15th, in the ice, they taxied off the runway off to the side, and one wing went into the snow. It did $8,534 damage to the plane. The same thing occurred at Lethbridge, at a cost of $6,000. Then at Blissville there was a forced or belly landing at a cost of $5,759.

Mr. NICHOLSON: Were any passengers injured in any of these accidents?

Mr. SYMINGTON: No. As a matter of fact, I received a letter from a gentleman in San Francisco who was in the Lethbridge accident. He said: I do not suppose you very often get letters of praise from a passenger who has been in an accident; but in connection with the plane which struck the truck, he told me how the pilot managed to get the plane up into the air and how they circled around; and how the stewardess came and talked to them and told them how it happened, and assured them that belly landings were very easy in this snowy country; and that he never saw anything so well handled; and that they landed on their belly, getting no more than a slight tug of their harness.

Mr. POULIOT: There are no more priorities?

Mr. SYMINGTON: There are no more priorities.

Mr. POULIOT: Have you considered the question of passes to members of parliament?

Mr. SYMINGTON: It was discussed in parliament several times, I believe, but we have not got them. It would be pretty tough, I think, certainly until we get a lot more equipment.

Mr. POULIOT: How many passes are issued yearly?

Mr. SYMINGTON: I think about ten, and they have to pass the Air Transport Board. There are: the directors; the minister; the postmaster-general; I think, Mr. Henry himself, as head of the board; but that is all.

Mr. POULIOT: Well, that is a start.

Mr. HARRIS: You are willing to accept the inevitable?

Mr. REID: I would like to say for the benefit of the committee, that history is repeating itself. Everytime there is a conflict with the Canadian Pacific, they always get their way.

Mr. SYMINGTON: I am glad that I cannot be blamed for that.

Mr. JACKMAN: You draw attention to the route between Toronto and Winnipeg.

Mr. SYMINGTON: Yes, sir.

Mr. JACKMAN: How is that progressing?

Mr. SYMINGTON: Well, it is very difficult; but not so difficult from our point of view, because we are ready; but the air field proposition is difficult. We have approached and conducted conversations and very favourable ones with the United States whereby we can use an emergency landing in the northern peninsula of Michigan, and thus get into that service quicker than we otherwise could. I am extremely hopeful and most anxious that that may be established as soon as possible because it would be a very great help to Canada.

Mr. NICHOLSON: How soon is it possible?

Mr. SYMINGTON: You had better ask the honourable Mr. Howe that question. There was a difficult situation there with respect to an emergency landing, landing on an island in a lake, and we could not get boats to it in order to build an emergency landing; it would have been a terribly expensive proposition. Therefore we are making this other arrangement in order to put the service into being.

Mr. JACKMAN: Which is that?

Mr. SYMINGTON: So that we may have an emergency landing field rather than having to land in Lake Superior; we will have an emergency landing field in American territory.

Mr. JACKMAN: That is the route over Lake Superior that you are speaking about now?

Mr. SYMINGTON: It is not a regular landing, but we won't run that flight without some place to go in an emergency.

The CHAIRMAN: It is now one o'clock and can we meet again at four? We have trouble with five or six committees sitting, but I think perhaps we can make some arrangements to get this room by 4 o'clock. Very well, gentlemen, the committee is now adjourned to meet again at 4 o'clock in this same room.

The committee adjourned at 1.05 p.m. to meet again at 4.00 p.m. to-day.

The committee resumed at 4 o'clock p.m.

The CHAIRMAN: Gentlemen, we discussed Mr. Symington's report this morning. Do you want to discuss it any further before we go to the financial statement?

Mr. HARKNESS: The question of rates was brought up to some extent this morning. It seems to me that the rates charged by T.C.A. impose a sort of undue burden on the Canadian public which travels by air as compared with the United States. It was pointed out that return fares are fairly comparable, but as far as I can make out they are not very comparable. I have two examples here. From Vancouver to Toronto by United Air Lines the fare is $111 and by T.C.A. it is $132.35.

Mr. NICHOLSON: Is it $111 in American funds?

Mr. HARKNESS: No, it is in Canadian funds.

Mr. SYMINGTON: No, American funds.

Mr. NICHOLSON: They are all in American funds.

Mr. SYMINGTON: You have got 11 per cent on that, and on the return fare 10 per cent off on ours.

Mr. HARKNESS: I just got this figure, and I took it it was in Canadian funds.

Mr. SYMINGTON: No, it is not, and if you deduct 15 per cent for a travel card, and 10 per cent for return I think you will find we are away below on the return fare.

Mr. HARKNESS: I think you said this morning that on the return fare it was 10 per cent?

Mr. SYMINGTON: 10 per cent and 15 per cent off for a travel card.

Mr. HARKNESS: But everybody has not got a travel card.

Mr. SYMINGTON: That is perfectly true. I quite agree, but the numbers are increasing very fast, and a large part of our patrons has travel cards.

Mr. HARKNESS: In view of the fact that salaries, wages, and so forth are generally considerably higher in the United States than they are in Canada it would seem to me that our rates should be lower than the United States rates.

Mr. SYMINGTON: I am very glad you raised that point because I should like this committee to understand the difficulties that we are up against in operating air lines in this country. I have had a statement taken off. In the year 1945 if we had been able to buy gasoline in Canada at the price which I have here in the United States we would have made $480,000 more. If we had not been subject to extra operating costs by reason of duty, sales tax and war exchange tax we would have made $990,000 more. In other words, we would have made $1,470,000 more or 35 per cent of our capital if we were not subject to those drawbacks and disadvantages. I do not know anything you can do about it. I am not blaming the oil companies. I have taken it up with them and the answer is that they say it is a fact that under the Canadian layout they have refineries all over the country and that the expense is in the railroad cost for crude oil to bring it into the country to get it there but, as a matter of fact, our gasoline costs in Canada are just about 100 per cent more than if we bought it in the United States. They, of course, are fed by pipelines from their various fields whereas we have got to import and move it across the country as crude oil.

Then again of course, the operating conditions in this country are very severe. One example is in the conversion of these planes, the extra heating system and the necessary power plant to create that.

Mr. HARKNESS: You have that same thing on the northern United States lines?

Mr. SYMINGTON: No, not by any manner of means. Not by any manner of means are they anything like as severe. There is the extra cost of heating, probably $20,000 a plane, and depreciated over four years there is that much more to depreciate. You bring in a plane and by the time you pay the duty and sales tax—fortunately now it has improved because the war exchange tax has gone off as of last November—last year a plane that would have cost us in San Diego $675,000 would have cost us here with the duty, tax, war exchange tax and the necessary changes that had to be made $1,180,000 as opposed to their $675,000. When you divide that by four, where you are depreciating your planes in four years under these very rapidly changing conditions, that becomes an annual operating cost. The same thing applies with respect to your spare parts and repair parts so that the three largest items of operating expense in this country are away over what they are in the United States.

Then you have got a situation where our range here is very large. We have 3,500 miles in width and probably 100 miles in depth. Over there with their thousands of small manufacturing plants situated all over the country you have a checker board north and south. They can divert all around the place when they are weather-bound. They are not stuck at Kapuskasing or

Armstrong or some place else all of which cost a great deal of money to a line. I am not complaining about it because in spite of it all our results are better than any United States line in my judgment.

Mr. HARKNESS: What do you mean by "results"?

Mr. SYMINGTON: In the actual earnings. I think that what the members must recognize is that we are up against very serious operating difficulties in this country, and as their efficiency increases our advantage on our efficiency and less expensive operation in any other way decreases. In other words, if you compare controllable costs in Canada with theirs we are away below them. As to operating costs, direct costs, we are, of course, above them, and we just cannot help it. It is a situation that is impossible to meet. The best thing you can do is go along. We are able to do it because we have a very devoted and capable lot of people who up to this moment—and there is no guarantee that it will continue—are willing to work for cheaper wages than they do in the United States. The pilots have stayed firm although they are now trying to strike in the United States for salaries that are nearly double ours. I do not know how long our men will stand by us as firmly as they have. Nearly all our top people can get jobs with twice the salaries if they want to leave T.C.A., but it is part of their birthright and they are sticking. That is a fact that we have got to face, and there is no use fooling ourselves about it. We can face it. I am satisfied we will continue to face it successfully, but it is a real job.

Mr. HARKNESS: Whilst I realize that your gasoline costs, and so forth, are considerably higher than the United States you have certain compensating advantages which the American lines have not got. For example, you have no competition which all American lines have. You have no taxes. You have a very much higher rate on mail than the American lines receive. I should think that those three compensating advantages would to a considerable extent offset your higher costs for gasoline and so forth.

Mr. SYMINGTON: I think you have spoken a little broadly as to those advantages. In the first place, we have real competition now in the sense that from Vancouver, Lethbridge, Winnipeg, Montreal and Moncton we are actually running in complete and continuous competition with the American air lines across the continent. They can and do reach all these points so that we are, in fact, in actual competition with them. Locally we are not. I agree we are not between Regina and Winnipeg, but we are between Regina and Toronto or Regina and New York or Regina and Windsor because from Winnipeg they can take those lines. They can travel our lines locally, go down the other way and go right across the continent. I am glad it is there. It is a very good thing but on the other hand when you talk about mail, my goodness, when you look at the mail carriage in the United States compared to ours and the comparison of rates the situation is not comparable. Do not forget this—and this is what most people do not realize—under actual statutory authority in the United States mail rates are fixed by C.A.B., and they are fixed under a statute whereby they are made sufficient to provide cost and reasonable profit to the line. So that while it is perfectly true that on the tremendous big lines the air mail rates are below ours there are dozens and dozens of smaller lines which are away above ours. I agree that the average is below ours because most of the mail travels on the three big distributing lines across the United States.

Mr. HARKNESS: Those are really the transcontinental lines which are comparable to T.C.A.?

Mr. SYMINGTON: If you would compare the carriage of mail across the United States and across Canada we have about six places where we deliver, only one with a population over a million and two or three-quarters of a million, the rest being a couple of hundred thousand and going down to fifty thousand whereas across the United States there are hundreds and hundreds of cities of 100,000, 150,000, 200,000, that lend themselves to the operation because you put on and take off. The result is you can take a great pay load for a short range, but we have got to load a plane to go 1,500 miles in case anything goes wrong because we have not got these places in between. As I say, I am not apologizing for the operation. I am extremely proud of it, but I do want the committee to recognize the differences in the character of the operation in Canada and the United States because as an actual flexible operation there is no comparison. They are so far ahead of us from natural conditions.

Mr. NICHOLSON: I would like to support what Mr. Symington has said. I left Regina last January one morning when it was 40 below zero in Regina and later on that day I reached Los Angeles by Western Air Lines where it was about 58 above. The physical problem of servicing equipment to operate in 40 below is a very different problem from what it is to operate a plane in summer weather all the year round. In connection with the rates question which has been raised I have the United Air Lines booklet here, and they give the single fare from Vancouver to New York as $118.30 or New York to Vancouver at the same rate. If you add 11 per cent, which they do when you take a plane over the American lines, it gives you a round trip for $262 via United Air Lines as compared with a round trip for $260 by T.C.A., so that actually you are $2 further ahead to travel by T.C.A. between those two points. If you buy a single fare it is a little cheaper to travel by United Air Lines.

Mr. HARKNESS: Did you take in the travel card on those figures?

Mr. NICHOLSON: No, that is without the travel card.

Mr. JACKMAN: Mr. Symington, ordinary gasoline for motor cars does not cost 100 per cent more in this country?

Mr. SYMINGTON: We are learning quite a lot about these things, Mr. Jackman; but we have got the actual figures because we have been comparing rates of these new operators in the States; and the figures—I have them here.

Mr. JACKMAN: I don't doubt you have them, if you say so, but I was wondering what the justification was for aviation gasoline costing so much more here than there.

Mr. SYMINGTON: I think the reason is that these very large companies make special deals with one company and get a very low rate in doing so. We do not. We buy from the different companies that are available to the fields. An odd thing happened in comparing these American and Canadian north trans-Atlantic rates and trying to arrive at a basis. We found that the American lines had Greenland and Iceland and were buying gasoline several cents a gallon cheaper than we were buying it in Montreal. The answer was, of course, that the army had put stuff in there and I guess they were getting it cheap; but the savings in the case of gasoline, in the returns made by the various companies, were really considerable.

Mr. JACKMAN: Is there any way of having these figures made available?

Mr. SYMINGTON: I have them available, but as they were given to me in a conference which had nothing to do with this, I do not know that I should disclose them. But I am giving you what is the fact because we have been studying very, very carefully the various lines and the costs in arriving at the North Atlantic rate.

Mr. JACKMAN: In view of the whole situation does it not seem unreasonable that we should be paying so much more for gas than the Americans do?

Mr. SYMINGTON: I did not say it was reasonable or unreasonable. As I said, I am not saying anything by way of complaint, I am merely pointing out to you some of the difficulties under which we labour.

Mr. JACKMAN: That cost of planes in the United States as compared to Canada is not only considerable, but shocking.

Mr. SYMINGTON: Well, you see, you take the original cost in American money and upon that you add your duty and take your sales tax on exchange plus duty, and then you take your war exchange tax on exchange plus duty plus sales tax, and the percentage on top of that.

Mr. JACKMAN: I suppose if you were in a private company you would have something to say about the duty of aircraft coming into Canada.

Mr. SYMINGTON: I do not want to get into politics, but I would have a lot to say about duties on things coming into Canada—if I were a free agent.

Mr. GIBSON: You ought to put that in your tax column.

Mr. NICHOLSON: In the first page of your report you mentioned alternative routes between Toronto and Winnipeg. Could you indicate how frequently per month you are required to do that?

Mr. SYMINGTON: Our bad season is the mid-fall and early spring for the northern Ontario region. Their seems to be a warm wind which blows up from the western United States all across that cold, watery Lake Superior region, and that lake region that lies north of it, which gives rise to this ground fog and makes operation very difficult. The result is that during these periods we fly as many as ten or twelve times a month between Minneapolis and Windsor in order to maintain our schedule. And now, with respect to finished schedules, in the absolute winter we are higher and better than any American line, and in the summer we are better; in these two periods we are less. Over the whole year at the same time our performance is better than any of them. But we do have the same assistance as they have. They come over us very often, across the Niagara Peninsula, and so on, and into Moncton. They have the same right under the two-freedoms agreement.

Mr. NICHOLSON: Does it cost you appreciably more to do that?

Mr. SYMINGTON: A little more, but very little more. Certainly it is a money maker for us because the absolute cancellation of the trip or the holding of people at Kapuskasing or some place is an expensive proposition.

Mr. NICHOLSON: How about the time factor?

Mr. SYMINGTON: The time factor is of very little importance, very little more; it is only about fifty or sixty or a hundred miles.

Mr. JACKMAN: On these costs which you gave us for planes in Canada and the States; are they about commensurate with the cost of making planes in Canada, is the cost about the same?

Mr. SYMINGTON: We will tell you that in another six months, perhaps.

Mr. JACKMAN: Who is this Canadair that I see you mention in your report, who owns that?

Mr. SYMINGTON: Canadair is owned, I understand, by the Dominion Government.

Mr. JACKMAN: So we are now engaged in the manufacture of planes?

Mr. SYMINGTON: We are now engaged in a very important, very marvellous job of making planes, we hope; at any rate now we are taking our medicine in the hope of being able to manufacture planes in Canada in the future, both for military and civilian purposes.

Mr. JACKMAN: Since the minister is here, perhaps I might ask him how we have come to acquire Canadair?

Hon. Mr. HOWE: We have always owned it, we built it.

Mr. JACKMAN: The report says that you acquired it from Vickers, they operated it during the war.

Hon. Mr. HOWE: They operated it during the war. We owned the plant.

Mr. JACKMAN: Crown assets?

Hon. Mr. HOWE: Yes.

Mr. JACKMAN: We took the operation of it over from Vickers through Crown Assets, is that it?

Hon. Mr. HOWE: Before that Vickers were involved but they found their financing requirement would be very heavy. We took it over by mutual consent. They were financing it as part of their ship-building operation, and the amounts of money in it were so large that they worried us to get it right down, so we accepted the operation. There was no change in fact, they had the management contract and now Canadair have taken over the management contract.

Mr. JACKMAN: And Canadair is a crown owned company?

Hon. Mr. HOWE: Canadair itself is not crown owned, the facilities are. Canadair is the management company with the same management as managed the plant for Vickers; instead of having it mixed up with Vickers operations they requested us to separate it and we entered into a management contract for its operation with Canadair.

Mr. JACKMAN: But Canadair owns no physical assets, it merely leases them?

Hon. Mr. HOWE: No, they are not leased to them they simply manage the property for a fee; it is a contract, that is what it amounts to.

Mr. JACKMAN: The fee is based on cost, is that it?

Hon. Mr. HOWE: Yes.

Mr. HAZEN: How long has that been in operation?

Hon. Mr. HOWE: For three years perhaps.

Mr. HAZEN: Is that based on each year's operation?

Hon. Mr. HOWE: It is difficult to make a cut-off each year because the contracts overlap, but we think we are doing a very good job and getting served at very reasonable cost.

Mr. HAZEN: Have you any figures?

Hon. Mr. HOWE: I could have. They are not under investigation by this committee whose reference pertains to Trans-Canada Air Lines. I would be very glad to furnish them before the War Expenditures or any other committee having the right to deal with the matter.

Mr. HARKNESS: Are they the people at the present time who are turning out these DC-3's which are coming into operation?

Mr. SYMINGTON: They are converting them.

Mr. HARKNESS: The Canadair people are doing that?

Mr. SYMINGTON: Yes.

Mr. GIBSON: On a contract basis?

Mr. SYMINGTON: On a contract basis. They are converting about eighty-seven planes for almost every country in the world. Twenty-four for us, and putting in special equipment necessary to our operation, and they are completing contracts for aeroplanes for Sweden, Switzerland, and countries all over the world.

Mr. GIBSON: For a definite sum of money?

Mr. SYMINGTON: Yes.

Mr. HARKNESS: How much do these planes cost, the DC-3's, from Canadair?

Mr. SYMINGTON: The DC-3's from Canadair cost us complete $150,000; that includes, of course, the original purchase price of the plane plus special seating in our case, plus certain safety devices that we insist on putting in. I imagine that our cost may be a little more than the other man's but not much more.

Mr. HARKNESS: I have heard criticism of these DC-3's that they are already obsolete equipment in so far as United States lines are concerned, and the question is raised whether it is good business on the part of T.C.A. to more or less take DC-3's at the present time; what is your opinion as to that?

Mr. SYMINGTON: My opinion about that is, that if anybody tells you that, tell them that the DC-3 is still the finest two-engine plane in the world, without any question. Now, it is quite true that there will be better two-engine planes. There are to-day coming out of the factories better performance two-engine planes than the DC-3 for specific purposes. The American air lines, for instance, one American air line has bought I think forty or fifty Martin 202's. The Martin 202 is a plane which will give remarkable service for a range of five hundred miles or thereabouts. We cannot run it in Canada at all because we have to have a range of 1,500 miles, so it is not available for use in Canada. There are two other planes which are now on the drawing board, or beyond the drawing board stage, which are being considered by American air lines for their local use; but, as I say, none of them—they have all been up to see us and we have gone very thoroughly into it with them. We have told them of our requirements and specifications and they have made an effort to see if they could live up to them; but, of course, they cannot without completely changing their standards; so these planes are not available to Canada in any practical sense whatsoever. But it will be in my judgment two or three years before you will see any considerable improvement in the art of reciprocating engines. The DC-3 is just about as good a plane as you would get any place, in fact it is a marvellous plane for performance. When we get into these jets, that is another question. I am hopeful about that, but the plane to-day used in Canada must have a pay load, and must have a range and must be able to get over the Rocky Mountains with one engine failing, and that is a hard thing to find.

Mr. NICHOLSON: Mr. Chairman, before we adjourned at noon we were discussing the projected extension of the service between Toronto and Winnipeg, and the return service from Winnipeg to Edmonton via Saskatoon, also Edmonton and Vancouver.

Mr. SYMINGTON: The first part, Mr. Nicholson, we expect will be ready. They are now working on the field at Saskatoon, that is what is holding us up. That is not our business although we do co-operate with the department in every way. When that field is built it will be put immediately into operation.

Mr. NICHOLSON: Will that service be operating in 1946?

Mr. SYMINGTON: I would certainly say so; yes, we expect so, without any doubt. I cannot answer for that because there may be labour conditions and material conditions and so on, but as far as I am concerned we are ready, and we believe that the field will be ready, although that is a departmental matter. With respect to Edmonton and Vancouver, we have studied and are contemplating some change in our route. Calgary is a very important city; we feel that they are not on the main line of Trans-Canada.

Mr. JACKMAN: Hear, hear!

Mr. SYMINGTON: And the same time our whole machinery is laid out on the southern route. It costs a lot of money to change. We are, however, contemplating when we get the planes; and this, I think, will be one of the early moves. We propose to run one trip from eastern Canada each way to Calgary direct, where it will connect with a plane from Calgary to Vancouver; and coming back the same way, so that of all the four transcontinentals across, one of them each way will be direct through Calgary. Each service will join the line from Calgary to Vancouver and Vancouver to Edmonton. We will transship at Calgary. In other words, we are trying to keep our planes in the air and give service by really, what may be called a series, to some extent, of locals, originating business from Calgary. They would not have to take the chance of going to Lethbridge and being held up there, but would select the straight way east or west; and the same way going. The rest will go by the regular main line, by Lethbridge. That is not final; you have got to keep these things elastic. You must try things out by trial and error. You cannot make any money unless you keep your planes in the air. In a particular system like ours, where you must have your maintenance points in order to take care of your planes, you must do a good deal of figuring; so we are trying things out here and trying things out there.

Mr. NICHOLSON: Then you will have a direct service?

Mr. SYMINGTON: Quite so.

Mr. HARKNESS: Did you not say you were not planning on a direct route?

Mr. SYMINGTON: No; it goes from Edmonton to Calgary and to Vancouver. We are coming to Calgary from Edmonton so that, in Edmonton, a passenger who wants to go to Vancouver, just the same as a Calgary man will take that particular flight which goes through to Vancouver instead of getting off at Lethbridge and taking his chance.

Mr. NICHOLSON: But your map does not show the direct route from Calgary to Vancouver?

Mr. SYMINGTON: No; it really strikes the pass down near Cowley, and goes through the same pass. The ranges and all those expensive installations are all there. It may work out so well that two, or four, or an extra one will be put on; but that is what we are starting with.

Mr. NICHOLSON: Have you had many requests to include Charlottetown in in the T.C.A. service?

Mr. SYMINGTON: No.

Mr. NICHOLSON: You do have a flight passing over there, I know.

Mr. SYMINGTON: Yes, but they seem very happy.

Mr. NICHOLSON: Then they do not mind being left out of Canada, so far as the T.C.A. is concerned?

Mr. SYMINGTON: I do not know that; but we have had no pressure on it, so far as I am concerned. They are getting on very well and they are getting a very good service.

Mr. MCLURE: I would like to ask a question: in the maritimes we have a local airways company known as the Maritimes Central Airways, which is giving an excellent service both for passengers and mail. My question is this: will the T.C.A. become, at any time in the near future, a competitor of our local airways? Or, is there co-operation existing between them at the present time.

Mr. SYMINGTON: So far as my answer to that is concerned, Mr. McLure, we are co-operating entirely with the Maritime Central at the moment. What the future will be in five, ten, or fifteen years, I would not attempt either to prophesy or endeavour to suggest, or to bind somebody who may succeed me, or the government, or anybody else; but our relations at the moment are entirely one of co-operation. I imagine that we have been probably of greater service to the Maritime Central in helping them out than anybody outside would realize. They are what we consider to be a legitimate and desirable feeder line, and in that respect I think they are the best in Canada, and they are most likely, geographically, to succeed. We have not the slightest desire to interfere with them at the moment. That is my own and T.C.A.'s policy; but I do not know what may happen five years from now.

Mr. NICHOLSON: They do not give as good service as T.C.A. to the people travelling there. Those people, I imagine, would prefer to traval via T.C.A. The last time I happened to be in Charlottetown, we were rather late; it was late at night and I wanted a place back to Ottawa; but they could not advise whether the flight would be going on or not. They closed their office at night and I had to telephone to Moncton to telephone T.C.A. whether I had better travel by plane or not. I made train connections at Moncton, but I would imagine that a local company handling T.C.A. would try to please the public better than that?

Mr. SYMINGTON: They are trying to make money, you know, and all night services do cost money.

Mr. MCLURE: Does the Maritime Central Airways have to make a special contract for the carrying of mail with the T.C.A., or do they make a contract direct with the postal department here?

Mr. SYMINGTON: With the post office; we have no special contract with them.

Mr. JACKMAN: As far as the maritimes are concerned, if a maritime person wants to go to Vancouver, would it be much cheaper and would it be shorter mileage for him to take the northern route rather than to go down by way of Toronto?

Mr. SYMINGTON: How is that again?

Mr. JACKMAN: My question is purely theoretical, I think; but if a maritimer wanted to go to Vancouver, would it be much shorter for him to go by the northern route rather than to go down via Montreal?

Hon. Mr. HOWE: First we will find out if there is a northern route.

Mr. SYMINGTON: You mean: somebody flying from the maritimes to Vancouver?

Mr. JACKMAN: Yes, instead of going down the southern way, where the earth is broader, would it be shorter for him to fly up north?

Mr. SYMINGTON: Yes, it would be shorter, but it would cost you $50,000,000 to lay it out.

Mr. JACKMAN: The question is purely theoretical, but it seems to me the rate now being charged is based on a mileage basis, and to go along the southern route—that is the only practical route at the moment?

Mr. SYMINGTON: Surely you do not suggest that in world air or domestic air that everybody should be charged upon the great circle route, when there is not a possible chance of a great circle run. The maritimes pay five cents a mile, the same as Torontonians.

Mr. JACKMAN: But they probably travel 50 per cent more?

Mr. SYMINGTON: No, I do not think they do travel any more, or the few miles more would not amount to anything. I doubt very much if it is anything more.

Mr. MAYBANK: I would like to ask you about the routes; your projection—I thought you had exhausted the possibilities of this theory?

Mr. SYMINGTON: Oh no.

Mr. MAYBANK: If I may continue this: your projection shows Winnipeg, Edmonton, and Vancouver; that is, your dotted line projection?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: Now, there are a lot of questions being asked as to which is the main line, when that projection is through, the one from Winnipeg to Edmonton, to Vancouver or the one from Winnipeg to Lethbridge to Vancouver. I do not know if there is very much importance in it, but people are asking about it?

Mr. SYMINGTON: I do not think there is any importance; I think the answer would be that they would both be equally main lines.

Mr. MAYBANK: I suppose you would run the frequency on each which the traffic warrants, and the one with the most traffic would be the more important. There is no plan of making anything at Edmonton?

Mr. SYMINGTON: No.

Mr. MAYBANK: All right.

Mr. JACKMAN: From the morning session I understood that the cut-off at Lake Superior—there is no immediate prospect of that going through on account of the difficulties?

Mr. SYMINGTON: Oh yes, there is a possibility of that going through, at least I sincerely hope so. We have seen the United States people with respect to giving us facilities.

Mr. JACKMAN: You mentioned difficulties this morning?

Mr. SYMINGTON: Giving us facilities so that we may have an alternative field to land at, in case we have to land between the Soo and Fort William. The plan called for a landing place on an island in the middle of Lake Superior but it would be impossible, or very very expensive, and certainly in time it would be impossible to construct; so that, instead of flying from the Soo that way to Fort William, we fly a little bit the other way and hit the tip of Michigan peak where, on United States territory, there is a field if we have to land, that we can land on if we have to. It requires a radio range in order to permit us to take advantage of that route. These international matters take a little time; but the Americans were most receptive, and apparently they are quite willing, not only that we should use it, but that they should construct the field and put in the radio range.

Mr. JACKMAN: Then it might all go through this fall?

Mr. SYMINGTON: I hope so.

Mr. MAYBANK: It would be an auxiliary route for going over the lakes?

Mr. SYMINGTON: Yes.

Mr. MAYBANK: That spot is right at the tip of Michigan?

Mr. SYMINGTON: It is very close to the tip of Michigan at Houghton.

The CHAIRMAN: Mr. Emmerson, I think you had a question to ask?

Mr. EMMERSON: I wanted to ask this question, on the subject of traffic from the maritimes to the Pacific coast; the dotted lines indicate the proposed route, as I understand it, on this map?

Mr. SYMINGTON: Yes.

Mr. EMMERSON: And from Ottawa to North Bay to the Soo and across to Port Arthur and Fort William, to Winnipeg; that is the proposed route, and I presume that depends a good deal on your preparing the route and getting your four-engined planes?

Mr. SYMINGTON: No, it is not dependent upon four-engined planes. If you will look at the map, our main line runs from Montreal and goes to Toronto and then it goes back to North Bay and up around Kapuskasing. We propose first that the line from Toronto to Winnipeg, instead of going in all its flights the long way around, will cross the lakes and go to Winnipeg; and then, another flight from Montreal, to save distance, will go to Ottawa and across to North Bay, with one leg going by the Soo to Winnipeg, and another leg by Kapuskasing and Armstrong and so on. We discovered in these air lines that this service which was originally considered probably as an extravagance has now become a practical necessity to these towns which have grown up to it and around it, and you cannot desert them; so, while we run across the lakes, we cannot, I do not think, pull out of that northern section completely and leave those people without access to the business that they have been accustomed to. The line you see from Montreal, if we cut out Toronto and go to Ottawa-North Bay, we will get a considerable distance advantage for that particular service.

Mr. EMMERSON: But if the route would be, say, from Moncton to Montreal, to Ottawa, to North Bay to the Soo across to Winnipeg, that would be your shortest route, and would be nearer to the great circle?

Mr. SYMINGTON: Quite so.

Mr. EMMERSON: And that would be a shorter mileage. Now, your through rate would be based on that mileage, or would it be based on the longest route?

Mr. SYMINGTON: That depends on what the transport board says, for it is they who fix the rates; but the rates which will be demanded, so far as I am concerned, will be those which give us an efficient operating cost plus a reasonable profit. But that is a matter for the independent transport board to decide what the rates shall be.

Mr. NICHOLSON: When all these new routes are established, what saving of time will there be between Toronto and Winnipeg.

Mr. SYMINGTON: I do not know that I can give you the exact time but there is 190 miles; that will be an hour or approximately an hour less on the cross-lakes, and this one saving may amount to three-quarters of an hour—

Mr. JACKMAN: In the more finished schedules?

Mr. SYMINGTON: Yes; and when these things become more flexible so that you can handle your planes and get them into the air and on to the routes where the greatest traffic is, that will be the governing factor, because cubic space in an aeroplane is a very valuable factor. If one route is popular, then it will get more people than the less popular route.

Mr. POULIOT: I presume we are not going to leave the St. Lawrence valley to one side; it is an old established section of the country and it needs facilities. At the present time there is an airport at Mont Joli.

Mr. SYMINGTON: Well, Mr. Pouliot, if you will refer to this map you will find the route to be Montreal, Quebec, Rivière du Loup, Mont Joli, Campbellton, and it may be to Moncton, Saint John and Halifax. That route is looked upon as one of the main line routes of Canada. Rivière du Loup is a large and growing place. Mont Joli has Rimouski, Matane, and the Gaspe Peninsula to be fed through it. Campbellton is a growing manufacturing city. I think that route relative to the population of the cities of Canada is just as concentrated as any other; and I am very anxious to see that line put into operation just as soon as facilities are available.

Mr. POULIOT: Do you expect to be able to do something about it this year?

Mr. SYMINGTON: Well, I doubt that, Mr. Pouliot; you see, there is no field at Rivière du Loup and no field at Campbellton; and I do not think it would pay to run a route until we can stop at the population centres. I am sincerely hopeful that Mr. Ilsley won't be too hard with the Estimates with respect to air fields. That is all I am interested in; but we are ready to go when we get those planes. We are turning out the personnel and we want to go; so when the facilities are ready for us we will be there to operate.

Mr. POULIOT: Mr. Howe, did you receive a report on the establishment of an air field in the vicinity of Rivière du Loup?

Hon. Mr. HOWE: Well, the report was received and a survey was ordered. I have not seen the survey yet. Commander Edwards tells me that the survey is going on at the present time, but the estimate has not been made.

Mr. POULIOT: You say that the survey is now being made?

Hon. Mr. HOWE: Yes; there was one started last fall, and it was sent back for more data. A study of the survey indicated that more data were needed.

Mr. POULIOT: I understood that last fall it was too late to have a final report?

Hon. Mr. HOWE: That is right.

Mr. POULIOT: And now I learned that instructions have been given for a further study?

Hon. Mr. HOWE: That is right.

Mr. POULIOT: If the report is satisfactory, will you act upon it?

Hon. Mr. HOWE: I will present it to my colleagues and hope that they will act on it. All I need to act is money.

Mr. POULIOT: Well, you have some money for that purpose in the estimates?

Hon. Mr. HOWE: Just enough to cover the survey. But there will be more supplementary estimates later and perhaps we can do something about it.

Mr. JACKMAN: I think it is germane to the T.C.A. to ask Mr. Howe a preliminary question or two with regard to Canadair: If Canadair does business for other countries, how do you handle that business?

Hon. Mr. HOWE: The operating company has leased certain facilities there that were not part of the original Vickers plant; certain facilities formerly occupied by Nordheim; and they are doing work for the various governments in those plants, under separate arrangements.

Mr. JACKMAN: Part of the plant is leased and part of the plant is on a direct cost plus basis.

Hon. Mr. HOWE: That is right.

Mr. JACKMAN: Is it to be the policy of T.C.A. to have all these major repairs or reconditioning jobs, such as reconditioning an army plane for passenger traffic or building new planes, done at Canadair and not in plants like Malton and elsewhere in the country?

Hon. Mr. HOWE: Canadair has an arrangement with Douglas Aircraft, and these planes all happen to be Douglas planes. That work is concentrated at Canadair, but Malton is also doing some work for transport lines.

Mr. SYMINGTON: A good deal of work.

Hon. Mr. HOWE: And will undoubtedly bring out a plane of its own in another class, which will be interesting.

Mr. JACKMAN: T.C.A. has no direct relationship with Canadair except through the government?

Hon. Mr. HOWE: Just the government.

Mr. SYMINGTON: May I give you some figures I have had drawn with respect to the actual single fares throughout the United States and Canada? The average passenger fare for Canada is 5.15 cents a mile. The United States average is 4.84 cents plus .53 cents exchange or 5.37 cents. That is for 1945.

Mr. HARKNESS: That includes short and long hauls?

Mr. SYMINGTON: That includes short and long hauls.

Mr. HARKNESS: The type of thing you were talking about this morning in regard to the fare to Victoria?

Mr. SYMINGTON: I think so far as I know the rate is all the same throughout the United States. I do not think there are any long and short haul fares.

Mr. HARKNESS: I had two ideas in mind in the matter of fares. The first was that it does not seem reasonable that the people of Canada should have to pay more than the people immediately to the south of us, particularly in view of the fact that our returns to the individual generally speaking are lower. Secondly, if the fares on T.C.A. are higher than the lines which, as you say, compete with you in the northern part of the United States I would think that it would mean in the course of time when the various restrictions are removed, particularly as to exchange, and things are more normal, that the American lines would take most of your business?

Mr. SYMINGTON: Well, we will not let them. There is no doubt about that. We will meet it when we have to meet it.

Mr. HARKNESS: Then at the present time what you are doing is more or less taking what the traffc will bear?

Mr. SYMINGTON: Not at all. Look at our statement. Is a company whose mail rate was reduced by over a cent trying to charge what the traffic will bear? We are working for a public company. We were a government company. There was no advantage to us.

Mr. HARKNESS: From what I can make out your mail rate as well compared with the large trancontinental United States air lines is several times higher than theirs is?

Mr. SYMINGTON: Oh, perfectly true, but I should like to show you diagrams of the mail carriage by those people and the distance carried. Although they are ten to twelve times as big they are carrying thirty times the mail we are.

Mr. HARKNESS: Your mail rate works out at 1·5 mills per pound mile whereas theirs is only ·33 mills per pound mile?

Mr. SYMINGTON: That is on the main lines, perfectly true, but some of them instead of being 1·5 are 5·5, 6·5, 4·3. We cannot compare with the three big main line operators who have the 4·5 rate. We cannot do it.

Mr. HARKNESS: I would think that those would be the people whom you should compare with?

Mr. SYMINGTON: Then, I am sorry, but you would have to look into the conditions of operating, and you would see, for instance, that our total pound miles performed was 3,000,000,000 whereas in the United States it was 101,655,000,000 pound miles performed. Volume traffic is of the greatest importance, and being able to load and unload as you go along instead of carrying great distances is of double that importance. You may as well recognize that there is not any possibility, unless Canada grows very materially and settles her intermediate areas, of any air line ever being able to carry mail as cheaply as it can be carried under conditions in the United States. You just cannot do it. If you give me the $1,500,000 I would have earned but for restrictions upon my operations, yes, I will beat them every time. That is, T.C.A. will, but you cannot do it. You cannot fight nature, geography, population and everything else. If you could move the middle states up into middle Canada and middle Canada down into the middle states then you would have an idea of some of the difficulties and expenses of operation. There is not any use trying to mislead you. There are the facts, and you cannot get over it.

Mr. HARKNESS: The main point is what you said yourself though a few minutes ago, that you will reduce your fares to the level of the American fares when you have to. In other words, if you do not do that we are not going to have any transcontinental air line in Canada?

Mr. SYMINGTON: I am going to meet it when I have to meet it.

Mr. HARKNESS: That is the main point I am getting at in the whole fare matter. It seems to me that the fares should be more or less comparable.

Mr. SYMINGTON: It depends upon your method of fares. I have given you figures. As a matter of fact our fares in Canada during 1945 were lower than the average fare in the United States.

Mr. HARKNESS: You just gave figures that would show the reverse.

Mr. SYMINGTON: No, I did not. I just gave you figures which showed that the Canadian fare was 5·15 and the American average fare was 5·37.

Mr. HARKNESS: You gave 4·84. That is what I put down.

Mr. MAYBANK: That was a different measurement.

Mr. SYMINGTON: The average fare in money value today is 5·15 cents. The United States average is 4·84, and you add exchange of ·53 cents, making 5·37 cents in equivalent money.

Mr. HARKNESS: If the fares are comparable I am satified and very happy to hear it.

Mr. SYMINGTON: I am not saying they will always stay comparable because I would sooner give you a poorer picture than an unjustified picture of operating conditions in this country.

Mr. HARKNESS: In connection with the mail matter you were mentioning a minute ago I cannot quite understand one feature of your report on it. On the first page of your report you show that the air mail volume declined by 8 per cent and the air mail pound miles decreased by 11 per cent. Over on the next page you show that the return for the carriage of mail was 41·98 cents per plane mile flown as compared with 42·03 cents in 1944, but above that you show that mail revenues increased $448,544 or 12 per cent.

Mr. SYMINGTON: Yes. Let me explain it to you.

Mr. HARKNESS: How does that work out? You have got a decrease in rate and a decrease in miles flown and so forth and yet you get more money.

Mr. SYMINGTON: I can explain it very easily. Under the original Trans-Canada Act we were paid by the plane mile so that the more miles we flew the more the Post Office had to pay, whether we carried more or less mail. At the same time the rate per plane mile was fixed upon the money we had made the year before deducted from the plane mile rate of the year before so that in 1945 our plane mile rate came down but we added frequencies so that our plane miles increased, and although we carried less mail we got more money out of it. In other words, the Post Office made less money on a lesser rate during 1945 than they did in 1944 because the mail volume had dropped off.

Mr. GIBSON: We got improved service out of it though?

Mr. SYMINGTON: Yes, but that was the result. That has gone by the board. We are now on a pound mile basis.

Mr. POULIOT: The figures are in the report, too?

Mr. SYMINGTON: Yes. You have got to understand it. I quite agree with you. It looked like a Philadelphia lawyer.

Hon. Mr. HOWE: We are now on a pound mile rate, you see.

Mr. MCCULLOCH: Does that rate of 5·15 take into consideration the 15 per cent?

Mr. SYMINGTON: No, I think not—oh, yes, it does.

Mr. HAZEN: In connection with the transatlantic air service has an agreement been entered into with the government of Great Britain to allow you to land passengers and cargo there?

Mr. SYMINGTON: Yes. This is not between Trans-Canada and the government of Great Britain. It is a matter between governments, and I do not know that I am the proper person to answer that other than I can say we had a meeting at which I was present as the government representative with the minister at Bermuda where we made an agreement. Certain factors in that agreement were subject to confirmation of some of the southern islands, and the result is that the complete agreement has not yet been signed, but for three and a half years Britain has been running to Canada and we have been running to Britain.

Hon. Mr. HOWE: I think the north Atlantic agreement was signed at Bermuda.

Mr. HAZEN: It is only under a temporary agreement that you have been running back and forth for the last few years?

Mr. SYMINGTON: Yes, but we have made an actual civilian air agreement now covering trips between Great Britain and Canada, and Canada and Great Britain.

Mr. HAZEN: Are you operating now for the Canadian government this transatlantic air service or are you operating now as T.C.A.?

Mr. SYMINGTON: We are operating the government service still.

Mr. HAZEN: Do you expect soon to operate as T.C.A. on the Atlantic?

Mr. SYMINGTON: As soon as we get planes which are built or made or used for that purpose. We are operating this service under an agreement with the department, and we are increasing it. We now have five services a week and we expect at the first of June to have seven services a week. That will be the completion of that service until we get our new planes.

Mr. JACKMAN: I can only take from your suggestion that the present planes are good enough for the government but not good enough for T.C.A?

Mr. SYMINGTON: Oh no, not at all. These planes were military planes. We are running them in competition with American planes that carry 40, 50 and 60 people while these planes will only carry 10. They were military engines which had many disadvantages, and it is, I think, to the extreme credit of the engineers of the organization that there is a service which even to-day in regularity exceeds the service of any air line crossing the North Atlantic. When you come to operate a 10-passenger plane in competition with a 40- or 50-passenger plane of course you are up against tough going. Much to my surprise we are actually at least breaking even on the operation. That is the arrangement. If we make any more it is written off against cost of the planes. The planes were planes which were built for war purposes, and that is the situation. When we get our own planes which we hope will be commercially effective why then it will switch to a T.C.A. operation.

Mr. JACKMAN: They are not good enough to carry your flag so far?

Mr. SYMINGTON: I would not say that. I would say they are good enough to carry our flag, but I do not think it would be wise, and I know of no private line that would think of being willing to do it and maintain service with planes of that character, because they were not built for the purpose. We are using up planes that were built for military purposes. We have spent a great deal of money fixing engines, fixing power plants, fixing signals, and have done a really remarkable job on them.

Hon. Mr. HOWE: It is still the best service across the Atlantic.

Mr. SYMINGTON: And to-day we are getting a good deal of traffic and could get more if we could accommodate them, English people who have travelled both ways and who want to travel on our line although we are only running a military plane.

Mr. NICHOLSON: How many planes have you in your fleet at the present time?

Mr. SYMINGTON: We will have six planes. There is one just coming out from conversion at Malton. When we get that we are going to run seven flights.

Mr. NICHOLSON: Your report mentions that you have three flights.

Mr. SYMINGTON: But that is 1945.

Mr. NICHOLSON: When you had three flights a week you still had six planes. Can you give seven flights?

Mr. SYMINGTON: We are getting one more, just six.

Mr. NICHOLSON: You can give daily service with that number?

Mr. SYMINGTON: Yes, daily service.

Mr. JACKMAN: You are booked to capacity on these transatlantic flights?

Mr. SYMINGTON: We are booked to capacity now, but we were not booked to capacity going eastbound for some time before we took over under the last arrangement. Nobody in Canada would go over because they never knew when they would get back. We had to make an arrangement whereby we reserved a certain number of seats for people who wanted to travel from Canada and we said, "We will reserve you your return fare." If they had waited their order in England they would never get back so that they would not go. Now we are running capacity both ways.

Mr. JACKMAN: There are no priorities now?

Mr. SYMINGTON: No priorities.

Mr. NICHOLSON: When you get your new planes what will happen to the fares? If you are breaking even now it would seem that you could bring down your costs when you have your new planes?

Mr. SYMINGTON: That again is not quite as apparent as it seems. We would not operate at the present rate with our present planes if it were not for the competitive situation because we are entitled to make some money out of that operation. When we get our own planes they will be in operation in the most competitive situation that will exist in the international air world, which will be across the North Atlantic. We will be in full competition with the three largest American air lines, with Air France, with K.L.M., which was the most efficient line prior to the war, with Sweden, with Belgium. They are putting in a line. B.O.A.C. are putting in a line, all with big planes, and all with many frequencies, so that the competition on the North Atlantic is going to be just as severe as anything that you can conceive of. It is only the efficient that will survive.

Mr. NICHOLSON: You are hoping that T.C.A. will survive in the race?

Mr. SYMINGTON: We have got to take our chances.

Mr. HAZEN: What about the feeder lines in the west? If I remember correctly last year an act was passed providing that no company engaged in any other form of transportation could operate an air line. Does the Canadian Pacific Air Line still operate there and connect with your lines?

Mr. SYMINGTON: Canadian Pacific Air Line under that name—I do not know.

Mr. HAZEN: I am not sure if that is the right name.

Mr. SYMINGTON: They or their subsidiary companies do operate lines which connect with our lines. I did not know there was any statute which had provided that. I think it was announced that the government had some intention, and then I saw by the press that the decision on the matter had been postponed a year, or something of that kind.

Mr. HAZEN: Perhaps the minister could tell us if an act was passed.

Hon. Mr. Howe: No, there is no act.

Mr. Hazen: Was there not an act passed providing that no company engaged in any other form of transportation could carry on an air line?

Hon. Mr. Howe: There was an extension of it, I think; an amendment.

Mr. Hazen: Did it not provide that it was to come into force within a year?

Hon. Mr. Howe: Yes, except that it had a saving clause that it might be extended by order in council. It had to be extended for several reasons; one was that there was no new equipment, and no new company to take it over.

Mr. Hazen: For how long was it extended?

Hon. Mr. Howe: One year.

Mr. Harkness: In connection with these new four-engine planes you are getting built at Canadair at the present time, you mentioned that they were what is known as the DC-6; in reading your report this morning I think you called them the DCM-4.

Mr. Symington: DC-4-M.

Mr. Harkness: Was it the same plane about which you were speaking?

Mr. Symington: It is the same plane; but what happened was this, that the original four-engine plane was called the DC-4. It was just completed before the war but the bugs had not been taken out of it and it was on the experimental list. In the course of the war the DC-4 was taken as the best transport basic model and was changed into what became the military version, C-54. The military version, the C-54, continued on down, C-54—A, B, C, D, E, and F, if I remember rightly, chiefly by improvements arising out of experience. When the Dominion Government made their arrangement with the Douglas people to build a plane here based upon their models to that date it was not the DC-4 original, it was the DC-4 as it had arrived at the C-54E stage. Then, with the progress of the art Douglas proposed building a bigger and perhaps a better plane, I don't know, which he called the DC-6. Now, the Canadian version of the C-54E, the development of the DC-4 at that time, compared with the DC-4M, which was the Canadian version of the DC-4. Then we changed that plane by using the inline liquid cooled engine as opposed to the reciprocating.

Mr. Harkness: That is the Merlin?

Mr. Symington: It is an air-cooled engine.

Mr. Harkness: That is the British Merlin?

Mr. Symington: It is a development of the British Merlin. It is an engine developed by Rolls Royce and ourselves as the result of our experience over the ocean in the last few years, because there was no American engine which could meet our requirements which we felt necessary to take the plane we required over the North Atlantic. Then the DC-6 incorporated pressurizing, and certain changes in the wing loadings with fuel was readopted into our version, and it became partly a DC-6, and we talked about it as a competitive model of the DC-6. And I must take the responsibility for having it referred to as a DC-6 in the report. Subsequently I received a letter from Mr. Douglas stating that he would have his DC-6 completed about the same time as we would be completing our DC-4-M, and he called our attention to the fact that as he was starting a very big publicity campaign, demonstrations and everything else, that our plane while containing pieces of the DC-6 was not in fact the DC-6; at that time it was quite different, but he thought he was justified in asking that we not call our plane the DC-6; that is the reason I made the correction.

Mr. Harkness: I understand. Thank you. Yet, in connection with these planes, you say you cannot tell us what they are costing at Canadair?

Mr. SYMINGTON: I cannot tell you that yet.

Mr. HARKNESS: Haven't you a contract?

Mr. SYMINGTON: We haven't a contract, no.

Hon. Mr. HOWE: They are being built in a government plant at government expense. We do not know what they are doing to cost.

Mr. HARKNESS: Is the T.C.A. going to pay for them, or the government?

Hon. Mr. HOWE: The T.C.A. will have to pay for them, but we do not know what we will have to charge them yet.

Mr. GIBSON: They are taking an awful chance.

Mr. SYMINGTON: That is true. There is another thing I would like to point out, that the T.C.A. personnel are the most highly trained personnel in Canada, and although the planes are being built there we have spent a lot of money with our men in there assisting in the building of these planes because our experience during the war and after the war has been—and the experience of every other country too—that they do not want to have to rely upon another country for their planes; and may I say that I am glad to see that the minister takes the same view, or put it vice-versa; but we were prepared to perhaps be subject to some criticism in perhaps being a little behind the U.S. lines; more so than would have been the case had we gone out and bought new planes there. It would have been so easy, and I would have been happy to have gone out and been able to buy planes, it would have saved me a lot of headaches as compared to what was involved in the setting up of this new air industry in this country. But I am perfectly satisfied that we are doing well, and I am perfectly satisfied that the planes that will be built will be better suited for Canadian requirements than any planes that we could buy from anywhere else.

Mr. GIBSON: You say that the planes are being built there to help develop a Canadian air industry; does that plant actually make parts, or is it what you might call an assembly plant?

Mr. SYMINGTON: No, they make them; jigs and dies, rejigged and re-died. The whole question about the cost of air plants is that it is your first plane which costs you the most, and that your ultimate cost depends on how many you can divide the engineering cost into. This is not an assembly plant, it is a construction, a production plant having its own jigs, dies and tools and so on.

Mr. MAYBANK: What about the engines?

Mr. SYMINGTON: The engines, the power plant, is made on Canadian plans by Rolls Royce in England. Whether they will start a plant out here or not, I could not say at the moment. They are more interested, or just as much interested in design as anybody else is. They see their chance because theirs is the only part of the air construction industry in England that up to the moment has stood up; and, needless to say, they are very, very anxious that these planes be a success and have co-operated to the fullest extent with us in every way.

Mr. JACKMAN: When you say stood up, do you mean they have done best with the developments?

Mr. SYMINGTON: They can possibly compete with the American planes.

Mr. JACKMAN: That is because they specialized in fighter aircraft.

Mr. SYMINGTON: I am not going to give any reason; but I can recall with some satisfaction that they tried to force us, or suggested that we agree that we use only English built planes. When we went into the subject we told them we could not do it. When we were finished with them they came to the conclusion themselves that their planes were not adequate and could not compete with the American type of plane. Outside of ourselves I do not know of any country in the world that is not buying American planes.

Mr. HARKNESS: As a matter of fact, I heard reports that Canadair brought in about fifty carloads of surplus American DC-4 parts out of which these planes were being developed and constructed.

Mr. SYMINGTON: Well, don't you believe everything you hear.

Mr. JACKMAN: That is the reason we have a committee like this.

Mr. HARKNESS: I don't believe everything I hear, but I believe there must have been some basis in fact for that report.

Mr. SYMINGTON: There is no use of our disagreeing on that. Certainly we bought a very, very large supply of parts and a lot of spare parts for the C-54, or the C-54-E, but they were not bought by Canadair as parts for assembly but rather on a scrap basis.

Mr. HARKNESS: That is what I understood.

Mr. SYMINGTON: Because it is from them that they make their jigs, dies and tools, and it is with them that they did the experimenting so as to get better features, to improve the plane. What you want to do, and I suggest this to the committee, is to come down to Montreal and I will be very happy to take you out there and take you through the plant so you can see the jigs, dies, tools, and see the plane, the whole plane being constructed.

Hon. Mr. HOWE: When you have eight thousand people working in a civilian plant, that is something you never expected to see in the aeroplane industry.

Mr. HARKNESS: Might I finish this, please? It was partly due to reports of this kind, when I heard this story about this large amount of material bought at scrap prices—ten cents a pound is the figure I got—that I wondered what the price would be to T.C.A., what they would have to pay for these planes.

Mr. SYMINGTON: They were not bought for the purpose of using them in the planes; they were bought largely for the purpose of moulding, or using them to mould, the jigs, dies, tools, into what they required according to our specifications for the plans as we drew them up.

Mr. MAYBANK: Arising out of that, Mr. Chairman, it would not be a bad idea if this committee, or a group of members of the House, or the members of some other committee, could find time to go into that plant and look at something of that sort for themselves; an informal meeting having nothing to do with the report or anything like that, but if we could take that in, if a trip of that kind could be arranged, it would be a very fine thing.

The CHAIRMAN: I would be glad to do that, but Canadair does not come under our reference.

Mr. SYMINGTON: I would be glad to arrange that.

Mr. HAZEN: Do T.C.A. convert these planes?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: How many planes are you having made at this Canadair plant now; how many planes are being built there for you?

Hon. Mr. HOWE: I do not think the number has been set. I think they are working on a tentative order of twenty, which will not be enough.

Mr. JACKMAN: But you have no idea of the cost?

Hon. Mr. HOWE: The air force also has a contract in for a military type of plane, a four-engine type, and Canadair is loaded with all the work they can do for a while.

Mr. SYMINGTON: Numbers of course will count. Many people are looking at them right now. Were they completed, right now we could sell, if we were permitted to, a large number. Don't make any mistake, this is a real plane.

Mr. JACKMAN: It is a new plane? A new design?

Mr. SYMINGTON: Yes. The theory is that it is a combination of the best basic fuselage known and the best power plant known; it may not work out. If it does not I will have to jump into the ocean; but, at any rate, we think it is a good plane.

Hon. Mr. HOWE: If this committee want to make a contribution, we are looking for a good name for the plane, it is a four-engine plane, a Canadian type. If anybody can suggest a name that we accept we will give them a prize.

Mr. MAYBANK: You want a new name for this plane?

Hon. Mr. HOWE: Yes.

The CHAIRMAN: Is there anything else, gentlemen?

Mr. JACKMAN: But you have no real idea of what the cost of these twenty planes will be?

Mr. SYMINGTON: We have estimates, yes. Our people have estimates, but I have no real knowledge; but as I say, Mr. Jackman, whatever the cost of the plane is it makes a difference whether you divide it by twenty, or fifty, or one hundred.

Mr. JACKMAN: I realize that.

Mr. SYMINGTON: Depending on how many planes the R.C.A.F. used, and how many planes T.C.A. used, and how many planes Australia used and how many we can sell to other countries.

Mr. JACKMAN: But if these other countries have tariff rates against the importation of them, we won't be able to sell many of them?

Mr. SYMINGTON: I think the air industry in Canada is to be commended.

Mr. JACKMAN: I have a clipping here from an American journal, which says:—

> Donald W. Douglas, head of the company which built thousands of transports and bombers during the war, has just declared that it now takes 'many millions' of dollars to develop a new airplane, whereas before the war it took only several hundred thousand.

So I am rather concerned with how much these planes cost you.

Mr. SYMINGTON: Some planes cost a great deal of money and some cost relatively little money. The Constellation plane which is the popular plane today and which, in my humble judgment, will not be as good a plane as ours, I am told cost $80,000,000 to build the first one. But we were wiser than that because we hooked up with another company who had spent many millions in developing the DC-4 and then the C-54, from which we went on to our own changes, ourselves; so the situation is not comparable at all and it won't be; the cost won't be anything, I hope, remotely approaching any such figure.

Mr. JACKMAN: In connection with power plants, you mentioned that you were using a special type of Rolls-Royce engine. Now, we observed in one of the War Assets Corporation advertisements the other day that they were selling Rolls-Royce engines of high power at very nominal prices. I understand that some foreign countries have bought such planes in Canada for commercial use because those planes are not licensable under our aviation authority here. Were instructions given to T.C.A. about acquiring any of those new Rolls-Royce engines?

Mr. SYMINGTON: It would be simply ridiculous to suggest using them. I would not kill people with them in the service on the north Atlantic. You do not understand the difficulties of the situation. That is the toughest route in the world and nobody has flown it with the success that we have had.

Mr. JACKMAN: Well, our boys used them on long bombing raids?

Mr. SYMINGTON: That was the trouble. The engine was built for a dash and a crash; it was not built for five years of daily slugging it out across the ocean. It is impossible now to use those engines; it would be utterly impossible to fly them 3,000 miles, going up to 25,000 feet to be safe, when those planes could not go above 6,000.

Mr. JACKMAN: 6,000 feet?

Mr. SYMINGTON: Yes, across that ocean. Of course they could not.

Mr. JACKMAN: And yet they made marvelous record during the war?

Mr. SYMINGTON: Yes; they would dash from England to Germany and back, but they never crossed the ocean.

Mr. JACKMAN: Well, then, what are they doing on this side of the Atlantic?

Mr. SYMINGTON: Oh, they were flown from one island to another in order to get them across the ocean; they were never flown directly across. These ships which were flown directly across were the big American ships with the American engines.

Mr. JACKMAN: Those Rolls-Royce engines were not as good as the American engines?

Mr. SYMINGTON: The Rolls-Royce engines were all right for night bombing and they had plenty of speed and carrying capacity, but they were not built to cross the Atlantic Ocean.

Hon. Mr. HOWE: This discussion is out of order because we are not buying them.

Mr. JACKMAN: No, but you are buying Rolls-Royce engines, and that is a question which naturally comes to the mind of the layman.

Mr. SYMINGTON: We are buying a completely developed Rolls-Royce engine.

Mr. JACKMAN: At the bottom of page 1 of your report you say:—

> Where action lay beyond the jurisdiction of the Air Line, recommendations were made to the appropriate authorities.

What are you referring to there?

Mr. SYMINGTON: I was referring to the Department of Transport, because we have to have air fields and communications. If we had to do with the United States, we did it with them. We had to have facilities in our running of the air lines and we could not do it ourselves.

Mr. JACKMAN: You simply made application?

Mr. SYMINGTON: Nobody is anxious to spend money these days; even our Department of Transport is pretty tough.

Mr. HARKNESS: You told us a little while ago what the cost of those DC-4M's would be?

Hon. Mr. HOWE: I will tell you after a while what the cost is going to be for them; so do not ask Mr. Symington now what the cost will be because he does not know.

Mr. HARKNESS: I think it would be of some considerable interest to the committee to know what the proposed cost of these planes is going to be.

Mr. SYMINGTON: I cannot tell you that.

Mr. GIBSON: I do not think you should have to subsidize the aircraft industry in Canada and charge it up to your operating expenses.

Mr. SYMINGTON: I propose to find out about that.

Mr. HARKNESS: In view of the fact that Canadair has not had to bear any of the initial cost of developing the planes which you say is of a tremendous advantage, should you not get planes at a relatively fair price? I was wondering what that price might be?

Mr. SYMINGTON: I did not say that they had not done experimental work; what I said was that they had an advantage with respect to preliminary work and with respect to certain plans, basic plans upon which we had improved but which did require experimental work and a great deal of skill in the making of parts and the making of jigs and tools, but it is nothing like it would have been had we started ourselves from the bottom.

Mr. HARKNESS: So you should be able to get a plane at a reasonable price?

Mr. SYMINGTON: I sincerely hope that we do.

Mr. HAZEN: How many planes did you buy in 1945 that you paid for, and what did you pay for each of them?

Mr. SYMINGTON: We bought twenty-four.

Hon. Mr. HOWE: Dakotas.

Mr. SYMINGTON: C 47's or Dakota's which were a cargo version of D.C.3.

Mr. HAZEN: Were they new planes?

Mr. SYMINGTON: No, not new planes. We turned them over to Canadair, and the first one, the first three that we did, on our own cost plus basis—if my recollection serves me—they cost us about $120,000 for conversion.

Mr. JACKMAN: Each?

Mr. SYMINGTON: Each, for the three new planes of the twenty-one for which we paid $20,000 each. We have a contract for most of the work, plus work we are going to do ourselves on them with respect to safety devices and some other things; and the cost to us will be about $150,000 a plane.

The CHAIRMAN: Are there any other questions, gentlemen?

Mr. JACKMAN: In acquiring those planes, was there something put into the budget of the company in order to acquire more capital stock?

Mr. SYMINGTON: Up to the moment we have taken up only $4,600,000. We have reached a stage where our authorized capital is $25,000,000; but as we need the money, we will call upon them to buy the stock, to provide it.

Mr. JACKMAN: You have the issue in request so far?

Mr. SYMINGTON: We have issued a request for the $400,000 to bring it up to the original $5,000,000; but we will go far beyond that, of course.

Mr. JACKMAN: As a good merchandiser, I suppose you have an idea of why the air mail has fallen off?

Mr. SYMINGTON: It is largely because there is no military air mail; that is the main reason. The greatest proportion of the mail that we were carrying was really service mail to the soldiers. We were carrying all sorts of things, packages and so on. Everybody was writing letters every day to soldiers and they in turn were writing them home. But all that has gone.

Mr. JACKMAN: Is the present rate on airborne air mail volume considered high?

Mr. SYMINGTON: No, I do not think it is; it is not so in the States, and I do not think it is here. We are undertaking an advertising campaign to try to popularize air mail, now that we are getting the service and of a sufficient frequency that they can be assured of getting what they pay for.

Mr. JACKMAN: Is the air mail rate the same in the States as it is in Canada?

Mr. SYMINGTON: It is one cent more.

Mr. JACKMAN: I notice that you say that additional space was obtained in the ramp building at La Guardia airport. How do we find the United States treatment of our passengers with regard to customs and immigration?

Mr. SYMINGTON: We found it very difficult at first, but we think it is gradually working out and improving. I think there is very little to complain about now. These things take time; but once you work through the various departments, I think it is working quite satisfactorily. We had too little space at La Guardia airport, but we managed to get some further accommodation. There were many complaints about the situation there, and I could not blame the patrons at all. There are now relatively few complaints.

Mr. JACKMAN: There are some statistics in regard to air transport companies which I have seen but which I do not recall right now. I think they dealt with the number of employees per plane flown, in order to measure one line against another. Are you familiar with a common measuring rod or rule of some as between lines, referring to the number of employees?

Mr. SYMINGTON: I should think that the per plane mile, or per revenue mile, would be the real test.

Mr. JACKMAN: Have you got any comparative figures in regard to T.C.A. as to whether you have too many personnel or too few?

Mr. SYMINGTON: I have figures that we got at the conference in New York when we were considering rates; and as I explained, our direct costs were higher but our indirect costs lower; but in the aggregate there was very little difference.

Mr. JACKMAN: I saw some figures from American lines not very long ago showing the number of employees per unit of operation.

Hon. Mr. HOWE: It is not a very scientific unit, because an extra flight would require very little extra personnel.

Mr. SYMINGTON: I would say that ours was very much lower, because of the tremendous indirect overheads they have over there. They go to great extremes and great expense in their traffic arrangements, their advertising and their public relations, and their giving people this and that. I am filled up with gold pens and pencils from American air lines; but they were taking it off their taxes. They were giving away clocks and everything else. That is my real recompense in this job, receiving the presents that I get from American air lines.

Mr. HARKNESS: I brought up the question last year as to the amount of staff which T.C.A. employed as compared to C.P.A., and I got a few figures which are for the month of August last year. I cannot guarantee their accuracy, but C.P.A. carried 15,000 passengers while T.C.A. carried 19,000. C.P.A. required a staff of 1,002, while T.C.A. had a staff of 3,006.

Mr. SYMINGTON: I think I answered you at that time.

Mr. HARKNESS: C.P.A.'s total traffic expense was $11,000, while T.C.A.'s was $42,000. T.C.A. flew 5,836 revenue hours, while C.P.A. flew 4,984, only some 900 less. That seems a terrific disparity?

Mr. SYMINGTON: We carry passengers in a high state of comfort while they haul cows and machinery and goodness knows what not up to the north-west; so you cannot compare the two at all. The C.P. Air Lines are at present engaged in the study of our methods in Winnipeg because they have found that our methods were very much superior. They have asked permission to study our methods so that they can revise their operations.

Mr. HARKNESS: There seems to be a large disparity in the number of employees.

Mr. SYMINGTON: Of course, the figures you are using in the miles are Canadian and the figures of employees include the Trans-Atlantic service and the B.O.A.C. service, which makes a difference of a thousand or two in the figures.

Mr. HARKNESS: How do you mean?

Mr. SYMINGTON: Well, you have taken the mileage figures of Trans-Canada domestic.

Mr. HARKNESS: Yes.

Mr. SYMINGTON: But you have added to our employees all the people taking care of the Canadian Government planes that fly the Trans-Atlantic, which is completely T.C.A., and the 900 men that are engaged for the British government or the B.O.A.C. in maintaining or converting their planes so they can operate across the North Atlantic.

Mr. HARKNESS: How many men would that take off the T.C.A. total?

Hon. Mr. HOWE: You are comparing totally different services. If a man flies into Yellowknife there is no organization there; he is on his own.

Mr. HARKNESS: It is a more difficult service.

Mr. SYMINGTON: Our domestic service represents 2,350.

Hon. Mr. HOWE: The passenger rates are adjusted and everything costs twice as much on the C.P. Air Lines, yet the profits are no greater.

Mr. SYMINGTON: I might point out too that the majority of their passengers on any run they have are on the eleven flights between Victoria and Vancouver. We are carrying a number of passengers an average of 500 or 600 miles, which makes a difference.

Mr. JACKMAN: We are pleased to note that you have been able to overcome the difficulties encountered in retaining R.C.A.F. pilots into civilian pilots.

Mr. SYMINGTON: I do not know that you want to get on that subject again, but I want to tell you that we have spent a million dollars on those boys and they are going to be the finest pilots in the world; but it has taken a lot of time and money, as I said it would.

Mr. JACKMAN: Did it take more money than it would have taken to train raw recruits?

Mr. SYMINGTON: I am not going to go into that discussion. Are you trying to get me into trouble again? You should be more generous.

Mr. JACKMAN: If you want to fall into it it is all right. The air force didn't take your remarks very kindly.

Mr. SYMINGTON: If they had been in the committee I think they would not have taken them unkindly.

The CHAIRMAN: Gentlemen, what about the report? Shall we pass it?

Mr. JACKMAN: With regard to the T.C.A. line across the Atlantic, you have had no accidents at all, have you?

Mr. SYMINGTON: No.

Mr. MOORE: I would like to ask one question in connection with employees of the T.C.A. Do they belong to a union?

Mr. SYMINGTON: Yes.

Mr. MOORE: What is the name of the union?

Mr. SYMINGTON: Well, there is the Canadian Pilots Association and there is the International Association of Machinists.

Mr. MOORE: Do those who work in the hangars and the passenger agents—you might say the ordinary workers—belong to the union also?

Mr. SYMINGTON: Not those working in the traffic department—not the white collar men—but the pilots.

Mr. MOORE: The staff does not belong to a union?

Mr. SYMINGTON: The staff does not belong to a union; but the machinists and the practical men do and the pilots do.

Mr. NICHOLSON: Have you agreements with these different people?

Mr. SYMINGTON: Yes.

Mr. JACKMAN: Our pilots are paid very much less than the American pilots are paid, are they not?

Mr. SYMINGTON: They do not get very much less now; they get some less now. We were the same a year ago, but the demands upon which they are striking in the United States, or threatening to strike and the government has stopped them—there is an arbitration going on—are for a very, very high figure.

The CHAIRMAN: Is the report O.K., gentlemen? Perhaps you may think I am too anxious, but we have spent a lot of time on it.

Mr. JACKMAN: Our post office contract runs for a while longer, does it?

Mr. SYMINGTON: No, the 1st of April—a new contract.

Mr. JACKMAN: You have just renegotiated a contract?

Mr. SYMINGTON: We have just renegotiated a contract.

Hon. Mr. HOWE: On the basis of the last amendment to the Trans-Canada Act made last year.

Mr. JACKMAN: Shall I ask some questions as to the terms of the contract?

Mr. SYMINGTON: It is a contract whereby we pay for the first year 1·5 mills per pound mile and that successively each year declines to ·9 mills.

Mr. JACKMAN: That is per pound of mail?

Mr. SYMINGTON: Per pound mile.

Mr. HARKNESS: How much did it decline a year?

Mr. SYMINGTON: It declined from 1·5 to 1·4 down to ·9 mills.

Mr. HARKNESS: It declined ·1 of a mill every year?

Mr. SYMINGTON: It declined ·2 mills.

Mr. JACKMAN: There is no way of relating that to the old method, is there?

Mr. SYMINGTON: Let me get this right because I did ask questions about it myself. We are paying this year 1·5 mills. Had we paid on the volume of mail for the first three months under the old contract it would have been 1·76 mills.

Mr. JACKMAN: How does it compare with the 41·98 cents?

Mr. SYMINGTON: That is it. Had we continued the old agreement for the first three months this year it would have been 1·76 mills, and the new contract starts at 1·5 and goes down to ·9.

Mr. JACKMAN: You have a firm contract with them now and your over-all success is no longer a factor in the fixing of the air mail rate?

Mr. SYMINGTON: We are on our own under the firm contract and we are going to run our own lines.

Mr. JACKMAN: As my friend Mr. Hanson would have said, you are no longer on the wing of the post office?

Mr. SYMINGTON: We may have flown on one wing of the post office but the other was on the public. At any rate we are flying our own line now.

The CHAIRMAN: Is that O.K., gentlemen? Now, we have a problem to solve. It is two minutes to six. Do you want to go into these statements with the auditors or not?

Mr. SYMINGTON: They are set out in great detail.

The CHAIRMAN: We have asked quite a few questions about them. Can we adopt the report and auditor's statement? I will tell you one difficulty we have; we can get a committee room at 11.30 tomorrow morning for a while. Now, if you are not content to accept this statement we could sit tonight, but we have covered quite a lot of ground.

Mr. EMMERSON: I move that we adopt both reports.

Mr. McCULLOCH: I second the motion.

The CHAIRMAN: It is moved that we adopt the report as contained in the book.

Carried.

The CHAIRMAN: Thank you, gentlemen. That is fine. I know that these gentlemen will appreciate your attitude as much as I do. We will meet again at the call of the Chair.

BALANCE SHEET AT 31st DECEMBER, 1945

ASSETS

Current Assets:		
Cash	$ 760,398 59	
Temporary Cash Investments	749,062 50	
Working Fund Advances	24,095 89	
Special Deposits	806 25	
Accounts Receivable	1,903,757 89	
Traffic Balances Receivable	199,587 25	
Balance Receivable from Agents	42,233 93	
Material and Supplies	1,234,398 68	
Interest Receivable	11,250 00	
Other Current Assets	60,126 90	$4,985,717 88
Deferred Charges:		
Prepaid Charges	$ 3,486 43	
Prepaid Group Life Insurance	11,713 03	
Research and Development Expense	124,640 11	
Other Deferred Charges	11,800 59	151,640 16
Insurance Fund		1,109,577 75
Investments in Affiliated Companies		3,262 00
Capital Assets:		
Property and Equipment	$7,362,640 48	
Less Accrued Depreciation	*3,848,266 10*	3,514,374 38
		$9,764,572 17

LIABILITIES

Current Liabilities:		
Accounts Payable	$1,405,110 95	
Traffic Balances Payable	14,479 36	
Air Travel Plan Deposits	525,725 00	
Salaries and Wages	211,683 10	
Other Current Liabilities	178,310 39	$2,335,308 80
Reserves:		
Insurance	$1,109,577 75	
Inventory	195,000 00	1,304,577 75
Capital Stock:		
Common Stock Authorized—Par Value $25,000,000.		
Common Stock Subscribed—Par Value	$5,000,000 00	
Less Uncalled Subscriptions to Common Stock	400,000 00	4,600,000 00
Surplus:		
Balance at 1st January, 1945	$1,491,913 13	
Surplus for Year 1945	32,772 49	1,524,685 62
		$9,764,572 17

T. H. COOPER,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines for the year ended the 31st December, 1945, and subject to our report to Parliament, we certify that, in our opinion, the above Balance Sheet is properly drawn up so as to exhibit a true and correct view of the affairs of the Air Lines as at the 31st December, 1945, and that the relative Income Account for the year ended the 31st December, 1945, is correctly stated.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

15th March, 1946.

INCOME ACCOUNT

	1945	1944
Gross Revenue:		
Passenger	$ 5,462,939 77	$ 4,456,767 45
Mail	4,250,939 06	3,802,395 26
Express	307,386 62	326,236 18
Excess Baggage	53,790 04	50,279 72
Incidental Services—Net	437,532 49	556,843 52
Total	$10,512,587 98	$ 9,192,522 13
Operating Expenses:		
Aircraft Operation, Maintenance and Depreciation	$ 6,032,353 64	$ 5,213,447 62
Ground Operation, Maintenance and Depreciation	3,218,016 52	2,872,546 79
Traffic and General Administration	954,605 00	813,541 24
Tax Accruals	45,296 42	48,852 76
	$10,250,271 58	$ 8,948,388 41
Interest Income—*Credit*	*29,620 64*	*19,160 96*
Income Charges	29,164 55	25,885 39
Interest on Capital Invested	230,000 00	230,000 00
Total	$10,479,815 49	$ 9,185,112 84
Surplus	$ 32,772 49	$ 7,409 29

STATISTICAL DATA

	1945	1944
Route Mileage Operated	5,299	5,299
Plane Miles Flown—Revenue	10,506,075	9,110,474
Plane Miles Flown with Revenue Mail	10,127,243	9,046,866
Plane Miles Flown—Non-Revenue	1,040,152	924,331
Revenue Passengers Carried	183,121	156,884
Percentage of Passenger Occupancy	84	84
Average Passenger Journey—Miles	579	538
Air Mail Carried—Pounds	3,429,232	3,739,105
Express Carried—Pounds	950,323	856,016
Excess Baggage Carried—Pounds	311,612	261,731

AIRCRAFT OPERATION, MAINTENANCE AND DEPRECIATION

		1945	1944
601	Flying Personnel	$1,047,762 32	$ 842,053 25
602	Flying Personnel Supplies and Expenses	182,108 34	118,001 67
603	Aircraft Engine Fuels	1,303,157 34	1,147,161 09
604	Aircraft Engine Oils	47,905 10	39,515 42
605	Passenger Supplies and Expenses	26,710 76	22,754 04
605	Passenger Meals (Aircraft)	203,860 40	212,871 18
605	Passenger Interrupted Flight Expenses	53,710 78	42,668 79
607	Clearance Fees	15,995 16	18,567 35
608	Servicing—Labour and Supplies	607,649 61	561,972 60
611	Aircraft Repairs	702,484 51	642,842 33
612	Aircraft Propeller Repairs	30,866 34	44,185 64
613	Aircraft Instrument Repairs	62,685 19	2,097 10
614	Aircraft Engine Repairs	597,935 15	570,084 24
615	Aircraft Communication Equipment Repairs	42,519 55	49,932 73
616	Miscellaneous Flying Equipment Repairs	36,870 28	28,680 26
617	Flying Equipment Insurance	141,763 00	177,981 25
618	Liability and Compensation Insurance	132,385 73	105,879 83
620	Other Flying Expense	10,323 74	4,574 39
625	Aircraft—Depreciation	449,270 95	304,230 21
625	Propeller—Depreciation	36,931 70	29,016 17
626	Aircraft Engines—Depreciation	276,295 22	223,520 59
627	Aircraft Communication Equipment—Depreciation	22,782 28	23,715 46
628	Miscellaneous Flying Equipment—Depreciation	380 19	1,142 03
		$6,032,353 64	$5,213,447 62

GROUND OPERATION, MAINTENANCE AND DEPRECIATION

		1945	1944
631	Superintendence	$ 368,702 81	$ 315,021 66
632	Airport and Hangar Employees	972,165 65	812,191 97
633	Communication Operators	293,427 61	241,530 13
636	Travelling and Office Expenses	440,613 78	385,596 77
637	Light, Heat, Power and Water	95,811 04	79,718 62
638	Rent of Fields, Buildings and Offices	133,506 87	106,383 91
639	Rent and Expense of Motor Vehicles	27,861 74	24,419 43
641	Communication Equipment Repairs	55,396 36	59,270 29
643	Hangar Equipment Repairs, Supplies and Expenses	32,976 37	23,977 28
644	Shop Equipment Repairs	37,012 35	39,325 80
645	Motor Vehicles Repairs	32,466 48	29,345 89
647	Furniture, Fixtures and Office Equipment Repairs	16,897 42	22,771 86
648	Miscellaneous Ground Equipment Repairs	12,055 08	10,093 69
649	Buildings and Other Improvements Repairs	64,159 37	76,748 47
650	Shop Expenses—Indirect Labour and Material	181,408 89	189,792 83
651	Stores Expense	114,580 13	103,181 33
652	Stores Expense—Inventory Adjustments	*29,776 71*	*7,138 65*
653	Buildings, Material and Ground Equipment Insurance	12,403 08	10,826 54
654	Ground Liability and Compensation Insurance	28,142 10	27,303 01
656	Other Ground Expenses	93,611 79	90,576 67
656	Express Expenses	115,598 90	121,080 37
660	Depreciation on Ground Facilities	118,995 41	110,528 92
		$3,218,016 52	$2,872,546 79

TRAFFIC AND GENERAL ADMINISTRATION

		1945	1944
681	Salaries and Wages—Traffic	$ 304,202 53	$ 234,306 67
682	Travelling and Office Expenses—Traffic	78,738 03	67,922 66
683	Rent of Traffic Offices	37,922 00	29,413 25
684	Agency Commissions	27,376 64	27,632 28
685	Advertising	64,197 83	64,285 69
687	Other Traffic Expenses	7,232 64	10,286 05
691	Salaries and Wages—General	197,142 40	155,851 34
692	Travelling and Office Expenses—General	39,146 04	27,249 66
693	Office Rentals—General	....	625 50
694	Administration Charges from Affiliated Companies	50,000 00	45,000 00
695	Pensions	125,781 92	133,220 14
696	Insurance	1,865 20	1,876 35
698	Other General Administration Expenses	20,999 77	15,871 65
		$ 954,605 00	$ 813,541 24

GENERAL TAXES

699	General Taxes	$ 45,296 42	$ 48,852 76

TRANS-CANADA AIR LINES

15th. March, 1946.

THE HONOURABLE THE MINISTER OF RECONSTRUCTION AND SUPPLY,
OTTAWA, CANADA.

SIR,—Acting under your authority as provided in The Trans-Canada Air Lines Act, 1937 as amended 1945, we have audited the accounts of the *Trans-Canada Air Lines* for the year ended the 31st. December, 1945, and we now submit our report thereon.

The Air Lines has not been included as a constituent unit of the National System although 100 per cent stock ownership of the Air Lines is vested in the Canadian National Railway Company.

Supplementing our audit certificate appended to the accounts published by the Air Lines, we make the following comments on the income account and balance sheet:—

Income account

The income account reflects the results of air operations in Canada, the United States and Newfoundland and of agency services rendered mainly to the Canadian Government Trans-Atlantic Air Service and the British Overseas Airways Corporation.

Mail revenue is based on the composite rate of 41.98 cents per plane mile flown in approved mail services in accordance with the Trans-Canada mail contract, as compared with 42.03 cents in 1944.

The surplus amounting to $32,000 for the year 1945 is summarized hereunder:—

Surplus after making provision for the general expenses of operation but before interest and depreciation.............$	1,167,000
Less: interest	230,000
Surplus before depreciation...................................$	937,000
Less: depreciation	905,000
Surplus ....$	32,000

The general expenses of operation largely consisting of wages and materials include the following items, reference to which may be of interest:—

(*a*) Administrative charges by Canadian National Railways;

(*b*) Rentals of landing fields, hangars and other buildings, airport offices etc;

(*c*) Personnel training costs;

(*d*) Major overhauls of flying equipment operating on extended service life;

(*e*) Pensions covering

(I) Company's portion of accruals under the Air Lines 1943 plan, and

(II) Company's portion of accruals for transferred employees remaining under the C.N.R. 1935 plan;

(*f*) Insurance premiums on risks carried both by the insurance fund and outside underwriters, and

(*g*) General taxes.

Interest is applied at the fixed rate of 5 per cent on the "Capital Invested" in accordance with the requirements of the Trans-Canada Air Lines Act, 1937. For the purposes of the act, the paid-up capital stock is taken as representing the "Capital Invested".

Depreciation of flying equipment is based on estimated "service year" life for airframes and "flying hour" life for engines, propellers and hubs. Depreciation of ground facilities is based on the estimated "service year" life. In the establishment of depreciation rates for air operations the factor of obsolescence is taken into account and such rates are amended from time to time to conform, as far as practicable, to actual experience.

We have received the customary certificates from the responsible officers of the Air Lines relating to current maintenance and physical retirements of capital assets.

Administrative charges by Canadian National Railways do not include any amount for the services of the President and Directors of the Air Lines who continue to act in such capacities without remuneration.

Rentals of landing fields, based generally on the number of operating schedules, are paid to the owners and operators of the various airports used by T.C.A. in Canada and abroad. Rentals of hangars and other buildings, airport offices, etc., are paid to the same agencies in those cases where the T.C.A. has not constructed such facilities. In relation to all agencies both in Canada and abroad, the T.C.A. is in the same category as the privately owned lines with respect to the use and rentals of landing fields and other aviation facilities.

The surplus for the year shows an increase of $25,000 in comparison with 1944. The increased gross revenue was offset largely by increased costs of operation and maintenance; depreciation provision for additional equipment and increased traffic and general administration expenses. An important factor in the increased costs of operation was the extensive personnel training program carried out in anticipation of the expansion of air services in Canada and to the United States. The costs of personnel training for the Atlantic overseas operations were charged to the Canadian Government Trans-Atlantic Air Service.

Balance Sheet

Temporary cash investments are represented by Dominion of Canada securities held for general corporate purposes free of any Reserve and their year-end market value exceeded the book figure.

Current assets exceed current liabilities in the amount of $2,650,000 equivalent to a working capital ratio of 2.1 to 1. This compares with $2,611,000 and 2·6 to 1 respectively in 1944. The working capital position of the Air Lines is maintained under conditions similar to those prevailing in privately owned enterprises financed only by way of share capital. The Air Lines differs form the National System and West Indies Steamships in that is has no Government loans against which the cash from surpluses is to be applied.

The deferred charge for research and development expense is composed of engineering and other staff costs, shop work, etc., in connection with the manufacture of the DC-4 aircraft.

The insurance fund is composed principally of Dominion of Canada securities together with cash. The year-end market value of the securities exceeded the book figure. There were no major loss claims reported outstanding at the date of the balance sheet but it is well to bear in mind that the risk coverage includes, inter alia, 100 per cent passenger liability and damage to the property of others. The fund increased $227,000 during the year.

Investments in property and equipment are carried on the basis of cost. The net additions and betterments during the year amounted to $701,000, the principal expenditures being for the purchase of three DC-3 aircraft including engines, conversion thereof and the purchase of two spare power plant assemblies.

Accrued depreciation covers the period from the inception of operations in 1937 to 1945.

The inventory reserve relates to the potential loss from surplus stores based on the presently estimated service life of the Lockheed aircraft. During the year the reserve was reduced $23,000.

The amount of the paid-up capital stock remained unchanged in 1945. The authorized capital stock, however, was increased from $5,000,000 to $25,000,000 during the year under the 1945 amendment to The Trans-Canada Air Lines Act, 1937.

Surplus covers the years 1940 to 1945 inclusive.

In respect of pension plans, it should be noted that:—

(*a*) Under the Air Lines 1943 Plan, which is maintained on an accrual basis, the joint cash contributions by the company and employees presently in service are invested through the separately administered pension trust fund, the accounts of which are not included with those of the Air Lines. The assets of the separate pension trust fund amounting to $877,000 are in the form of Dominion of Canada securities together with accrued interest and cash. Apart from the foregoing, the company has made provision in its accounts covering employees' contributory rights not yet exercised.

(*b*) The contributions by transferred employees presently in service, who have elected to remain under the C.N.R. 1935 Plan, are invested through the separately administered pension trust fund under that plan, the accruals for which the company is liable in respect of transferred employees being paid to the Canadian National Railways.

Where foreign currencies are involved, the accounts of the Air Lines are stated in Canadian funds converted at the par of exchange.

The test audit of the Air Lines for the year 1945 was similar in scope to that of the National System previously outlined in this report.

Yours faithfully,

GEORGE A. TOUCHE & CO.

The Committee adjourned at 6.00 p.m. to meet at the call of the chair.

SESSION 1946

HOUSE OF COMMONS

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

No. 5

FRIDAY, AUGUST 16, 1946

MINUTES OF PROCEEDINGS AND THIRD REPORT TO HOUSE OF COMMONS

OTTAWA
EDMOND CLOUTIER, C.M.G., B.A., L.Ph.,
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
CONTROLLER OF STATIONERY
1946

MINUTES OF PROCEEDINGS

House of Commons,
Friday, 16th August, 1946.

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

Members present: Messrs Clark, Belzile, Gibson (*Comox-Alberni*), Jackman, Lockhart, McCulloch (*Pictou*), McLure, Moore, Mutch and Nicholson—10.

The Chairman read the draft of the Third Report of the Committee.

Consideration followed.

On motion of Mr. Gibson, it was unanimously

Resolved, That there be inserted a paragraph to indicate the appreciation of the Committee of the valuable contribution to the national war effort of both the management and employees of the nationally owned, operated and controlled transportation systems.

On motion of Mr. Belzile, it was

Resolved, That the draft of the Third Report as thus amended, be adopted presented to the House and concurrence therein be asked.

At 10.50 o'clock a.m., the Committee adjourned *sine die.*

T. L. McEVOY,
Clerk of the Committee.

REPORT TO THE HOUSE OF COMMONS

MONDAY, 19th August, 1946.

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

THIRD REPORT

Your Committee had referred to it, on the 12th, 15th and 16th April and 8th May, 1946, the following matters, namely:

(*a*) Annual Report of the Canadian National Railways System for the year ended December 31, 1945;

(*b*) Annual Report of the Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1945;

(*c*) Annual Report of the Canadian National Securities Trust for the year ended December 31, 1945;

(*d*) Annual Report of Trans-Canada Air Lines for the year ended December 31, 1945;

(*e*) Report to Parliament of the firm of George A. Touche and Company, auditors of the accounts of the Canadian National Railways System, Canadian National Railways Securities Trust, Trans-Canada Air Lines and Canadian National (West Indies) Steamships, Limited, for the year ended December 31, 1945;

(*f*) Financial Budget of the Canadian National Railways System and the Canadian National (West Indies) Steamships, Limited, for the year 1946.

Your Committee held 9 meetings in the course of which the said Reports were severally examined and unanimously adopted.

Your Committee noted with satisfaction that the income surplus of the Railway System in 1945 was $24,756,000 but Mr. R. C. Vaughan, C.M.G., Chairman and President, Canadian National Railways System, pointed out to the Committee how increases in wage rates and material prices were constantly increasing the cost of operation and he warned that as traffic recedes from its wartime intensity such higher costs would prevent a continuance of the favourable financial results which the System has been able to report for the past five years. Mr. Vaughan also gave to the Committee a statement with respect to the Fixed Charges of the System which contained a recommendation that the Government accept Income Bonds of the Canadian National Railway Company in payment of the amount owing by the Railway to the Government for repatriation of British-held securities of the Canadian National Railway Company.

The financial budget of the Railway System for the calendar year 1946 shows the estimated income surplus to be $7,500,000 with the net requirements in the Capital Budget estimated to be $22,550,000. This includes $9,777,000 for retirement of funded debt and $8,863,000 for the purchase of new rolling stock and $7,000,000 for the acquisition of the lines of the Manitoba Railway Company. The Budget for 1946 was approved.

Your Committee reviewed the Canadian National (West Indies) Steamships, Limited, results for the year 1945 which produced a net income surplus of $1,116,000. A further statement to the Committee by Mr. Vaughan reviewed at length the operations of the Line from the inception of the service in 1929.

The Financial Budget of the Steamships Company for the year 1946 shows an estimated income surplus of $416,000 and capital requirements of $4,200,000 for the purchase of four vessels. This purchase is the initial step in replacing vessels lost during the war. No Government funds are required as the cost will be financed from the Company's Steamship Replacement Fund. The Budget for 1946 was approved.

In reviewing the Trans-Canada Air Lines' accounts for the year 1945 it was noted that the authorized capital stock was increased from $5,000,000 to $25,000,000 under the 1945 amendment to the Trans-Canada Air Lines' Act, 1937. In its 1946 Budget the Canadian National Railway Company indicated it may be required to meet additional calls on this capital stock to the amount of $14,000,000.

Your Committee is most anxious to put on record an appreciation of the valuable contribution to the national war effort of both the management and the employees of the nationally owned, operated and controlled transportation systems.

The task of your Committee was facilitated by the valuable assistance of Mr. R. C. Vaughan, C.M.G., Chairman of the Board of Directors and President of the Canadian National Railways System, of Mr. H. J. Symington, C.M.G., K.C., President of Trans-Canada Air Lines and their respective officers who willingly supplied all information requested of them. Your Committee desires to place itself on record in appreciation of this fact.

A copy of the minutes of proceedings and evidence taken before your Committee is appended.

All of which is respectfully submitted.

S. M. CLARK,
Chairman.

By leave of the House,
Concurred in this day.