HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, APRIL 28, 1952

CANADIAN NATIONAL RAILWAYS ANNUAL REPORT (1952)

WITNESSES:

Donald Gordon, C.M.G., LL.D., Chairman and President;
T. J. Gracey, Comptroller;
S. F. Dingle, Vice-President;
T. H. Cooper, Vice-Pesident.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

SPECIAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, operated and controlled by the Government

Chairman: Hughes Cleaver, Esq.,
Vice-Chairman: H. B. McCulloch, Esq.

and

Messrs.

Benidickson,	George,	Macdonnell (*Greenwood*),
Bourget,	Gillis,	McLure,
Carter,	Healy,	Mott,
Cavers,	Helme,	Mutch,
Churchill,	James,	Picard,
Dumas,	Knight,	Pouliot,
Follwell,	Macdonald (*Edmonton East*),	Thomas—25.
Fraser,		
Fulton,		

R. J. GRATRIX,
Clerk.

ORDERS OF REFERENCE

THURSDAY, April 24, 1952.

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

Ordered,—That the Annual Report of Trans-Canada Air Lines for the year ended December 31, 1951, tabled on March 24, 1952, the Auditor's Report to Parliament for the year ended December 31, 1951, in respect of Trans-Canada Air Lines, tabled on April 2, 1952, and also the Operating Budget and Capital Budget for the calendar year 1952 in respect of Trans-Canada Air Lines, tabled earlier this day, be referred to the said Committee.

Ordered,—That the Annual Reports for 1951 of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, the Canadian National Railways Securities Trust, and Auditor's Report to Parliament in respect to the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited, tabled on April 3, 1952, and the budget of the Canadian National Railways and Canadian National (West Indies) Steamships, Limited, for 1952, tabled on April 21, 1952, be referred to the said Committee, together with the following items of estimates for 1952-53:

Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit

Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit

Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

And that the Resolution passed by the House on March 19, 1952, referring certain estimates to the Committee of Supply, be rescinded insofar as the said Resolution relates to Votes Nos. 485, 486 and 493.

MONDAY, April 28, 1952.

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

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

Ordered,—That the said Committee be empowered to print, from day to day, 1000 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.

Attest.

LEON J. RAYMOND,
Clerk of the House.

56818—1½

REPORT TO THE HOUSE

MONDAY, April 28, 1952.

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 redommends:

1. That its quorum be reduced from thirteen to eight members.
2. That it be granted permission to sit while the House is sitting.
3. That it be empowered to print, from day to day, 1000 copies in English and 200 copies in French of its minutes of proceedings and evidence, and that Standing Order 64 be suspended in relation thereto.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman

MINUTES OF PROCEEDINGS

MONDAY, April 28, 1952.

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

Members present: Messrs. Benidickson, Carter, Cleaver, Fulton, George, Gillis, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: The Hon. L. Chevrier, Minister of Transport; and Mr. Donald Gordon, Chairman and President; Mr. S. F. Dingle, Vice-president (Operations); Mr. T. V. Gracey, Comptroller; Mr. T. H. Cooper, Vice-president (Accounting); all of the Canadian National Railways.

The Clerk of the Committee invited nominations for the election of a chairman.

Mr. Macdonald (*Edmonton East*) moved, seconded by Mr. Mott, that Mr. Cleaver be elected chairman.

The question being put, Mr. Cleaver was unanimously elected and took the chair.

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

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

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

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

On motion of Mr. McLure,

Resolved,—That the Committee recommend to the House that it be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Fulton,

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

The Committee then commenced a study of the annual report of the Canadian National Railways (1951).

Mr. Donald Gordon was called and read an introductory statement to the annual report of the Canadian National Railways (1951).

On motion of Mr. Fulton,

Resolved,—That the reading of the annual report by Mr. Gordon be dispensed with and that the said annual report be printed as part of today's evidence.

The Committee then commenced a detailed study of the annual report.

After some discussion and several questions being directed to Mr. Gordon, the Committee agreed to rescind its previous decision and have Mr. Gordon read the annual report.

Mr. Gordon proceeded with the reading of the annual report.

The Committee then commenced a detailed study of the annual report, during which questions were directed to the Hon. Mr. Chevrier and Mr. Gordon. Mr. Gordon was assisted by Mr. Cooper, Mr. Gracey and Mr. Dingle.

At 1.00 o'clock p.m. the examination of Mr. Gordon still continuing the Committee adjourned to meet again at the call of the Chair.

AFTERNOON SITTING

The Committee resumed at 4.20 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Carter, Fulton, George, Gillis, Helme, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Pouliot.

In attendance: Same as indicated for the morning sitting.

The examination of Mr. Gordon was continued.

At 4.55 o'clock p.m. the Division bells having rung, the Committee adjourned to attend the Division.

The Committee resumed at 5.20 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Carter, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

The examination of Mr. Gordon was continued.

At 6.40 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 11.00 o'clock a.m. Tuesday, April 29, 1952.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

April 28, 1952.
11:00 a.m.

The CHAIRMAN: Thank you, gentlemen.

May I have a motion for the reduction of a quorum? I think that is in order; a reduction from 13 to 8.

Moved by Mr. Macdonnell that the committee recommend to the House that its quorum be reduced from 13 to 8 members.

Agreed.

Mr. MACDONALD (Edmonton East) moves that the committee recommend to the House that it be granted permission to sit while the House is sitting.

Carried.

Mr. McLure moves that the committee recommend to the House that it be empowered to print, from day to day, 1,000 copies in English and 200 copies in French of its *Minutes of Proceedings and Evidence,* and that standing order of 64 be suspended in relation thereto. I might say, gentlemen, that this is a slight increase over our usual amount of printing, but the committee last year ran short of printed copies of evidence.

Carried.

Moved by Mr. Fulton that Mr. McCulloch be appointed vice chairman of the committee.

Carried.

Gentlemen, shall we now pass on to the annual report of the Canadian National Railways?

Agreed.

Mr. Gordon, we are pleased to have you back with us again.

Mr. DONALD GORDON, C.M.G., (President, Canadian National Railways): Mr. Chairman and gentlemen, I think you will find the annual report for the year 1951 is more comprehensive than anything that has appeared in the past. In an endeavour to give an informative account of our stewardship, we have tried to present the year's activities as part of a continuing process against the background of an economic environment in which the Canadian National as Canada's largest public utility is an indispensable servant of industry and a partner in pioneering.

This year we have made use of a fold-over cover in order to give room for a detailed map of the Canadian National system lines, and within the covers you will find a number of photographic plates which also serve to illustrate the range and scope of our system activities. Starting on page 2 there is a picture gallery of the senior officers at railway headquarters, whose handsome features are perhaps not as well known to the public as they should be. The opposite page gives the customary listing of the board of directors and departmental officers. The next two pages set forth the table of contents and the formal letter of transmittal. The various headings in the text of the report have been set down for your convenience and you will find that the narrative of the report is divided into three major sections.—the review of financial results beginning on page 6; the review of operations beginning on page 12, dealing for the most part with physical facts; and, finally, a section of general interest which begins on page 17. You will see that the paragraphs within each of these sections have been numbered so as to facilitate reference in the course of your examination of this report. The balance sheet is conveniently located in the centre of the report (pages 24 and 25) and is followed by the consolidated income account and detailed statistics relating to our finances and operations generally.

With that, Mr. Chairman, I will begin by reading the letter of transmittal.

The CHAIRMAN: If I might interrupt for a moment, for the record, in addition to Mr. Gordon we have here this morning Mr. S. F. Dingle, vice president in charge of operations; and Mr. T. H. Cooper, vice president in charge of the accounting department; and Mr. T. J. Gracey, comptroller.

Mr. FULTON: Mr. Chairman, I am not sure that I speak for all members of the committee and I do not want to arrogate to myself any right to. We are impressed by the report. Although some of us may have reservations as to some parts of it, or receive it with a varying degree of enthusiasm, I think that we are all agreed that the company is to be congratulated on the success shown for this year; and, in order to save Mr. Gordon's voice, to save the time of the officers of the company who are here and also to save the time of members of the committee, may I move that the report itself be printed as it appears here without Mr. Gordon being put to the trouble of actually reading it.

Mr. MUTCH: I would like to second that motion.

Mr. FULTON: However, if Mr. Gordon wants to read it—

Mr. GORDON: I am entirely in your hands. I thought the reading of the report would settle a number of questions which might be asked.

Mr. MUTCH: That has been the usual procedure, as I recall it.

Mr. FULTON: Then, I withdraw my motion.

The CHAIRMAN: Mr. Fulton moves, seconded by Mr. McLure, that the report be taken as read and printed in our proceedings.

Agreed.

Our practice is to take up the letter first. Are there any questions on the letter to the minister?

Carried.

Now, turning to the report.

1. Review of financial results. Are there any questions on that paragraph? Then we turn to operating revenues (paragraph 2) on page 6.

Mr. MOTT: How would it be, Mr. Chairman, if we go through this—are you going to go through it page by page ? If so, Mr. Gordon might give us any highlights he has in mind and in that way explain them to us.

The CHAIRMAN: Are there any questions with regard to operating revenues?

Mr. MACDONNELL: There is one question which occurs to me there—it may be fully covered here—but I wonder if Mr. Gordon could explain the increase in freight resulting operating picture. It appears to me desirable to know the facts in this report.

The CHAIRMAN: Would it be satisfactory to the committee if we take operating revenues and operating expenses together and bring them in full discussion, Mr. Macdonnell, on the point which you have raised?

Mr. GORDON: Perhaps I could summarize that point. Increased revenues during the year were $27,050,000, arising from increased freight rates, as such. That is for freight only. Then, passenger and other services, $2,681,000; a total of $180,000 arising out of the communications department generally—$29,881,000 all told for increased rates of various kinds.

The CHAIRMAN: And is the balance of $71 million odd increase in total made up of increased traffic?

Mr. GORDON: It would be increased volume of traffic as distinct from rates, yes.

Mr. POULIOT: Before we go further, Mr. Gordon, I notice that the record of operating revenues for 1951 over 1950 was only 13 per cent, and that the increase of operating expenses was 17·4 per cent.

Mr. GORDON: That is correct.

Mr. POULIOT: Which means that the increase of expenses there was 4·4 per cent more than the year before?

Mr. GORDON: Yes.

Mr. POULIOT: Is that due to increases in salary?

Mr. GORDON: You will find that for the most part in our breakdown of expenses—that total increase, as you pointed out—actual operating expenses rose by 17·4 per cent while our revenue rose roughly 13 per cent.

Mr. POULIOT: Yes.

Mr. GORDON: For the most part that increase is due to higher wages.

Mr. POULIOT: Yes, and therefore the increase in revenue did not cover the increase in expenses.

Mr. GORDON: That is correct.

Mr. POULIOT: On account of that.

Mr. GORDON: That is correct. We have stated specifically in the report—we have pointed out, on page 9—that the increased revenues described there were more than offset by the higher operating expenses of 17·4 per cent; but the major part of that, as I said, is due to wage increases; and, also, there were, of course, general increases in the prices of building materials, supplies and so on; but the major part is represented by wages.

Mr. POULIOT: Therefore, it was in part due to higher salaries and they would have to increase revenues by increasing freight operations.

Mr. GORDON: Yes, generally speaking our expenses were $15 million higher than the amount of revenue that we took in.

The CHAIRMAN: Have you a breakdown, Mr. Gordon, of the amount by which the operating expenses were increased resulting from the $41 million increase in volume of traffic?

Mr. GORDON: Perhaps, Mr. Chairman, if you will permit me, I will give you a breakdown—an explanation of the principal increases in expenses.

Mr. MACDONNELL: Before you do that, Mr. Gordon, I would like to ask you this: I would like to get the net final operating results for 1950 and 1951.

Mr. GORDON: That is on page 6, I think you will find it there.

Mr. MACDONNELL: All right, thank you.

Mr. GORDON: You will note it in the detail there right at the beginning. That is our net operating report; and it shows, for 1950, $59,834,502, as against $44,683,899 in 1951; and our expenses in 1951—to answer the previous question—our expenses in 1951 were $86,152,000 higher than in 1950—and I will just summarize the reason for that increase; there were $23,534,000 which we call a pure wage increase representing money paid out in pay rolls. There is $10,332,000, represented by the additional cost of the forty hour week which was in effect only part of the year; there is $21,181,000 represented by additional labour; and there is $12,325,000 represented by this increased price of materials.

Mr. MACDONNELL: Have you those figures in the report, the ones you are reading from?

Mr. GORDON: They would not be in the report; no, this is a breakdown of those figures.

Mr. POULIOT: One of the figures was in the report.

Mr. GORDON: Yes, the main figures are in the report, this shows it in more detail.

Mr. POULIOT: Yes.

Mr. GORDON: The statistical detail you will find at the end of the report on the pages starting from page 42. You will find also starting at page 26 the details of the consolidated income account, operating revenue and operating expenses—most of these headings you will find under the particular items which you might be interested in.

Mr. POULIOT: And supplementing that you are reading more detailed figures.

Mr. GORDON: Yes. And that is the amount of work we had to do, yes; not so much the amount of work we had to do but more in terms of net result.

Mr. POULIOT: Yes, and in terms of encouragement.

Mr. GORDON: Yes, the customary accounts for the services we run.

The CHAIRMAN: Mr. Gordon, would you complete the breakdown that you started to give us; you had given us the increased cost of materials—

Mr. GORDON: There was $9 million credit for deferred maintenance of 1950 and which did not appear in 1951; and then there are a number of sundry items here which coud be summarized more or less as building materials, miscellaneous, totalling up to about $8 million in the form of snow removal, maintenance of way, maintenance of equipment, transportation, and so forth. It could be pretty well summarized at about $9 million

The CHAIRMAN: Mr. Gordon, could you give us a further breakdown of the $21 million for additional labour, as to how much of that additional labour was caused through the forty hour week, and how much was caused through additional volume of business?

Mr. GORDON: We tried to separate the forty hour week and in this particular table showing $10,332,000; we tried to take that out so that the amount chargeable to the forty hour week could be distinguished from the additional labour which was necessary to take care of the additional volume, Mr. Chairman.

The CHAIRMAN: All I wanted was to make sure of that.

Mr. MACDONNELL: There was $21 million for additional labour.

The CHAIRMAN: Yes, but it was related to increased volume.

Mr. MACDONNELL: As against a total labour bill of how much?

Mr. GORDON: You will find on page 29 a statement showing the "operating expenses and total payroll"; and under the heading of 1951 the total payroll was $381,654,000. That is the second figure below there. It might be interesting to point out in regard to the payroll, that of our operating dollar—if you will turn to page 11—it is not numbered—you will find there a breakdown of our various items of expenses, and you will find that, of the revenue dollar, 56 cents went to payrolls.

Mr. GILLIS: Mr. Gordon, does that item of $381,654,000 represent administrative staffs also?

Mr. GORDON: It includes everything; it is the total payroll of the railway.

Mr. FULTON: Mr. Chairman, might I make a suggestion? This paragraph (1) "review of financial results" is in very general form. I think it covers about everything; whereas the various items are covered more specifically either in separate paragraphs of the report or in the detailed tables at pages 26 and 27.

The CHAIRMAN: Yes.

Mr. FULTON: So I wonder if it would save us from chopping through the report if we went on with paragraph (2)? I thing the questions being asked would actually all be directed to specific paragraphs, and would perhaps more properly come under the specific paragraphs later on in the report, so that we would be having some duplication if we asked everything at this point.

The CHAIRMAN: I think you are quite right, Mr. Fulton, but I also think it is helpful to the understanding in a general way of the report for Mr. Macdonnell to pursue his general questioning for a few minutes longer, to give us the broad picture.

Mr. POULIOT: Both go together, as you have said so wisely, Mr. Chairman.

The CHAIRMAN: Mr. Gordon, am I correct? Mr. Gordon has suggested that the committee would be better off if he should read his report.

Mr. GILLIS: I think he should, too.

The CHAIRMAN: We all have had the reports on our desks.

Mr. GILLIS: Yes, but most of us do not read them.

Mr. MACDONNELL: We have other things on our desks too.

Mr. GORDON: I undertake to go through it as quickly as possible; and I think there are quite a number of questions which you will pick out which would be answered automatically as we go through it.

Hon. Mr. CHEVRIER: Could we not ask Mr. Gordon to read paragraph 2, 3, and 4, and then, if there are any questions, we could ask them at that time so that we would not have to go through the whole report and then go over it again?

The CHAIRMAN: That might be very good. Shall we try it?

Mr. GILLIS: I think you had better let Mr. Gordon read his report and if there are any questions, we can make notes of them and ask them later on. I think that would be the better way.

The CHAIRMAN: We shall take your advice on it, Mr. Gordon.

Mr. GORDON: Thank you, Mr. Chairman. I shall start then with the letter of transmittal on page 5, which reads as follows:

CANADIAN NATIONAL RAILWAYS

MONTREAL March 10, 1952

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Dear Sir:

On behalf of the Board of Directors, I submit herewith the Annual Report of the Canadian National Railways for the year 1951.

In an endeavour to give a clear insight into the activities of the System, the narrative of the Report has been broadened in scope and organized into three main sections, dealing in turn with the financial results, the physical performance and state of the property, and items of interest affecting transportation generally and the Canadian National in particular.

It is a pleasure to record the appreciation of the Management for the loyal and effective service rendered by officers and employees throughout the Organization.

Yours truly,
D. GORDON.

Now I turn to the "Review of Financial Results" and I call attention to the table starting with paragraph 1; and then I begin to read again at paragraph 2, "Operating Revenues".

REVIEW OF FINANCIAL RESULTS

1. The results of the System's operations for 1951 compared to 1950 are given in the following summary table:

	1951	1950
Operating revenues	$624,834,120	$553,831,581
Operating expenses	580,150,221	493,997,079
Net operating revenue	$ 44,683,899	$ 59,834,502
Taxes, equipment rents and other income accounts	12,900,780	17,417,730
Available for payment of interest	$ 31,783,119	$ 42,416,772
Interest on bonds held by the public	23,467,703	24,019,158
Available for payment of Government interest	$ 8,315,416	$ 18,397,614
Government interest	23,347,412	21,658,849
Income deficit	*$ 15,031,996*	*$ 3,261,235*

The Consolidated Income Account appears on page 26.

OPERATING REVENUES

2. An all time peak in operating revenues was reached during 1951, exceeding the record of the previous year by nearly 13%. The highest volume of freight traffic in the history of the System was the most important factor responsible for this outcome. Freight revenues rose by 11·9% to $498,800,344.

Volume of freight traffic

3. The total tonnage of freight handled on the System amounted to 89·6 million tons, or 10·1% more than in 1950. A better description of the physical volume of work performed by the Railway is to be found in the record total of 36·4 billion revenue net ton-miles carried on System lines. This was 13·9% more than the 1950 quantity, partly because the tonnage was handled, on the average, over longer distances. The average haul was 407 miles in 1951 compared to 393 miles in the preceding year.

4. The greatest tonnage increases were recorded in the relatively low-rated traffic, notably grain and pulpwood. An exceptionally large increase in grain tonnage resulted from a bountiful harvest coupled with the heavy carry-over from the 1950-51 crop year. Pulpwood traffic increased by approximately 3 million tons or 73%, as paper mills engaged in large scale replenishment of stocks which had been drawn down for requirements in 1950. Substantial increases were also registered in ores and concentrates, other mine products, woodpulp, gravel, sand and stone, iron and steel, and miscellaneous manufactures.

5. A significant decline in bituminous coal tonnage from the abnormal levels of 1950 was in part attributable to a continued trend towards the substitution of fuel oil for industrial purposes. The only other major tonnage decreases occurred in the case of crude oil and auto parts, the former reflecting the diversion of traffic to pipelines, and the latter being attributable to reduced production in auto plants served by Grand Trunk Western lines.

Freight rates

6. Reference was made in the Annual Report for 1950 to the application filed with the Board of Transport Commissioners on December 21, 1950, by the Railway Association of Canada, seeking authority for an immediate general increase of 5% in freight rates, with provision for specific increases of 10c. per ton on coal and coke. Hearings began on January 19, and on January 25 the Board reserved judgment.

7. Subsequently, on April 23rd, the Railway Association filed a supplementary application based on the increased operating expenses anticipated from inauguration of the 5-day 40-hour week for non-operating employees on June 1st. This application sought authority for an additional general increase of 14% and amended the previous application in respect of coal and coke rates to 10¢, 15¢, and 20¢ per ton for rates up to $1.00, up to $2.00, and over $2.00 per ton respectively. As an alternative and having regard to the conclusions of the Royal Commission on Transportation (1951) in the matter of horizontal increases, the Railway Association proposed an increase of 15% with a list of exceptions on certain basic commodities such as lumber, pulpwood, stone, gravel, etc., for which maximum increases would be provided in some cases and flat increases in others.

8. Taken together with the 5% application mentioned above, the total increase applied for under the first alternative was 19.7% without exceptions, other than coal and coke, and under the second alternative, 20·75% with exceptions on a number of basic commodities.

9. Pursuant to these applications the Board, on July 4th, issued an Order authorizing an interim increase of 12% with specific advances in the rates on coal and coke of 10¢, 15¢, and 20¢ for rates up to $1.00, up to $2.00, and over $2.00 respectively. These rate increases became effective on July 26th.

10. On October 29th a further application was made to the Board seeking a 17% increase in substitution of the 14% previously applied for, or 18% in place of the alternative 15% application. Under this amended application the total increase sought was 22.85% without exceptions, other than coal and coke, or alternatively 23.9% with exceptions on certain commodities.

11. The Board's decision in this latter case, issued on January 25th and amended on February 4th, 1952, authorized (in lieu of the 12% interim increase awarded on July 4th) an increase of 17% in class and commodity rates and charges for ancillary services. In addition, confirmation was given to the above mentioned graduated scale of increases on coal and coke; cordwood and other wood for fuel purposes only was made subject to a maximum increase, and rates on potatoes were restricted to an increase of 12%. The authority granted under this Order was restricted to a period of time ending on August 31st, 1953, this limitation being subject to such further direction as may be found necessary by the Board. The increases granted by this decision were made effective on February 11th, 1952.

12. In all of the foregoing awards no change was made in the statutory Crowsnest Pass rates on grain or grain products originating in Western Canada.

13. In two successive Orders of the Board an interim increase ranging from 2% to 4% on international and related traffic, effective April 4th, was raised to an increase ranging from 6% to 9% effective August 28th. These Orders paralleled two decisions by the Interstate Commerce Commission on an application by American raliroads for a 6% increase, which application was later amended to 15%. In all of the foregoing cases there were certain exceptions to the general rate increases. Both in Canada and the United States the latest increases are subject to expiry on February 28th, 1953. Meanwhile, upon petition from American railroads, further hearings by the Interstate Commerce Commission have been held and a decision is now pending.

14. Despite the freight rate increases described in this section, unit revenues for 1951 were 1.8% lower, on the average, than in 1950, the revenue per net ton-mile having fallen to 1.369 cents. The explanation is to be found in the changed composition of the traffic, the effect of rate increases having been swamped by relatively large increases in the volume of low-rated traffic.

15. The General Freight Rates Investigation, ordered under Order-in-Council P.C. 1487 of April 7, 1948, was continued during the year. This Investigation is in part concerned with the equalization of freight rates, a subject which has been reported upon by the Royal Commission on Transportation. A number of informal discussions were held throughout the year between the Board of Transport Commissioners, Railway representatives, and other interested parties, in addition to formal hearings in Ottawa on May 15th, September 10th, and January 10th, 1952. Further hearings have been scheduled by the Board for March 17th, 1952.

Passenger Traffic

16. Passenger revenues showed a 19% improvement over the previous year as a consequence of increased patronage, chiefly attributable to the large movement of immigrants and displaced persons into Canada. Increased tourist and party travel, together with military movements, also contributed to the total of 17.3 million passengers carried during the year. Total passenger miles rose by 14.5% partly because of an increase in the average passenger journey from 84 to 93 miles.

17. A modest amount of additional revenues resulted from various small increases in passenger fares. Certain increases in the minimum charges for sleeping and parlour car accommodations were also brought into effect during the year.

Express Traffic

18. Increased charges and a record number of express shipments contributed in roughly the same proportions to an increase in express revenues of almost 19%.

19. Increases were applied to special long distance and package rates on April 2, co-incident with a rise in parcel post rates, and on June 4 commodity rates on fish were increased upon authorization by the Board of Transport Commissioners.

20. The number of express shipments amounted to 23,154,755, representing an increase of more than 5% over the previous year.

Communications Traffic

21. Substantially increased patronage in both commercial message and private wire business was the principal cause of a 14% increase in gross revenues of the Communications Department. A contributing factor was the higher average revenue per message, in part reflecting an increase of approximately 18% on Canadian traffic authorized by the Board of Transport Commissioners and made effective on November 1.

OPERATING EXPENSES

22. The increased revenues described above were more than offset by higher operating expenses, which rose by 17.4% to a new peak. Higher wage rates were the most significant element in increased costs. Greater expenditures for maintenance and transportation incidental to the higher volume of business, together with increased prices of materials were important contributing factors.

Employee Compensation

23. Increased compensation on both Canadian and American lines of the System resulted in an increase of $33.9 million in operating expenses during 1951. The major change was an increase of 20% in the *hourly* wage rates of non-operating employees, consequent upon the introduction, on June 1, of a 5-day 40-hour week with maintenance of take-home pay. This was part of the final settlement determined by the award of Mr. Justice R. L. Kellock in the dispute with non-operating employees, as described in the annual report for 1950.

24. Increased compensation was also provided for in wage settlements reached during March with operating employees on steam lines in Canada, and with non-operating employees on System lines in the United States. Other agreements were negotiated during the year with various smaller groups of employees.

Prices

25. The prices of all railway materials, as measured by a composite index based on 1936-38=100, rose by 9.7% during 1951, bringing the index to 220.5.

26. It is estimated that price increases added $12.3 million to operating expenses during the year. Had year-end prices been in effect throughout 1951 this sum would have been increased by approximately $5,000,000.

OTHER INCOME ACCOUNTS

27. The net debit arising from this group of accounts was reduced by $4.5 million. Part of the reduction was accounted for by the payment in 1950 of a premium amounting to $958,000 on bonds called for redemption, for which there was no corresponding expense in 1951.

28. Amounts totalling $2,488,000, credited to income account, were derived from the sale of land to Abitibi Power and Paper Company, and the sale of the Rail and River Coal Company property, as described under "Property Investment Account".

29. As a result of the appreciation of the Canadian dollar during the year the cost of exchange on the purchase of United States funds was $612,000 lower than in 1950.

Hotel Operations

30. New peaks in both the gross revenues and operating expenses of nine Canadian National hotels and three summer resorts were recorded during the year. Net operating income was $588,485 compared to $565,853 in 1950.

31. Gross revenues, amounting to $9,249,902, showed an increase of 5 per cent attributable to increases in room rates and meal prices at the nine year-round hotels, and to a modest increase in patronage of summer resorts. The number of guests accommodated at year-round hotels declined slightly to 667,943.

32. Operating expenses increased by 5 per cent to $8,661,417 due to charges for futher replacements and retirements of facilities, higher prices for materials and supplies, and the cost over a full year of the 4c wage award to hotel employees on August 31st, 1950.

Property Investment Account

33. As shown on page 32, expenditures on additions and betterments, less the book value of property retired, amounted to $85,778,826, of which $57,183,076 represented net expenditures on equipment.

34. A description of the equipment acquired during 1951 will be found on the top of page 42, which also shows an inventory of equipment at the year-end.

35. Major improvements to road property are dealt with under appropriate heading later in this Report.

36. New construction and improvements in System Hotels were advanced during 1951. The floors of the new fifteen-storey wing of the Macdonald Hotel in Edmonton were completed and the building closed in up to the fourteenth storey by the end of the year. At St. John's, the rehabilitation and modernization of the Newfoundland Hotel made considerable progress and is expected to be completed in 1952.

37. Important property acquisitions during the year included the purchase of two small railway lines. The properties of the Quebec Railway, Light and Power Company were acquired in order to integrate rail operations between Quebec City and Nairn's Falls on the north shore of the St. Lawrence River. The electric lines of this Company extended for a distance of 25 miles from Quebec City to St. Joachim, making connections at the latter point with Canadian National lines terminating at Nairn's Falls. The New London Northern Railroad Company was acquired in order to effect a saving in rentals and taxes to which the Central Vermont Railway, a subsidiary of the Canadian National, was obligated by virtue of a 99-year lease. This line comprises 121 miles of main line between Brattleboro, Vermont, and New London, Connecticut.

38. A general office building was purchased in Detroit for the accommodation of Grand Trunk Western Railroad staffs hitherto occupying rented premises.

39. Major property retirements involved the sale of land and coal properties. The assets of the Rail and River Coal Company, located at Bellaire, Ohio, were sold following a careful study which established that ownership no longer afforded any special advantage to the Railway. Some 633,000 acres of land grant lands adjacent to the railway line between Fort William and Sioux Lookout, Ontario, were sold during the year to the Abitibi Power and Paper Company Limited. These lands were previously under a long term lease which conveyed timber cutting rights to the Paper Company. The sale price was $1,600,000 with a reservation of such of the lands as may be required for further use by the Railway.

40. The following rail lines were abandoned under authority of the Board of Transport Commissioners and the Interstate Commerce Commission:

	Distance
Port Hope to Millbrook, Ontario	16·6 Miles
Cass City to Bad Axe, Michigan	18·3 Miles

Financing

41. On January 15th, 1951, a $13,500,000 issue of 2¾ per cent Ten Year Serial Equipment Trust Certificates, maturing in twenty semi-annual instalments, was sold at a cost of 2·95 per cent. The issue provides approximately 75 per cent of the cost of the new equipment covered by this Trust agreement.

42. $48,022,000 of 4½ per cent Bonds payable at the holder's option in Sterling, Canadian or United States funds, outstanding in the hands of the public, matured on September 1st, 1951, and funds for this redemption were borrowed from the Government of Canada.

43. The net increase in borrowed capital, as shown on Page 36, amounted to $73,893,054. The balance of financial requirements were obtained from depreciation reserves.

OPERATING PERFORMANCE

1. Improvements in efficiency due to technological advances, though gradual and often masked by random factors, can be traced in the record of operating performance over a reasonably long period of time.

2. The year 1951 was a record year of industrial activity and rail traffic, and it is appropriate to compare it, in respect of the units in operating performance, with the year 1928, since this was the peak traffic year of the inter-war period.

3. During this interval of time striking improvements have been recorded in the utilization, capacity, and unit output of the Railway's equipment. The mileage obtained per serviceable freight car day increased from 32·6 to 45, and the daily mileage of serviceable freight locomotives rose from 107 to 152. The average carload increased from 25·2 to 29·9 tons, while the average freight train increased from 1409 to 1749 tons. Average freight train speed rose from 13·1 to 16·1 miles per hour, and gross-ton miles per train hour—a highly significant composite measure of performance—increased from 18,500 to 28,100. For comparative purposes these figures exclude the Newfoundland District.

4. The overall comparison shows that in quantity the Canadian National has furnished 58% more freight transportation with 12% fewer locomotives and 12·4% fewer freight cars, and in terms of quality the average speed has been raised by 23%. This improvement was accompanied by a significant decline in fuel consumption, and the use of relatively less manpower.

TECHNOLOGICAL IMPROVEMENTS

Motive Power

5. In terms of equipment the diesel locomotive continues to offer the most promising field for improved efficiency. Following the completion of a comprehensive study, approval in principle has been given to a five-year programme of partial dieselization directed towards those freight, passenger, and yard services where relatively intensive utilization of locomotives can be obtained, and advantage taken of the greater availability and lower operating costs of this type of power. This programme will involve large capital expenditures, and can only be justified by the substantial economies made possible not only in train operations but also through the rearrangement of servicing and repair facilities.

6. The Canadian National was the first railway in North America to experiment with diesel-electric locomotives. During 1951 the addition of 103 diesel units, including 39 switchers and 10 road switchers, brought to 280 the total units in service at the year-end, at which time approximately 17% of all through freight traffic on the System was being hauled by diesels. A modest increase in this type of power will be made in 1952 but more servicing facilities must be provided before additions can be substantial. Meanwhile a training programme for personnel who will be engaged in operating and maintaining diesel locomotives has been organized and is in active operation.

7. Developments in the field of the gas turbine locomotive continue to be watched with interest. Some progress has been made with the oil-fired gas turbine in the United States and Europe, where a few units are being tested in service. Coal-fired gas turbines are still the subject of considerable experimentation in the United States and Canada, though no locomotive is yet in operation. Tests are being conducted at McGill University in this field, and have been followed with particular interest by the Company's technical officers, who have lent assistance wherever possible.

8. Developments in other types of motive power, such as the diesel mechanical-drive locomotive, are also being carefully observed.

9. The programme of converting steam locomotives on the Western Region from coal to oil-burning was deferred during the year because of some uncertainty respecting future supplies of bunker "C" oil. The supply position having been made secure, it is expected that 42 locomotives will be converted to oil-burning in 1952.

Freight Equipment

10. Consideration is being given to the use of light-weight metals in the construction of freight cars. An aluminum-sheeted box car and an aluminum hopper car were obtained on loan for test purposes, and experience with the the latter unit has led to the purchase of 5 aluminum hopper cars to permit of more extensive tests in actual service.

11. Continued study is being made of the various components and materials used in freight equipment with a view to achieving economies through greater durability, lighter weight and reduced maintenance expense consistent with safety in operation.

Passenger Equipment.

12. Substantial progress was made during the year in a continuing programme of reconditioning passenger equipment. The major part of the work consisted of air-conditioning 22 coaches, converting 14 units to combination passenger-baggage cars, and the modernization of 12 sleepers, 5 parlour cars and 3 other units of passenger equipment.

13. Further study was made of the possibilities of diesel railcars for use in short passenger runs where traffic is relatively light. Tests were conducted with a new streamlined stainless steel unit of American design, and useful data on performance was obtained under varying conditions of operation. These units though capable of combination into short trains, are not designed to haul trailer coaches. Diesel railcars with matching trailers have been in use on the System for over 25 years; during 1951 one set of this equipment was completely modernized and its performance in actual service will determine policy with respect to future conversions. Delivery of 6 new light-weight electric cars and 12 matching trailers for suburban services through the Mount Royal Tunnel was originally scheduled for the summer of 1951 but is not now expected until mid-summer of 1952.

Signalling and Track Equipment.

14. Installations of Centralized Traffic Control signals on two strategic sections of main line were proceeded with during the year. On the 148 miles of line between Foleyet and Hornepayne, Ontario, where 4 transcontinental passenger trains and as many as 21 other passenger and freight trains meet

and pass daily, installation was completed and the equipment placed in service late in the year. On the Holly Subdivision, an important 35-mile link between double track lines at Pontiac and Durand, Michigan, installation of this modern signalling equipment was advanced to approximately 70% of completion.

15. Work was continued during the year on a long term programme which will eventually provide automatic block signals on the 512 miles of main line from Jasper, Alberta, to Port Mann, B.C., the operating terminal serving Vancouver. Installation was completed on the 43 miles of line between Jasper and Red Pass Jct., B.C., bringing the total to 159 miles of automatic signals in service in this area at the end of the year.

16. The mechanization of track maintenance was advanced by the purchase of 5 mobile, multiple-unit power tie tampers and a considerable number of smaller power tools for use by section forces. A saving of both time and expense was achieved by the rental of 2 mobile ballast cleaners, which were employed in cleaning 310 miles of high speed rock ballasted track between Montreal and Chicago.

Communications.

17. During the year a programme aimed at achieving a 60% increase in carrier channel mileage was launched in order to adjust capacity to the steadily rising trend of demand. Because of serious delays in equipment deliveries, only about 15% of the programme was completed by the year-end.

18. A three-year programme of modernizing equipment assigned to the Canadian Broadcasting Corporation programme network service was completed to the extent of 65%. Plans were also developed during the year to modernize the internal telegraph and telephone system of the Canadian National Railways.

19. New operating methods and techniques were examined with a view to achieving greater efficiency, and plans were studied for the more extensive use of mechanized equipment.

Other Research.

20. The improvement of specifications, the testing of material supplied to the Company, and the development of improved control techniques in the use of fuel and other materials continued to receive the attention of the Railway's technical officers. Among the projects undertaken by the Research and Development Department during the year were experiments aimed at effecting a better utilization of coal in steam locomotives, the development of a rust inhibitor to control brine corrosion, and improvement of journal lubrication.

21. Further investigation has been conducted into the problems associated with mechanical refrigeration, and an experimental installation in a freight refrigerator car will be made in the near future. The development of a new type of air-conditioning, lighting and heating equipment for passenger cars is proceeding in conjunction with an English engineering firm.

22. In co-operation with the Canadian Pacific Railway standard specifications were drawn up for automobile, flat, gondola, and hopper cars, and in addition agreement was reached on various structural details of passenger cars. This measure of standardization will prove beneficial both to the manufacturers and the Railways.

CONDITION OF THE PROPERTY

23. An intensive shopping and repair program was concentrated on locomotives and freight cars during the year and resulted in substantial improvements in the percentage of serviceability of this equipment. A slight increase was registered in the serviceability of passenger car equipment.

24. The acquisition of 5,000 box cars during 1951, partly offset by the retirement of 1,274 old cars, was of considerable assistance in meeting an unprecedented volume of traffic particularly during and after the harvesting of the western grain crop. Generally speaking, in respect of other freight car equipment the underlying condition of shortage remains. The situation should, however, improve progressively as deliveries are made during 1952 and 1953 of the equipment for which orders are outstanding or anticipated.

25. No new passenger-carrying cars were added to the inventory of equipment during 1951. The continuing steel shortage and congestion of production schedules, arising out of industrial requirements essential to defence preparedness, are likely to defer until at least 1953 the delivery of new equipment, and in consequence heavy pressure on the available supply of the newer types of cars can be expected during seasonal travel peaks.

26. The state of maintenance of the road bed, track and structures can be described as generally satisfactory, but in some instances does not measure up to the standards planned at the start of the year. This situation can be attributed to shortages and slow deliveries of materials, notably steel products, and to the strain imposed, during a period when labour was relatively scarce, by the necessity for recruiting and training the additional workers required by the introduction of a 5-day 40-hour week on June 1. Considering the arrears of maintenance and the backlog of necessary improvements which still persist from the war period, the effect on the property is significant. An intensive survey, reaching down to divisional level, is currently under way with a view to assessing as accurately as possible the extent and degree of deferred maintenance.

Terminal facilities

27. The high volume of traffic and intensive industrial development, which have characterized the expansion of the Canadian economy, have resulted in serious congestion in many of the Company's terminal and yard facilities at major centres. This problem, which is compounded of obsolete layout and inadequate capacity, has been receiving systematic and comprehensive study with a view to making such improvements, both in facilities and operating methods, as will provide a measure of immediate relief during the period which must intervene before long term remedies can begin to take effect. Encouraging progress was made in this direction during 1951.

28. A number of terminal projects in hand at the beginning of the year were progressed as rapidly as supply conditions permitted. In the Bonaventure freight terminals a four-storey office building, a short extension to the inbound shed, and the shed office building were approximately three-quarters completed at the year-end. Continued progress was made on the rearranging of the track structure in the Central Station area, a phase of the Montreal Terminal Development Plan, and work is expected to be finished by the end of 1952. At Point St. Charles shops in Montreal, the new paint shop was approximately 70% finished and track alterations were completed in preparation for the construction of a new diesel shop extension. The rearrangement of tracks and enlargement of Mimico yards in Toronto Terminals was brought close to completion during the year.

29. A special problem is presented by congestion in the Montreal terminal raea, which not only serves a heavy concentration of industry but is also a focal point for through freight traffic to and from the Maritime Provinces and the United States. Turcot yards, the main facility, are hemmed in near the centre of the city, and as a practical matter it is not possible to expand capacity sufficiently to accommodate the steadily growing volume of traffic. Long range plans have, therefore, been formulated for the construction of a modern hump yard in the Cote de Liesse area to be used for the marshalling of trains. Meanwhile, as a necessary interim measure, work has been proceeding on a program of track extensions in Turcot yards, which facility will eventually be required as a storage and supporting yard.

GENERAL

THE ECONOMIC ENVIRONMENT

1. The year 1951 carried forward in record breaking measure the process of growth and development by which Canada has begun to evolve into a more diversified and better balanced economy with a broad industrial structure giving promise of support to a larger internal market. While the rapid delevopment of mineral and forestry resources has been most noticeable, there has also been substantial expansion of secondary and manufacturing industries. Meanwhile the steady growth of the world's population has underscored the importance of Canada's farm and fishery resources.

2. Typical of development in the mining industry have been the extensive and continuing discoveries of iron ore in Ontario, Quebec, and Labrador, and of petroleum and natural gas in the Prairie Provinces and British Columbia. Far from being a deficiency country in these basic materials, Canada bids fair shortly to become one of the world's major sources of supply. The development of new processing industries is illustrated by the actual or planned construction of plants for the treatment of titanium, nickel, zinc and sulphur. Further evidence of the trend toward industrial maturity is seen in the manufacture of textile synthetics, industrial chemicals including petro-chemical products, and a range of steel products some of which have never before been produced in Canada.

3. The quickening pace of resource development, accompanied by a growing population, has led to the achievement of a new record in national output. The Gross National Product in 1951, adjusted for price changes, appears to have been no less than 90% higher than in 1939.

4. As the largest public utility serving the nation, the Canadian National is continuing to play a vital role in this process of expansion.

5. During 1951 more than 194,000 immigrants entered the country, the largest inflow since 1913, and 294 sepcial trains were operated by the Canadian National from ports of arrival to accommodate immigrants from overseas. Trained staffs of interpreters and other experienced personel were used extensively in carrying out the reception and transportation arrangements.

6. Throughout the year a considerable number of firms planning new plant locations availed themselves of the technical and consulting services provided by the Company's industrial development officers.

7. Consideration has been given to the acquisition of the National Harbours Board trackage on both sides of Burrard Inlet, with a view to encouraging development of a new and large industrial area on the North Shore of Vancouver Harbour. However, no agreement has yet been reached with various municipal authorities in respect of operation over the Second Narrows Bridge.

8. In order to provide direct access to factories, warehouses, and other industrial establishments in various parts of Canada, 223 industrial spur tracks totalling 43.7 miles in length were constructed during the year. The longest of these spur lines, 5.8 miles in length, was constructed from Forestburg, Alberta, to the Forestburg Collieries, where strip mining operations have begun. Another spur line of 4.8 miles was completed from the former National Transcontinental line near Barraute, Quebec, to the properties of the Barvue Mines Limited, where major deposits of zinc ore have been located.

New Branch Lines

9. The strategic position of Canadian National lines in relation to the economic frontier has been demonstrated by significant developments in northern Manitoba and northwestern British Columbia.

10. During the year a request was made for the extension of the Canadian National branch line terminating at Sherridon, Manitoba, to the site of extensive nickel, copper and cobalt deposits at Lynn Lake, approximately 150 miles north of Sherridon. After a study of the economic factors involved, recommendations were made and the necessary authorization obtained in the late summer to proceed with construction. By the end of the year the line had been surveyed for a distance of 54 miles as far as the crossing of the Churchill River, approximately 21% of the surveyed right-of-way was cleared, and 7 miles of roadbed were graded. Under an agreement with the Sherritt-Gordon Mines Limited, the objective is to have the line ready for service by October, 1953.

11. Large scale developments centering around the construction of an aluminum reduction plant in the vicinity of Kitimat, British Columbia, approximately 70 miles southeast of Prince Rupert, have given rise to a proposal for construction of a branch line approximately 46 miles in length to connect with the Prince Rupert line of the Canadian National. After careful investigation of the financial considerations involved, this project has been recommended by the Management and is now awaiting final authorization.

Other transportation developments

12. The construction by the Federal Government and the Government of Nova Scotia of a causeway across the Strait of Canso is scheduled to begin in 1952. This will provide a continuous rail link in place of the train ferries now in operation.

13. A further significant improvement in facilities for handling traffic to and from Newfoundland is anticipated from the construction, to be undertaken by the Federal Government, of a modern icebreaking ferry for service between North Sydney, Nova Scotia, and Port aux Basques, Newfoundland. The new ferry will be of special design, and will employ a type of portable freight container, adaptable for use on Newfoundland railway equipment, which will not only speed up freight handling but reduce loss and damage resulting from transshipment between boat and rail.

14. Another notable development in the field of transportation is the northward extension of the Pacific Great Eastern from Quesnel to Prince George, British Columbia, where it will link with the Canadian National line to Prince Rupert.

The St. Lawrence Seaway Project

15. The prospect that Canada will, if necessary, proceed without participation of the United States in the St. Lawrence Seaway Project is of immense significance to the Canadian economy.

16. The deepening of the canalized St. Lawrence Waterway to provide for a minimum draft of 27 feet, taken together with the very substantial development of hydro-electric power, will undoubtedly have an effect upon the railways in general and the Canadian National particularly. Bulk commodities previously moving by rail because of the limited capacity of the existing canal system may move by water, and the availability of ports on the Great Lakes to ocean shipping may result in some diversion of traffic. Offsetting these adverse factors, however, will be the industrial development which may be expected from the availability of cheap power, water and rail transport in a concentrated area. The general conclusion must be that while there will be a period of readjustment following the construction of the St. Lawrence Deep Waterways, it is unlikely that there will be permanent adverse effects upon the Canadian National. There is, however, a problem of major importance in ensuring that Canadian National facilities will be given their proper place in the industrial pattern which will emerge from the completion of this project.

The competitive framework

17. The range of requirements for transportation services is so wide that no single medium of transportation can meet the demands of industry and the travelling public. The railways in Canada are faced with selective competition from air, water, and land transport enterprises, each of which is specialized by reason of advantages derived from their particular techniques of operation.

18. The airlines, for example, are specialized in speed of movement and are patronized by those who are willing to pay a premium for the fastest possible service. The quickening pace of Canadian economic life has brought the airlines into strong competition for passenger and mail traffic, and to a lesser degree for the movement of goods.

19. Water carriers are specialized in low cost bulk movements of goods in which the speed of service is not a critical factor. This is illustrated by the fact that the great bulk of the western grain crop normally moves, during the navigation season, via Fort William and Port Arthur through the Great Lakes.

20. Pipelines can show decisive cost advantages over rail tank cars in the movement of petroleum and petroleum products under conditions where a steady and very large traffic volume can be assured over a sufficient number of years to amortize the initial costs of the construction. Oil pipelines are still a relatively new development in Canada and further construction can be expected.

21. Commercial road vehicles have certain characteristics which make them particularly suitable for short haul traffic moving in relatively small volume. Truck competition bears on the most valuable classes of freight traffic and in recent years has expanded rapidly in the long haul field.

22. Despite the growing pressure of these competitive factors the railways must continue to serve as the principal facility of land transportation, because only the railways have the capacity to supply cheap all-weather transportation in large volume over continental distances.

Highway Competition

23. The present limits to the profitable operation of trucks in competition with the railways are governed primarily, not by the relative technical or cost advantages of road and rail transport, but by the margin between trucking costs and railway rates. The railway rates are not uniformly related to operating costs; generally rail charges are relatively low on basic commodities and relatively high on processed goods of greater market value. The success of trucking firms in diverting valuable traffic from the railways in the long

haul field can largely be attributed to the artificial advantage of operating against a railway rate structure of this kind, rather than to inherent technical superiority.

24. The problems which emerge from this set of circumstances are complex and will not yield to any single or simple solution. In the sphere of action open to Management, attention has been concentrated on improving service to the public and increasing the efficiency of operations. This objective has been assisted and can be further advanced, by the co-ordination of rail and highway services. In this connection the most promising field is to be found in providing supplementary or substitute services on the highway co-incident with the curtailment of rail operations on branch lines where, as a permanent condition, traffic revenues fall short of meeting direct costs. In general the policy of the Management is to employ road transport as an adjunct to basic rail services. Wholesale and indiscriminate entry into bus and truck operations is not contemplated.

25. Pursuant to this policy, 8 small scale trucking services and 2 bus services were inaugurated during the year. By virtue of a license secured from the British Columbia Public Utility Commission, an autobus service was begun between Prince Rupert and Smithers, B.C. The Mackenzie Coach Lines, providing a bus service in New Brunswick and Nova Scotia, were operated jointly with the Main Central Railroad, thus affording a bus route from United States points to Sydney and Halifax. Other such services have been planned and are awaiting action; for example the Canadian National proposed to the Province of Prince Edward Island a plan for bus and truck service co-ordinated with railway operations, which would greatly improve the quality of transportation in that Province. This proposal is now under active consideration.

ROYAL COMMISSION ON TRANSPORTATION

26. The Report of the Royal Commission appointed on December 29, 1948 to inquire into transportation problems in Canada was made public on March 15th, 1951.

27. Based on the recommendations in this Report, a number of important amendments have been made to the Railway Act giving certain responsibilities and directions to the Board of Transport Commissioners, affecting particularly the regulation of railway rates.

28. The amendment to the Railway Act under Section 332A defined the national policy in respect of equalizing freight rates. In this and in other amendments certain stipulations have been made in permissive terms leaving to the Board the exercise of their judgment in the final disposition of each case. Representations by the Canadian National in respect of such matters as the method of equalizing freight rates, and the determination of a uniform system of accounts, will be made at the appropriate time to the regulatory authority.

29. Pursuant to a recommendation by the Royal Commission, legislative provision has been made for the payment of a subsidy to the Canadian National and the Canadian Pacific towards the cost of maintaining trackage in a defined area north of Lake Superior. The amount of the subsidy, not to exceed $7 million annually, is to be determined by the Board of Transport Commissioners.

30. The Report of the Royal Commission also called attention to the need for a more positive attitude toward railway line and service abandonments.

In addition the Commissioners' views on railway ownership of truck lines were set forth in these terms:

> It would seem that operation of trucks may be an essential and complementary part of railway operation, more especially in view of changing conditions. Under these circumstances it does not appear reasonable that railways should be prohibited from operating trucks or truck lines. There is no evidence to show that there is danger at present of the railways stifling competition by ownership of trucks. This would be a matter to be dealt with if and when the occasion arises.

These observations lend objective support to the policy of the Canadian National as enunciated in the preceding section.

Recapitalization

31. The Canadian National has never failed to meet operating expenses, but except for the years 1926, 1928, and 1941-45 has been unable to meet the heavy fixed interest charges with which the System has been faced since its inception in 1923. The Royal Commission, having studied the evidence presented in public hearings, reported:

> "The Canadian National Railways has established a case for reduction of its fixed charges and for the desirability of the Company being able to accumulate out of earnings a reserve or 'something to come and go on'."

32. It is expected that the measure of relief recommended by the Commission will be made available to the Railway in 1952.

CO-OPERATION UNDER THE CANADIAN NATIONAL-CANADIAN PACIFIC ACT, 1933

33. Under an amendment enacted in 1951 to the Canadian National-Canadian Pacific Act, the Canadian National is required to report annually on co-operative activity.

34. Joint study is being given to the extension of passenger train pooling and to the abandonment of functionally duplicate rail lines between the following points:

	Distance
Middleton-Bridgetown, Nova Scotia	13·2 Miles
Louise-Deloraine, Manitoba	56·3 Miles
Hallboro-Beulah, Manitoba	75·2 Miles
Reston, Manitoba-Wolseley, Sask.	122·4 Miles
Langdon-Beiseker, Alberta	32·6 Miles
Forth-Ullin, Alberta	71·2 Miles

35. Co-operative projects in effect during 1951 were estimated to produce an annual joint economy, under the economic and traffic conditions at the time the measures were instituted, of $1,189,240 per year. It has not proved possible to estimate the annual value, at the time of this Report, of those continuing co-operative measures. In future Reports this information will be supplied. It is reasonable to anticipate that the current joint economy will be in excess of the figures shown. In addition to those projects where a definite economy could be estimated, there are other forms of co-operative action in effect which are productive of substantial but indefinite benefits.

36. The Canadian National-Canadian Pacific Act extends beyond normal business relations and imports into an agreement the element of national interest giving sanction to action which would otherwise be unlawful. In addition to co-operation under the provisions of the Canadian National-Canadian Pacific Act, there has been and continues to be a great deal of co-operation

between the two Companies, as evidenced by long-standing agreements for joint use of terminals, joint running rights, joint switching and other types of operation, detouring agreements for use of each others' lines in cases of necessity, as well as joint ownership of properties.

37. The duty laid upon the Management to pursue co-operative economy is being diligently discharged.

EMPLOYEE RELATIONS

38. With one exception the wage agreements made during March, 1951, with the operating trades employees are now open for negotiation, and discussions with the respective labour organizations are in progress. The two-year contracts with non-operating employees are subject to revision effective September 1, 1952, and notices of intention to seek revision of the current agreements may be served by either of the parties within 60 days of that date.

39. The Executive Order, dated August 27, 1950, of the United States Government placing all railways in the United States under Federal control is still in force. This Order, which affects Canadian National and subsidiary lines within the United States, arose out of a threatened strike by employees of the operating trades. Agreements were made with the trainmen's organization in May, 1951 but have yet to be concluded with the engineers, firemen and conductors.

Pensions

40. A revision and improvement of the Canadian National pension plan has been made effective as from January 1, 1952.

41. The new plan is the product of many months of study during which Management has had the benefit of advice and co-operation from the employees' representatives.

42. A brief description of the revised plan is contained in an Appendix to this Report, as reproduced from an explanatory circular to employees and pensioners.

Personnel

43. Further progress was made during 1951 in the development of a broad staff function for the Personnel Department, in order that Management may deal more effectively with the human resources which are the Railway's greatest asset. The responsibilities of the Personnel Department include the provision of assistance to line management in selecting, training and promoting employees, the application of modern techniques to personnel administration, and the co-ordination of all aspects of personnel policy.

44. A system of personnel appraisal and job evaluation has been planned for the non-scheduled employees, beginning with junior supervisory positions. For this purpose a comprehensive series of records, including a personnel inventory, is in course of preparation.

45. The Office Services Branch of the Personnel Department has been actively engaged in studies of office equipment, methods, and procedures, giving asssitance in this field to other Departments in the organization.

46. Employment Bureaux are now in opreation at Winnipeg, Toronto, Montreal and Quebec City. The Bureaux facilitate the transfer of employees between Departments and perform the specialized task of interviewing and processing candidates for employment. In due course these offices will be expanded both in number and in function.

47. The Labour Management Co-operative Plan continues to provide an important channel of communication between employees and supervisory officers at successive levels of authority. The Suggestions Plan, which is open to all employees, has also proven successful in developing constructive ideas to the mutual benefit of the Company and the employees. In these and in other directions encouragement will be given to activities which contribute to the development of sound employer-employee relations.

APPENDIX

Brief Description of the Revised Pension Plan for Canadian National Railways

The revised plan is in two parts.

Part 1 is the existing plan with some amendments designed to make better provision for present and future employees who become disabled, and also for early retirement. It provides a basic pension of $25 per month at the expense of the Company and also for a supplemental pension at the joint expense of the Company and the employee. It is optional with the employee whether he contributes or not. He may contribute an even percentage of his compensation from 1% to 10% and the Company will match his contribution after 10 years' service but not in excess of 5%. The amount of the supplemental pension is that which the joint contributions with compound interest will buy. The plan makes provision for benefits for service prior to 1935 when the present contributory plan was established.

The employee may select the type of pension he wishes, that is to say he may elect to take it in the form of an annuity payable during his lifetime, or payable during his lifetime but guaranteed in any event for either 5, 10, or 15 years, or in the form of a joint life and last survivor annuity. The amount of a guaranteed or survivor type annuity is of course less than the single life annuity but is the actuarial equivalent of the single life annuity.

As amended the plan provides pensions for disabled employees provided they have attained age 50 with not yess than 20 years' service. If the portion of the pension payable at the expense of the Company is less than $40 per month (on a single life basis) the Company will grant a special disability allowance so as to increase its portion of the pension to $40 until the employee reaches age 65. If an employee with these age and service requirements should die in service the Pension Board may grant a survivor benefit equal to one half the amount of such employee's pension, on a single life basis, but excluding the allowance referred to. Such benefit will be payable during the lifetime of a surviving spouse, or for 10 years from the date of the employee's retirement, whichever period is longer.

Normal retirement is at age 65 with 20 years' service, but provision is made for early retirement with reduced pensions. For each year below age 65, one additional year's service will be required, so that an employee may retire at age 64 with 21 years' service or age 55 with 30 years' service, or anywhere between where the age and years of service add to 85.

The optional and flexible provisions of Part 1 are considered by many employees to be preferable to a more rigid compulsory contributory plan. It allows employees considerable freedom to shape their railway pension to their needs as they see them.

Part 2 is designed to meet the requirements of those who wish to obtain larger pensions and who are willing to join a plan under which contributions are compulsory. Employees will be covered by Part 1 unless they elect to transfer to Part 2, which election will be irrevocable. They will be given ample time to make their election.

Under this Part the employee must contribute 5% of his compensation and the Company will pay the balance of the cost. The pension will be a percentage, based on length of allowable service, of the employee's average compensation during the last 5 or 10 years' service whichever is more favourable to the employee. The percentage will be 1% for each year of service up to 20 years. 1¼% for each year during the next 10 years, and 1½% for each year over 30 years' service. Fractions of a year will be computed proportionately. This pension will be payable during the lifetime of the employee. On the decease of the employee one half the pension will be payable during the lifetime of a surviving spouse, or for 10 years from the date of the employee's retirement, whichever period is the longer.

A provision is also made for pensions to disabled employees. These benefits are available to employees who have attained age 50, who have at least 20 years' allowable service, and who are certified by the Company's Chief Medical Officer to be unfitted for further service by reason of permanent physical or mental disability. If an employee with these age and service requirements should die in service the Pension Board may grant a survivor benefit similar in terms to the one referred to in the preceding paragraph.

The normal retirement date is age 65 but a provision is made for early retirement with reduced pensions, the age and service requirements being similar to those referred to under Part 1.

The pension benefits are conditional on the employee having paid 5% of his compensation throughout the period of his service from January 1st, 1935, or from the date he last entered the service if entry was later than January 1st, 1935, until the date of his retirement. An employee whose total contributions prior to date of transfer are less than the required amount will be permitted to make good the arrears during his remaining service by additional contributions, or lump sum payments, but if arrears are not made good the pension will be reduced proportionately.

An employee who transfers from Part 1 to Part 2 and who had contributed under the existing plan in excess of 5% of his compensation, will receive repayment for the amount of the excess.

To Existing Pensioners

The foregoing revisions are applicable to employees in the service at January 1st, 1952, and who had not attained age 65 prior thereto. Effective July 1st, 1952, some revisions to existing pensions will be made so that there will be substantial equality in the treatment of pensioners then living with employees who will retire in the future. The following arrangements therefore have reference to pensioners who had retired before the new rules became effective. A pensioner who contributed during service the full 5% from January 1st, 1935, to the date of his retirement may elect to have his pension computed as provided in Part 2. If he so elects, he must surrender his contract, his present pension will be terminated, and the revised pension will be payable from July 1st, 1952—not from the date of his retirement. There will be no option as to type of pension, the revised pension will be the single type provided for Part 2 pensions. If the pensioner is deceased, the right to elect is terminated; it is not available to a beneficiary. If the pensioner's contributions during service were less than 5% from January 1st, 1935, to the date of his retirement, then, subject to all the conditions mentioned, his pension will be the proportionate part of the Part 2 pension to which he would have been entitled had he made the full 5% contributions. If the pensioner had made contributions in excess of 5%, the pension resulting from the excess will be continued in the type which the pensioner selected at the date of his retirement. The pensioner's status with respect to such matters as his eligbility to receive a pension and the period of his allowable service will remain as determined under the rules in effect at the date of his retirement. As in the case of the revised plan a rule of limitation has been included. A pensioner who did not contribute during his service towards a supplementary annuity will continue to receive the basic or service pension to which he is entitled under the existing rules.

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1951

ASSETS

Investments			
Road and equipment property	$2,245,260,580		
Improvements on leased property	1,097,308		
Miscellaneous physical property	65,523,665		
		$2,311,881,553	
Capital and other reserve funds:			
System securities at par	$ 748,500		
Other assets at cost	7,589,526		
		8,338,026	
Investments in affiliated companies		53,119,620	
Other investments:			
System securities at par	$ 205,000		
Other assets at cost	815,619		
		1,020,619	
			$2,374,359,818
Current Assets			
Cash		$ 19,536,168	
Temporary cash investments at cost		3,643,750	
Special deposits		5,293,620	
Net balance receivable from agents and conductors		26,057,142	
Miscellaneous accounts receivable		18,981,599	
Government of Canada—Due on deficit account		1,031,996	
Material and supplies		93,791,107	
Interest and dividends receivable		80,579	
Accrued accounts receivable		5,659,246	
Other current assets		538,913	174,614,210
Deferred Assets			
Working fund advances		$ 487,841	
Insurance fund:			
System securities at par	$ 5,733,200		
Other assets at cost	7,850,057		
		13,583,257	
Pension contract fund:			
System securities at par	$ 9,010,500		
Other assets at cost	50,689,500		
		59,700,000	
Other deferred assets		2,798,918	
			76,570,016

LIABILITIES

Stocks		
Capital stock of subsidiary companies held by public	$	4,518,890
Funded Debt		
Held by public	$ 599,499,835	
Held in special funds	15,697,200	
		615,197,035
Government of Canada Loans		857,573,774
Current Liabilities		
Traffic and car-service balances	$ 13,548,324	
Audited accounts and wages payable	32,512,702	
Miscellaneous accounts payable	7,320,375	
Government of Canada—Interest payable	22,700,242	
Interest matured unpaid	4,261,297	
Unmatured interest accrued	5,059,322	
Accrued accounts payable	9,233,018	
Taxes accrued	3,517,609	
Other current liabilities	2,671,488	
		100,824,377
Deferred Liabilities		
Pension contract reserve	$ 59,700,000	
Other deferred liabilities	7,609,112	
		67,309,112
Reserves and Unadjusted Credits		
Insurance reserve	$ 13,583,257	
Accrued depreciation—Canadian Lines—Equipment only	157,534,973	
Accrued depreciation—U.S. Lines—Road and equipment	27,937,997	
Accrued amortization of defence projects	3,062,522	
Unadjusted credits	9,947,798	
		212,066,547

Unadjusted Debits		
Prepayments	$ 953,094	
Discount on funded debt	3,549,598	
Other unadjusted debits	3,838,738	
		8,341,430
		$3,633,885,384

Sterling and United States currencies converted at par of exchange.

Government of Canada—Proprietor's Equity—(See note)		
Represented by:		
1,000,000 shares of no par value capital stock of Canadian National Railway Company	$ 18,000,000	
5,000,000 shares of no par value capital stock of The Canadian National Railways Securities Trust	378,518,135	
Capital expenditures by Government of Canada Canadian Government Railways	379,877,514	
		776,395,649
Contingent Liabilities		
Major contingent liabilities, as shown on statement attached		
		$2,633,885,384

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, 1927.

T. J. GRACEY,
Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the companies comprising the Canadian National Railway System for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the System, and the consolidated balance sheet at the 31st December, 1951, and the relative consolidated income account for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the System.

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

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

In our opinion, subject to the foregoing, the above consolidated balance sheet and the relative consolidated income account are properly drawn up so as to give a true and fair view of the state of the System's affairs at the 31 st December, 1951, and of the consolidated income and expenses for the year.

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

GEORGE A. TOUCHE & CO.
Chartered Accountants.

10th March, 1952.

CANADIAN NATIONAL RAILWAYS

Consolidated Income Account

	1951	1950
RAILWAY OPERATING REVENUES		
Freight	$498,800,344	$445,780,004
Passenger	47,475,661	39,889,206
Mail	7,311,445	7,984,695
Express department	30,670,031	25,806,125
Communications department	12,032,631	10,556,435
All other	28,544,008	23,815,116
Total operating revenues	$624,834,120	$553,831,581
RAILWAY OPERATING EXPENSES		
Maintenance of way and structures	$111,560,852	$ 90,782,435
Maintenance of equipment	135,319,782	114,166,205
Traffic	10,429,825	9,453,716
Transportation	291,366,944	250,748,104
Miscellaneous operations	6,262,293	5,408,988
General	25,210,525	23,437,631
Total operating expenses	$580,150,221	$493,997,079
NET OPERATING REVENUE	$ 44,683,899	$ 59,834,502
TAXES AND RENTS		
Taxes	$ 11,573,914	$ 11,944,611
Equipment rents—Net debit	7,172,396	7,209,310
Joint facility rents—Net debit	340,140	236,251
TOTAL TAXES AND RENTS	$ 19,086,450	$ 19,390,172
NET RAILWAY OPERATING INCOME	$ 25,597,449	$ 40,444,330
OTHER INCOME		
Income from lease of road	$ 51,499	$ 102,471
Miscellaneous rent income	1,109,768	1,101,463
Income from non-transportation property	609,252	590,038
Results of separately operated properties	1,079,385	*333,267*
Hotel operating income	588,485	565,853
Dividend income	414,411	214,303
Interest income	2,242,019	2,620,540
Miscellaneous income	1,324,414	1,999,278
Profit and loss—Net	1,422,073	75,844
TOTAL OTHER INCOME	$ 8,841,306	$ 6,936,523
DEDUCTIONS FROM INCOME		
Rent for leased roads	$ 551,554	$ 696,285
Miscellaneous rents	672,809	642,082
Miscellaneous taxes	132,559	189,883
Interest on unfunded debt	236,287	316,282
Amortization of discount on funded debt	573,602	731,409
Miscellaneous income charges	488,825	2,388,140
TOTAL DEDUCTIONS FROM INCOME	$ 2,655,636	$ 4,964,081
NET INCOME AVAILABLE FOR INTEREST	$ 31,783,119	$ 42,416,772
INTEREST CHARGES		
Interest on funded debt—Public	23,467,703	24,019,158
Interest on Government loans	23,347,412	21,658,849
Income Deficit	$ *15,031,996*	$ *3,261,235*

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

	1951	1950
Rent for leased roads	$ 551,554	$ 696,285
Interest on unfunded debt	236,287	316,282
Amortization of discount on funded debt	573,602	731,409
Interest on funded debt—Public	23,467,703	24,019,158
Interest on Government loans	23,347,412	21,658,849
	$ 48,176,558	$ 47,421,983

OPERATING REVENUES

Operating Revenues	1951	1950
Freight	$490,290,463	$438,674,682
Payments under Maritime Freight Rates Act	8,509,881	7,105,322
Passenger	47,475,661	39,889,206
Baggage	156,839	150,108
Sleeping car	3,928,087	3,423,774
Parlor and chair car	367,699	355,747
Mail	7,311,445	7,984,695
Express department	30,670,031	25,806,125
Railway Express Agency	501,836	417,081
Other passenger-train	14,616	15,885
Milk	500,883	487,891
Switching	5,564,378	4,867,516
Water transfers	1,789,914	1,564,583
Dining and buffet	3,350,653	2,754,600
Restaurants	327,897	288,855
Station, train and boat privileges	425,966	359,860
Parcel room	71,299	63,190
Storage—Freight	414,115	202,777
Storage—Baggage	57,293	43,418
Demurrage	2,895,635	1,376,102
Communications department	12,032,631	10,556,435
Telegraph commissions (U.S.)	9,800	9,190
Grain elevator	743,901	647,647
Rents of buildings and other property	949,665	968,166
Miscellaneous	5,664,923	5,105,823
Joint facility—Cr	934,178	842,562
Joint facility—*Dr*	*125,569*	*129,659*
	$624,834,120	$553,831,581

OPERATING EXPENSES

Maintenance of Way and Structures	1951	1950
Superintendence	$ 7,338,085	$ 6,025,974
Roadway maintenance	12,634,015	11,762,480
Tunnels and subways	168,119	128,318
Bridges, trestles and culverts	4,468,840	3,821,502
Ties	9,850,138	10,045,214
Rails	6,834,178	7,779,174
Other track material	5,717,921	5,807,490
Ballast	2,092,985	1,608,015
Track laying and surfacing	27,983,529	23,785,402
Fences, snowsheds and signs	1,189,421	1,008,086
Station and office buildings	5,079,732	3,908,771
Roadway buildings	689,424	560,322
Water stations	977,005	869,998
Fuel stations	462,412	393,072
Shops and enginehouses	3,409,385	2,923,431
Grain elevators	80,008	72,411
Storage warehouses	3,508	1,882
Wharves and docks	274,819	266,064
Communication systems	6,074,769	4,655,839
Signals and interlockers	1,896,862	1,702,624
Power plants	29,125	23,324
Power-transmission systems	433,868	361,438
Miscellaneous structures	7,568	7,803
Road property—Depreciation—U.S. Lines	963,614	936,199
Road property—Retirements	2,202,655	2,441,980
Deferred maintenance—*Cr*	—	*9,000,000*
Roadway machines	1,504,292	1,228,840
Dismantling retired road property	317,388	247,325
Small tools and supplies	1,948,665	1,587,323
Removing snow, ice and sand	5,519,522	4,847,832
Public improvements	778,943	618,881
Injuries to persons	889,531	843,036
Insurance	268,557	265,284
Stationery and printing	139,304	101,317
Other expenses	9,509	23,747
Right-of-way expenses	84,670	61,368
Maintaining joint facilities—Dr	1,569,370	1,362,143
Maintaining joint facilities—*Cr*	*2,330,884*	*2,301,474*
	$111,560,852	$ 90,782,435

OPERATING EXPENSES—*Continued*

	1951	1950
MAINTENANCE OF EQUIPMENT		
Superintendence	$ 2,913,755	$ 2,521,479
Shop machinery—Repairs	4,150,423	3,467,355
Power-plant machinery—Repairs	238,399	250,671
Machinery—Retirements	162,897	221,717
Machinery—Depreciation—U.S. Lines	76,431	73,566
Dismantling retired machinery	5,862	12,295
Steam locomotives—Repairs	37,714,654	33,144,615
Other locomotives—Repairs	2,253,476	1,485,400
Freight-train cars—Repairs	40,774,805	31,390,144
Passenger-train cars—Repairs	17,482,277	14,168,444
Floating equipment—Repairs	1,746,731	1,477,177
Work equipment—Repairs	4,085,473	3,362,870
Express department equipment—Repairs	367,387	303,930
Miscellaneous equipment—Repairs	255,375	254,671
Miscellaneous equipment—Retirements	21,421	8,865
Dismantling retired equipment	259,987	175,942
Equipment—Depreciation	21,288,394	20,544,446
Express department equipment—Depreciation	181,872	167,181
Injuries to persons	785,076	644,945
Insurance	354,277	342,071
Stationery and printing	117,896	87,598
Other expenses	40,263	38,822
Joint maintenance of equipment—Dr.	362,187	301,198
Joint maintenance of equipment—*Cr.*	*319,536*	*279,467*
	$135,319,782	$114,166,205
TRAFFIC		
Superintendence	$ 3,546,503	$ 3,096,560
Outside agencies	4,179,503	3,816,627
Advertising	1,317,215	1,247,466
Traffic associations	188,095	171,956
Stationery and printing	593,347	567,834
Industrial and development	341,289	304,376
Colonization and agriculture	263,873	248,987
	$ 10,429,825	$ 9,453,716
TRANSPORTATION		
Superintendence	$ 6,549,007	$ 5,398,288
Dispatching trains	3,493,374	2,985,174
Station employees	39,578,843	33,362,761
Weighing, inspection and demurrage bureaus	157,563	147,800
Coal and ore wharves	118,626	98,174
Station supplies and expenses	2,990,517	2,656,899
Yardmasters and yard clerks	8,325,456	6,934,438
Yard conductors and brakemen	15,414,304	12,737,901
Yard switch and signal tenders	1,466,736	1,217,132
Yard enginemen	7,127,313	6,297,270
Yard motormen	3,584,329	2,766,169
Yard switching fuel	8,510,271	7,905,981
Yard switching power produced	31,830	28,469
Yard switching power purchased	116,286	101,577
Water for yard locomotives	206,395	207,687
Lubricants for yard locomotives	165,803	145,177
Other supplies for yard locomotives	119,402	94,190
Enginehouse expenses—Yard	3,375,084	2,815,396
Yard supplies and expenses	359,161	287,907
Train enginemen	23,443,653	19,765,929
Train motormen	1,810,283	1,089,590
Train fuel	50,826,078	47,213,248
Train power produced	21,173	13,562
Train power purchased	106,497	84,964
Water for train locomotives	1,818,073	1,728,524
Lubricants for train locomotives	979,688	842,327
Other supplies for train locomotives	649,806	495,955
Enginehouse expenses—Train	10,654,393	8,902,996
Trainmen	29,923,881	24,433,996
Train supplies and expenses	18,589,919	15,515,838
Operating sleeping cars	3,056,299	2,647,750
Signal and interlocker operation	852,812	755,753
Carried forward	$244,422,855	$209,678,822

OPERATING EXPENSES—*Continued*

TRANSPORTATION—*Continued*	1951	1950
Brought forward	$244,422,855	$209,678,822
Crossing protection	1,423,771	1,230,351
Drawbridge operation	262,241	223,310
Communication system operation	10,294,736	8,701,924
Operation floating equipment	4,889,208	4,373,106
Express department operation	19,789,936	16,750,847
Stationery and printing	1,250,521	1,027,786
Other expenses	2,071,450	1,868,155
Insurance	287,882	284,872
Clearing wrecks	1,014,577	614,286
Damage to property	181,640	108,737
Damage to live stock on right-of-way	80,634	89,170
Loss and damage—Freight	2,824,906	2,690,351
Loss and damage—Baggage	9,059	18,205
Injuries to persons	1,963,296	2,446,476
Operating joint yards and terminals—Dr	2,528,986	2,157,950
Operating joint yards and terminals—*Cr*	*2,749,796*	*2,356,758*
Operating joint tracks and facilities—Dr	1,513,750	1,439,623
Operating joint tracks and facilities—*Cr*	*692,708*	*599,109*
	$291,366,944	$250,748,104

MISCELLANEOUS OPERATIONS		
Dining and buffet service	$ 4,816,640	$ 4,062,216
Restaurants	335,446	308,086
Grain elevators	307,783	202,220
Other miscellaneous operations	417,007	500,765
Operating joint miscellaneous facilities—Dr	385,417	335,701
	$ 6,262,293	$ 5,408,988

GENERAL		
Salaries and expenses of general officers	$ 801,809	$ 730,027
Salaries and expenses of clerks and attendants	9,912,021	9,000,732
General office supplies and expenses	697,483	579,128
Law expenses	548,465	576,347
Relief department expenses	42,500	42,500
Pensions	12,320,390	11,802,098
Stationery and printing	465,903	385,148
Valuation expenses	10,398	12,271
Other expenses	308,574	217,357
General joint facilities—Dr	118,165	106,754
General joint facilities—*Cr*	*15,183*	*14,731*
	$ 25,210,525	$ 23,437,631

OPERATING EXPENSES AND TOTAL PAYROLL

OPERATING EXPENSES	1939	1950	1951
Total expenses—thousands	$182,965	$493,997	$580,150
Per cent of total revenue	89·77	89·20	92·85
Distribution of operating expense dollar:—	¢	¢	¢
Payrolls	61·48	59·85	60·44
Materials	29·58	31·49	29·91
Other expenses	8·94	8·66	9·65
	100·00	100·00	100·00

PAYROLL (Excluding hotel and subsidiary company employees)			
Average number of employees	78,129	112,874	121,199
Total payroll—thousands	$122,354	$318,208	$381,654
Average earnings per employee	$ 1,566	$ 2,819	$ 3,149

PROPERTY INVESTMENT ACCOUNT

	Additions and betterments, less retirements—Year 1951		
Balance 1st. January, 1951			$2,226,102,727
Road			
New lines constructed	$ 1,280,230		
Lines acquired	4,258,484		
Montreal terminal development	1,233,919		
Abandoned lines	*603,801*		
Rails and fastenings	2,038,913		
Tie plates and rail anchors	2,031,790		
Ballast	631,509		
Large freight terminals	2,865,854		
Yard tracks and sidings	2,032,216		
Roadway machines	843,212		
Bridges, trestles and culverts	1,380,237		
Tunnels	142,193		
Crossing protection	508,250		
Stations and station facilities	1,280,927		
Water supplies	125,742		
Shops, enginehouses and machinery	3,491,100		
Automatic signals and interlocking plants	1,611,062		
Communications department	4,132,418		
Non-carrier property	1,233,025		
Stores department buildings and equipment	147,488		
General	608,362	$ 31,273,130	
Equipment			
Equipment purchased or built	$ 56,554,379		
Equipment retirements	*5,080,532*		
General betterments to equipment	4,771,889		
Equipment conversions	259,973		
Express and miscellaneous equipment	677,367	57,183,076	
Hotels		2,497,182	
Separately Operating Properties		*5,174,562*	85,778,826
Balance 31st December, 1951			$2,311,881,53

GOVERNMENT OF CANADA LOANS—PRINCIPAL AND INTEREST

Loans for	Principal outstanding at Dec. 31, 1951	Interest accrued 1951	Average interest rate
Rapatriation of securities held in the U.K.	$391,452,044	$13,700,795	3·50%
Dept redemption (See note)	339,563,942	7,314,676	2·42%
Capital expenditures and working capital	63,455,019	1,025,871	3·50%
Rolling stock—Hire-purchase agreements	27,287,765	734,779	2·55%
Investment in Trans-Canada Air Lines	19,043,023	571,291	3·00%
Canadian Governmènt Railways—Working capital at consolidation (1923)	$ 16,771,981	—	—
	$857,573,774	$23,347,412	2·97%

Note:—$128,207,000 payable in U.S. currency.

FUNDED DEBT—PRINCIPAL AND INTEREST

Rate %	Maturity (See note)		Year issued	Currency in which payable	Principal outstanding at Dec. 31, 1951	Interest accrued 1951
Guaranteed by Government of Canada						
5	Perpetual	G.T.R. Debenture Stock.	1875	Sterling	$ 1,016,092	$ 50,804
5	Perpetual	G.W. Debenture Stock....	1858	Sterling	499,709	24,985
4	Perpetual	G.T.R. Debenture Stock	1883	Sterling	5,446,491	217,860
4	Perpetual	Nor. Ry. Debenture Stock	1884	Sterling	22,591	904
3	July 10, 1953	Can. Nor. 1st. Mtge. Deb. Stock..................	1903	Sterling	1,162,768	34,883
3½	July 20, 1958	Can. Nor. 1st. Mtge. Deb. Stock..................	1910	Canadian.....	5,246,268	183,620
				Sterling......	390,239	13,658
3½	May 4, 1960	C.N.A. 1st. Mtge. Deb. Stock..................	1911	Sterling......	550,727	19,275
3½	May 19, 1961	C.N.O. 1st. Mtge. Deb. Stock..................	1911	Sterling......	3,597,518	125,913
3	Jan. 1, 1962	G.T.P. 1st. Mtge. Bonds..	1905	Can-US-Stlg.	26,465,130	793,954
4	Jan. 1, 1962	G.T.P. Sterling Bonds....	1914	Can-US-Stlg.	7,999,074	319,963
Canadian National Issues:—						
5	Feb. 1, 1954	30 Year Guaranteed Bonds	1924	Canadian	50,000,000	2,500,000
4¾	June 15, 1955	25 Year Guaranteed Bonds	1930	Can-US-Stlg.	48,496,000	2,303,560
4½	Feb. 1, 1956	25 Year Guarantee dBonds	1931	Can-US-Stlg.	67,368,000	3,031,560
4½	July 1, 1957	30 Year Guaranteed Bonds	1927	Can-US	64,136,100	2,886,120
3	Jan. 15, 1959 (a)	20 Year Guaranteed Bonds	1939	Canadian	35,000,000	1,050,000
3	Jan. 3, 1966 (b)	17 Year Guaranteed Bonds	1949	Canadian	35,000,000	1,050,000
2¾	Jan. 2, 1967 (c)	20 Year Guaranteed Bonds	1947	Canadian	50,000,000	1,375,000
2⅞	Sept. 15, 1969 (d)	20 Year Guaranteed Bonds	1949	Canadian	70,000,000	2,012,500
2⅞	Jan. 16, 1971 (e)	21 Year Guarantedd Bonds	1950	Canadian	40,000,000	1,150,000
2¾	Juhe 15, 1975 (f)	25 Year Guaranteed Bonds	1950	U.S.	6,000,000	165,000
		Total..			$518,396,607	$ 19,309,559
Canadian National Serial Equipment Obligations						
2⅞	Sept. 15, 1953	Trust Series "P".........	1938	Canadian	$ 1,100,000	$ 39,990
2	Dec. 1, 1957	Trust Series "R".........	1947	Canadian	3,360,000	77,467
2⅛	Mar. 15, 1958	Trust Series "S".........	1948	Canadian	19,600,000	428,896
2¼	Nov. 1, 1958	Trust Series "T".........	1948	Canadian	15,050,000	366,844
2½	Mar. 15, 1960	Trust Series "U".........	1950	Canadian	18,700,000	443,437
2¾	Jan. 15, 1961	Trust Series "V".........	1951	Canadian	12,825,000	315,743
		Total..			$ 70,635,000	$ 1,672,377
Other Issues						
4	Perpetual	Can. Nor. Cons. Debenture Stock..............	1903	Sterling	$ 3,992,930	$ 159,717
4	Perpetual	C.N.O. Cons. Debenture Stock..................	1909	Sterling	889,597	35,584
4	Perpetual	C.N.O. Guar. Debenture Stock..................	1906	Sterling	465,545	18,622
4	Perpetual	Q. & L. St. J. 1st. Mtge. Deb. Stock............	1912	Sterling	285,342	11,414
4	Jan. 1, 1955	Can. Atl. 1st. Mtge. Bonds	1905	Can-US-Stlg.	9,947,934	397,918
4	Apr. 1, 1955	G.T.P. 2nd. Mtge. Bonds, Paririe "A"............	1905	Can-US-Stlg.	3,574,530	142,981
4	Apr. 1, 1955	G.T.P. 2nd. Mtge. Bonds, Mountain "B"..........	1905	Can-US-Stlg.	3,144,906	125,796
4	Apr. 1, 1955	G.T.P. 1st. Mtge. Bonds, "Lake Superior"........	1905	Can-US-Stlg.	2,152,008	86,080
4	Sept. 1, 1956	Pem. Sou. 1st. Mtge. Bonds	1906	Canadian	150,000	6,000
2½	Mar. 1, 1957 (g)	Nfld. Fy. Reg'd. Instalment Notes............	1941	U.S.	782,613	21,036
5	Nov. 15, 1958	Can. Nat. Indebt. to Prov. of N.B.................	1929	Canadian	380,023	19,001
4½	Jan. 1, 1980	G.W.T. 1st. Mtge. Series "A" Bonds............	1930	Can-US-Stlg.	400,000	18,000
		Total..			$ 26,165,428	$ 1,042,149
		Interest on securities retired in 1951..............			—	$ 1,443,618
		Grand total..................................			$615,197,035	$ 23,467,793

Note:—(a) Callable at par on or after Jan. 15, 1954.
(b) Callable at par on or after Jan. 3, 1961.
(c) Callable at par on or after Jan. 2, 1964.
(d) Callable at par on or after Sept. 15, 1964.
(e) Callable at par on or after Jan. 16, 1966-
(f) Callable on or before June 14, 1954, at 102½, thereafter at varying redemption premiums.
(g) Callable at par at any time.

INVESTMENTS IN AFFILIATED COMPANIES

Company	Total par value outstanding	Owned by Can. Nat. System at Dec. 31, 1951 Par value	Book value	
Stocks				
The Belt Railway Company of Chicago	$ 3,120,000	$ 240,000	$ 240,000	
Canadian Government Merchant Marine, Limited	800	800	800	
Chicago & Western Indiana Railroad Company	5,000,000	1,000,000	1,000,000	
The Detroit & Toledo Shore Line Railroad Company	3,000,000	1,500,000	1,500,000	
Detroit Terminal Railroad Company	2,000,000	1,000,000	1,000,000	
Northern Alberta Railways Company	12,500,000	6,250,000	6,250,000	
The Public Markets, Limited	1,150,000	575,000	575,000	
Railway Express Agency, Incorporated (no par value)	1,000 shares	6 shares	600	
Shawinigan Falls Terminal Railway Company	300,000	150,000	62,500	
The Toronto Terminals Railway Company	500,000	250,000	250,000	
The Toledo Terminal Railroad Company	4,000,000	387,200	387,200	
Trans-Canada Air Lines	25,000,000	25,000,000	25,000,000	
Vancouver Hotel Company, Limited	150,000	75,000	75,000	$36,341,100
Bonds				
Northern Alberta Railways Co. 1st. Mortgage Bonds	$22,455,000	$11,227,500	$11,227,500	
The Toronto Terminals Railway Co. 1st. Mortgage Bonds	25,610,000	12,805,000	12,805,000	24,032,500
Advances				
The Belt Railway Company of Chicago			$ 16,502	
Chicago & Western Indiana Railroad Company			3,468,525	
Northern Alberta Railways Company			75,000	
Railway Express Agency, Incorporated			173,493	
Shawinigan Falls Terminal Railway Company			12,500	3,746,020
Deposit				
Trans-Canada Air Lines				*11,000,000*
Total				$53,119,620

MAJOR CONTINGENT LIABILITIES

The Detroit & Toledo Shore Line Railroad Company

Assumed by Grand Trunk Western Railroad Company as joint and several guarantor by indorsement of principal and interest of $3,000,000 First Mortgage 4%—50 Year Gold Bonds due 1953.

The Toledo Terminal Railroad Company

Assumed by Grand Trunk Western Railroad Company in respect of $5,800,000 First Mortgage 4½%—50 Year Gold Bonds due 1957. The guarantee is as to interest only and is several and not joint. Grand Trunk Western's proportion is 9·68%.

Chicago & Western Indiana Railroad Company

Assumed by Grand Trunk Western Railroad Company pursuant to joint supplemental lease dated 1st. July, 1902, between Grand Trunk Western Railway Company and four other proprietary companies. Obligation is for repayment of principal of bonds at their maturity, and of interest as it falls due by way of annual rentals. The Grand Trunk Western's obligation is for one-fifth of the bonds issued for "common" property and the entire amount of bonds issued for its "exclusive" property. The bonds are Consolidated Mortgage 50 Year 4% bonds due 1952 and the amounts outstanding at 31st. December, 1951, are:—

Issued for "common" property	$39,973,019
Issued for "exclusive" property	252,535

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, 1951, is $12,785,000.

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.

CAPITALIZATION OF CANADIAN NATIONAL RAILWAYS

	Year 1951	Balance at 31st Dec., 1951	Per cent of total
EQUITY CAPITAL*			
Government of Canada—Proprietor's Equity:—			
Capital stock of Canadian National Railway Company	No change	$ 18,000,000	
Capital stock of The Canadian National Railways Securities Trust	No change	378,518,135	
Capital expenditures by Government of Canada on Canadian Government Railways	No change	379,877,514	
		$ 776,395,649	34·5%
BORROWED CAPITAL			
Funded debt	*$ 43,833,206*	$ 615,197,035	
Government of Canada loans	117,726,260	857,573,774	
		$1,472,770,809	65·5%
		$2,249,166,458	100·0%

*Excluding shares of subsidiary companies held by public—$4,518,890.

FINANCING

YEAR 1951

FUNDED DEBT		
New issue:—		
2¾% Equipment Trust Certificates Series "V" 1951, maturing serially to January 15, 1961		$ 13,500,000
Retirements:—		
4½% Canadian National Railway Company Twenty Year Guaranteed Bonds, due September 1, 1951	$ 48,022,000	
Equipment Trusts—Serial payments	9,169,000	
2½% Newfoundland Railway Registered Instalment Notes	142,206	57,333,206
Decrease in funded debt		*$ 43,833,206*
GOVERNMENT OF CANADA		
New loans:—		
For capital purposes	$ 57,568,453	
For refunding purposes	63,459,825	$ 121,028,278
Loans repaid:—		
Rolling stock—Serial payments		3,302,018
Increase in loans from Government of Canada		$ 117,726,260
Increase in capital debt		$ 73,893,054

The issue of $13,500,000 2¾% Equipment Trust Certificates Series "V" 1951, dated January 15, 1951, was made to finance to the extent of approximately 75% new equipment costing $18,788,862. The certificates which mature in twenty semi-annual instalments were sold at a price of 99.00, representing an annual interest cost to the Company of 2·95%.

CAPITAL STOCKS OWNED BY THE GOVERNMENT OF CANADA

Company number		
1	Canadian National Railway Company	$ 18,000,000
2	The Canadian National Railways Securities Trust	378,518,135
		$ 396,518,135

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	$ 10,240
4	The Bay of Quinte Railway Company	20	1,395,000	
5	The Bessemer and Barry's Bay Railway Company	20	125,000	
6	The Canadian Express Company	1	1,768,800	
7	Canadian National Electric Railways	20	1,750,000	
8	Canadian National Express Company	21	1,000,000	
9	*Canadian National Railways (France)—francs 30,000,000	1	1,893,574	
10	*Canadian National Realties, Limited	20	40,000	
11	Canadian National Rolling Stock Limited	1	50,000	
12	*Canadian National Steamship Company, Limited	40	15,000	
13	Canadian National Telegraph Company	20	500,000	
14	*Canadian National Transportation, Limited	1	500	
15	The Canadian Northern Alberta Railway Company	20	3,000,000	
16	Canadian Northern Manitoba Railway Company	20	250,000	
17	The Canadian Northern Ontario Railway Company	20	10,000,000	
18	Canadian Northern Pacific Railway Company	20	25,000,000	
19	The Canadian Northern Quebec Railway Company	20	9,550,000	3,849,200
20	The Canadian Northern Railway Company	1	18,000,000	
21	The Canadian Northern Railway Express Company, Limited	20	1,000,000	
22	Canadian Northern Steamships, Limited	20	2,000,000	
23	Canadian Northern System Terminals (Limited)	20	2,000,000	
24	Canadian Northern Western Railway Company	20	2,000,000	
25	*The Centmont Corporation	28	176,400	
26	Central Counties Railway	1	500,000	12,000
27	The Central Ontario Railway	20	3,331,000	
28	Central Vermont Railway, Inc	1	10,000,000	
29	Central Vermont Terminal, Inc	28	5,000	
30	*Central Vermont Transit Corporation	25	5,000	
31	Central Vermont Transportation Company	25, 28	200,000	
32	The Champlain and St. Lawrence Railroad Company	1	50,000	
33	*Consolidated Land Corporation	43	64,000	
34	Duluth, Rainy Lake & Winnipeg Railway Company	36	2,000,000	
35	Duluth, Winnipeg and Pacific Railroad Company	36	100,000	
36	Duluth, Winnipeg and Pacific Railway Company	20	3,100,000	
37	*Grand Trunk-Milwaukee Car Ferry Company	43	200,000	
38	The Grand Trunk Pacific Branch Lines Company	40	200,000	
39	The Grand Trunk Pacific Development Company, Limited	40	3,000,000	
40	The Grand Trunk Pacific Railway Company	1	24,940,200	
41	The Grand Trunk Pacific Saskatchewan Railway Company	40	20,000	

CAPITAL STOCKS OWNED BY SYSTEM OR PUBLIC *(Continued)*

Company number	Name of issuing company	Owned by company number	Capital stock issued	Owned by public
42	*Grand Trunk Pacific Terminal Elevator Company, (Limited)	40	501,000	
43	Grand Trunk (Western Railroad Company) Common	1	20,000,000	
	Grand Trunk Western Railroad Company (Preferred)		25,000,000	
44	The Great North Western Telegraph Company of Canada (including $331,500 held in scrow)	13	373,625	6,825
45	The Halifax and South Western Railway Company	20	1,000,000	
46	*Industrial Land Company	43	1,000	
47	International Bridge Company	1	1,500,000	
48	The James Bay and Eastern Railway Company	20	125,000	
49	The Lake Superior Terminals Company Limited	20	500,000	
50	The Maganetawan River Railway Company	1	30,000	
51	Manitoba Northern Railway Company	1	500,000	
52	The Marmora Railway and Mining Company	20	128,600	
53	The Minnesota and Manitoba Railroad Company	20	400,000	
54	The Minnesota and Ontario Bridge Company	20	100,000	
55	*Montreal and Southern Counties Railway Company	1	500,000	140,600
56	The Montreal and Vermont Junction Railway Company	28	197,300	
57	*Montreal Fruit & Produce Terminal Company, Limited	1	500	
	Carried forward		$ 186,388,839	$ 4,018,865
	Brought forward		$ 186,388,839	$ 4,018,865
58	*The Montreal Stock Yards Company	1	350,000	
59	*The Montreal Warehousing Company	1	236,000	10,440
60	Mount Royal Tunnel and Terminal Company, Limited	20	5,000,000	
61	Muskegon Railway and Navigation Company	43	161,293	
62	*National Terminals of Canada, Limited	1	2,500	
63	National Transcontinental Railway Branch Lines Company	1	500	
64	*The Niagara, St. Catharines and Toronto Railway Company	20	925,000	
65	*The Niagara, St. Catharines and Toronto Navigation Company (Limited)	64	100,000	
66	*The Oshawa Railway Company	1	40,000	
67	The Ottawa Terminals Railway Company	1	250,000	
68	The Pembroke Southern Railway Company	1	107,800	
69	Prince George, Limited	1	10,000	
70	Prince Rupert, Limited	1	10,000	
71	The Quebec and Lake St. John Railway Company	20	4,508,300	489,160
72	The Qu'Appelle, Long Lake and Saskatchewan Railroad and Steamboat Company	20	201,000	
73	Rail & River Coal Company	1	2,000,000	
74	St. Boniface Western Land Company	20	250,000	
75	The St. Charles and Huron River Railway Company	20	1,000	
76	St. Clair Tunnel Company	1	700,000	
77	*The Thousand Islands Railway Company	1	60,000	
78	The United States and Canada Rail Road Company	1	219,400	425
79	Vermont and Province Line Railroad Company	1	200,000	
80	The Winnipeg Land Company Limited	20	100,000	
			$ 201,821,632	$ 4,518,890

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

DELIVERIES OF NEW EQUIPMENT DURING 1951

DIESEL-ELECTRIC LOCOMOTIVES
20 1600 HP road locomotives
34 1500 HP road locomotives
10 1200 HP road switching locomotives
3 1000 HP switchers
34 800 HP switchers
2 660 HP switchers

FREIGHT EQUIPMENT
5000 50-ton box cars
30 30-ton box cars for Newfoundland
100 70-ton covered hopper cars

PASSENGER EQUIPMENT
10 express refrigerator cars for Newfoundland
50 baggage cars

WORK EQUIPMENT
30 30 cu. yd. 50-ton air dump cars
4 steel snow plows
1 30-ton diesel-electric locomotive crane
1 locomotive crane and pile driver
1 8-wheel diesel dynamatic wrecking crane for Newfoundland
14 miscellaneous units built from salvage in railway shops

INVENTORY OF RAILWAY EQUIPMENT

	On hand Jan. 1, 1951	Additions (See note)	Retire-ments	Conversions Added	Conversions Retired	On hand Dec. 31, 1951	*Orders outstanding Dec. 31, 1951*
LOCOMOTIVES							
Steam—Road	1,927	1	30	3		1,901	
" —Switching	546		4		3	539	
Electric	27	6				33	
Diesel-electric—Road	56	64				120	*29*
" " —Switching	121	39				160	*33*
Total	2,677	110	34	3	3	2,753	*62*
FREIGHT EQUIPMENT							
Box cars	75,149	5,053	881		393	78,928	*3,670*
Flat cars	5,883		71		53	5,759	*900*
Stock cars	3,132	3	32			3,103	*10*
Coal cars	16,117	160	739		49	15,489	*4,555*
Tank cars	231				7	224	
Refrigerator cars	4,001		44		5	3,952	*500*
Caboose cars	1,731	3	27	78		1,785	
Other cars in freight service	37		31			6	
Total	106,281	5,219	1,825	78	507	109,246	*9,635*
PASSENGER EQUIPMENT							
Coach cars	1,132		15		7	1,110	
Combination cars	264		12	14		266	*5*
Dining cars	93		1			92	
Colonist cars	158		1		11	146	
Parlor cars	60					60	
Cafe cars	26				6	20	
Sleeping cars	380				8	372	*6*
Tourist cars	43				1	42	
Baggage and express cars	1,166	60	16	56	1	1,265	*92*
Postal cars	55		2			53	*3*
Unit cars	29	9	2			36	*18*
Other cars in passenger service	53	30	4			79	
Total	3,459	99	53	70	34	3,541	*124*
WORK EQUIPMENT							
Cars in work service	7,947	58	313	393		8,085	*132*
FLOATING EQUIPMENT							
Car ferries	8					8	
Barges	6					6	
Steamers	14					14	
Tugs	5					5	
Work	3					3	

Note: Includes Quebec Railway, Light & Power Company equipment acquired November 1, 1951, as follows:—
Locomotives—1 steam and 6 electric
Freight equipment—23 box, 60 coal and 6 other units
Passenger equipment—9 unit cars and 30 other units
Work equipment—7 units

STATISTICS OF RAIL-LINE OPERATIONS——

	1951	1950
Train-Miles		
Freight service	48,353,158	45,458,577
Passenger service	24,412,847	22,387,001
	72,766,005	67,845,578
Work service	2,390,845	1,660,668
Total train-miles	75,156,850	69,506,246
Locomotive-Miles		
Freight service	51,433,200	48,499,499
Passenger service	24,548,619	22,451,088
Train switching —Freight	4,069,286	3,913,276
—Passenger	156,472	148,239
Yard Switching—Freight	17,856,977	16,696,883
—Passenger	1,787,151	1,678,613
	99,851,705	93,387,598
Work service	2,515,865	2,224,277
Total locomotive-miles	102,367,570	95,611,875
Car-Miles		
Freight Service:		
Loaded freight cars	1,313,474,003	1,225,840,184
Empty freight cars	562,081,865	530,990,013
Passenger coach and combination cars	6,980,076	6,651,117
Sleeping parlor and observation cars	424,251	410,567
Dining cars	27,282	34,650
Other cars	8,071,015	8,026,236
Caboose cars	47,548,666	44,790,469
	1,938,607,158	1,816,743,236
Passenger Service:		
Loaded freight cars	627,687	687,577
Empty freight cars	89,545	82,782
Passenger coach and combination cars	63,831,093	56,183,679
Sleeping, parlor and observation cars	53,813,300	50,546,895
Dining cars	8,703,355	8,128,985
Other cars	81,970,608	76,286,092
Motor unit cars	660,448	596,160
Caboose cars	990,922	753,218
	210,686,958	193,265,388
Total car-miles freight and passenger services	2,149,294,116	2,010,008,624
Work service	3,824,341	3,627,430
Total car-miles	2,153,118,457	2,013,636,054
Average Mileage of Road Operated	24,176·07	24,188·40
Freight Traffic		
Tons carried—Revenue freight	89,618,436	81,364,658
Ton-miles—Revenue freight	36,434,821,058	31,988,269,548
Freight revenue	$498,800,344	$445,780,004
Revenue per ton	$5·56582	$5·47879
Revenue per ton-mile	$0·01369	$0·01394
Average haul	406·55	393·15
Ton-miles—Revenue freight per mile of road	1,501,578	1,317,500
Ton-miles—All freight per mile of road	1,624,019	1,451,268
Gross ton-miles of cars, contents and cabooses	83,988,584,508	77,219,463,322
Net ton-miles of freight (revenue and non-revenue)	39,262,386,491	35,103,861,182
Train-hours in freight road service	3,015,621	2,805,604
Passenger Traffic		
Passengers carried	17,322,723	16,819,857
Passenger-miles	1,611,153,281	1,407,724,037
Passenger revenue	$47,475,661	$39,889,206
Revenue per passenger	$2·74066	$2·37155
Average passenger journey	93·01	83·69
Revenue per passenger mile	$0·02947	$0·02834
Passenger-miles per mile of road	66,642	58,198
Net Railway Operating Income		
Gross revenue per mile of road	$25,845.15	$22,896.58
Gross railway operating charges per mile of road	$24,786.36	$21,224.52
Net railway operating income per mile of road	$1,058.79	$1,672.06

REVENUE TONNAGE BY COMMODITIES

	Year 1951	Year 1950	Increase or *decrease*	
	Tons	Tons	Tons	Percent
AGRICULTURAL PRODUCTS				
Wheat	7,389,538	4,939,977	2,449,561	49.59
Corn	508,563	474,822	33,741	7.11
Oats	1,407,428	1,116,847	290,581	26.02
Barley	1,607,644	1,000,342	607,302	60.71
Rye	121,155	122,299	*1,144*	*.94*
Flaxseed	85,763	45,771	39,992	87.37
Other grain (including dried peas, beans, soya beans)	219,271	188,804	30,467	16.14
Flour	975,448	923,044	52,404	5.68
Other mill products	1,366,531	1,663,433	*296,902*	*17.85*
Hay and straw	103,086	138,770	*35,684*	*25.71*
Cotton	87,533	93,001	*5,468*	*5.88*
Apples (fresh)	76,446	86,892	*10,446*	*12.02*
Other fruit (fresh)	326,872	279,946	46,926	16.76
Potatoes	346,474	398,191	*51,717*	*12.99*
Other fresh vegetables	264,430	242,692	21,738	8.96
Other agricultural products	795,481	785,983	9,498	1.21
Total	15,681,663	12,500,814	3,180,849	25.45
ANIMAL PRODUCTS				
Horses	41,788	32,775	9,013	27.50
Cattle and calves	216,712	275,195	*58,483*	*21.25*
Sheep	8,198	8,783	*585*	*6.66*
Hogs	122,964	122,477	487	.40
Poultry (live)	133	278	*145*	*52.16*
Dressed meats or dressed poultry (fresh or frozen)	215,442	210,284	5,158	2.45
Dressed meats (cured or salted)	26,616	35,871	*9,255*	*25.80*
Other packing house products (edible)	92,655	70,147	22,508	32.09
Eggs	8,268	12,139	*3,871*	*31.89*
Butter	38,743	36,578	2,165	5.92
Cheese	24,841	25,772	*931*	*3.61*
Wool	29,460	33,593	*4,133*	*12.30*
Hides and leather	63,410	74,008	*10,598*	*14.32*
Other animal products (non-edible)	97,866	97,668	198	.20
Total	987,096	1,035,568	*48,472*	*4.68*
MINE PRODUCTS				
Anthracite coal	2,377,551	2,543,195	*165,644*	*6.51*
Bituminous coal	10,728,805	11,339,124	*610,319*	*5.38*
Sub-bituminous coal	1,187,981	1,340,030	*152,049*	*11.35*
Lignite coal	738,923	723,653	15,270	2.11
Coke	969,031	926,845	42,186	4.55
Iron ores and concentrates	1,562,925	1,374,878	188,047	13.68
Copper ore and concentrates	213,218	236,386	*23,168*	*9.80*
Other ores and concentrates	2,991,499	2,598,251	393,248	15.14
Base bullion, matte, pig and ingot (non-ferrous metals)	616,871	602,087	14,784	2.46
Sand and gravel	2,299,310	2,185,148	114,162	5.22
Stone (crushed, ground, broken)	2,906,225	2,443,199	463,026	18.95
Slate, dimension or block stone	74,934	89,378	*14,444*	*16.16*
Crude petroleum	248,812	1,126,383	*877,571*	*77.91*
Asphalt (natural, by-product petroleum)	404,825	384,877	19,948	5.18
Salt	553,375	457,833	95,542	20.87
Other mine products (not fully processed)	2,514,944	2,210,817	304,127	13.76
Total	30,389,229	30,582,084	*192,855*	*.63*
FOREST PRODUCTS				
Logs, posts, poles, piling	945,753	601,668	344,085	57.19
Cordwood and other firewood	211,704	257,559	*45,855*	*17.80*
Ties	63,252	47,009	16,243	34.55
Pulpwood	7,321,157	4,232,336	3,088,821	72.98
Lumber, timber, box, crate and cooperage material	4,766,706	4,956,332	*189,626*	*3.83*
Plywood	115,469	95,003	20,466	21.54
Other forest products	266,553	317,578	*51,025*	*16.07*
Total	13,690,594	10,507,485	3,183,109	30.29
Carried forward	60,748,582	54,625,951	6,122,631	

REVENUE TONNAGE BY COMMODITIES (*Continued*)

	Year 1951	Year 1950	Increase or *decrease*	
	Tons	Tons	Tons	Per cent
Brought forward	60,748,582	54,625,951	6,122,631	
MANUFACTURES AND MISCELLANEOUS				
Gasoline	2,042,123	1,992,205	49,918	2·51
Petroleum oils and petroleum products (except asphalt and gasoline)	1,956,627	1,824,254	132,373	7·26
Sugar	298,870	306,022	*7,152*	*2·34*
Iron, pig and bloom	604,970	599,476	5,494	·92
Rails and fastenings	68,328	56,724	11,604	20·46
Iron and steel (bar, sheet, structural, pipe)	2,049,387	1,621,418	427,969	26·39
Castings, machinery and boilers	337,065	304,410	32,655	10·73
Cement	993,759	933,373	60,386	6·47
Brick and artificial stone	414,683	341,498	73,185	21·43
Lime and plaster	581,876	562,267	19,609	3·49
Sewer pipe and drain tile	63,650	58,027	5,623	9·69
Agricultural implements and vehicles other than autos	367,707	349,326	18,381	5·26
Automobiles, auto trucks and auto parts	2,135,524	2,461,632	*326,108*	*13·25*
Household goods and settlers effects	15,080	15,497	*417*	*2·69*
Furniture	69,450	63,571	5,879	9·25
Beverages	365,507	305,954	59,553	19·46
Fertilizers, all kinds	1,017,687	995,762	21,925	2·20
Newsprint paper	2,195,111	2,082,046	113,065	5·43
Other paper	428,548	370,596	57,952	15·64
Paper board, pulpboard and wallboard (paper)	705,434	637,100	68,334	10·73
Woodpulp	1,642,026	1,351,377	290,649	21·51
Fish (fresh, frozen, cured, etc.)	83,241	95,407	*12,166*	*12·75*
Canned goods (all canned food products)	630,081	605,860	24,221	4·00
Other manufactures and miscellaneous	7,969,875	6,959,614	1,010,261	14·52
Merchandise (all L.C.L. freight)	1,833,245	1,845,291	*12,046*	*·65*
Total	28,869,854	26,738,707	2,131,147	7·97
Grand total	89,618,436	81,364,658	8,253,778	10·14

OPERATED MILEAGE, 31ST DECEMBER, 1951

	Owned	Leased	Trackage	Total
OPERATED ROAD MILEAGE				
Atlantic Region	3,790·62	6·41	82·95	3,879·98
Central Region	7,146·93	347·91	55·64	7,550·48
Western Region	11,341·42	34·84	92·54	11,468·80
Grand Trunk Western Lines	883·10	9·50	59·75	952·35
Central Vermont Lines	363·10	......	58·73	421·83
Total first main track	23,525·17	398·66	349·61	24,273·44
Lines in Canada	22,063·54	216·79	226·74	22,507·07
Lines in United States	1,461·63	181·87	122·87	1,766·37

	Owned	Leased	Trackage	Total
OPERATED MILEAGE ALL TRACKS				
First main track	23,525·17	398·66	349·61	24,273·44
Second main track	1,229·63	9·31	72·16	1,311·10
Third main track	30·02	......	3·49	33·51
Fourth and other main tracks	10·78	......	5·09	15·87
Spurs, sidings and yard tracks	6,171·05	127·71	1,300·02	7,598·78
Total all tracks	30,966·65	535·68	1,730·37	33,232·70

And then the rest of the report consists of the balance sheet and statistical tables which I hope will give the committee a fairly comprehensible grasp of activities.

The CHAIRMAN: Thank you very much, Mr. Gordon. Now, if the members will refer back to page 6 we will take up operating revenues and operating expenses.

Mr. MACDONNELL: Mr. Chairman, there is one general question I would like to ask at this time.

The CHAIRMAN: Yes.

Mr. MACDONNELL: Perhaps it should be addressed to the minister rather than to Mr. Gordon. I notice that with respect to the board of directors, the number is very small; am I correct, only five or six altogether?

Mr. GORDON: Yes.

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

Mr. MACDONNELL: Now, I would like to ask you this question: is it a matter of policy to keep the board so small? I am sure that Mr. Gordon would agree with me in general that it is a good thing for an executive head to have as much in the way of fresh ideas from outside as he can get. I don't mean the directors should interfere with management, but I merely mean that you get fresh views if you have a fairly wide range of people on the board, I would have thought; and I would like to know whether that conclusion was arrived at as a matter of policy. It seems to me that you deprive yourself of the advantage of outside views.

Hon. Mr. CHEVRIER: In the first place, these members of the board of directors are permanent, they are not employed in an advisory capacity. They are appointed by the Governor in Council to administer the affairs of the railway; and while there have been representations from time to time to increase the number on the board, the government has not seen fit to change it.

Mr. MACDONNELL: By the way, Mr. Minister, how often does the board meet?

Hon. Mr. CHEVRIER: Once a month. Every time a vacancy is about to arise the question comes up as to whether we should not change the geographical location from which the member of the board comes; and the question also arises as to why there should not be more representatives from B.C. or additional representation from Newfoundland. But, until we amend the Act under which the board is appointed the position remains as it is now because the Act provides for a seven man board of directors.

Mr. MACDONNELL: I know that, but may I point out to you, Mr. Minister, that there is such a thing as amending an Act. I would imagine the minister could change his views as to whether it would be wiser to have a larger, a more representative board.

Hon. Mr. CHEVRIER: I can tell you, Mr. Macdonnell, I have no pronounced views on it nor, I am sure, do we have as a government. When the matter has been up for discussion we have come to the conclusion that it would not be desirable at the time the discussion took place to amend the Act, and we saw no reason why we should change our views then.

Mr. MACDONNELL: Do you not agree with the view that a board more comparable, let us say to that of the T.C.A. would be preferable? This board represents an operating institution which is one of the largest in Canada, one which has problems of extensive technical difficulty. That is why I raised the question as to whether a wider representation on the board might not be desirable, one through which ideas could be projected from the board through to the management; not to interfere with what management is doing, but rather to offer assistance by way of comment, and sometimes of criticism; but, at any rate, it is an opportunity of having fresher minds.

Hon. Mr. CHEVRIER: I believe that I can answer your question by saying that I believe, eventually, there will be some provision made for a greater number of directors on the board.

Mr. MACDONNELL: "Eventually" is such a long word.

Mr. POULIOT: What would be the number that you would suggest?

Mr. MACDONNELL: Well, Mr. Pouliot, I did not have it in mind to suggest any particular number, I was just dealing with the general idea of the possibility of a greater representation on the board of directors.

Mr. POULIOT: You are going on the assumption that the more numbers you have on the board the better will be the result. Speaking personally, I am for quality and not for quantity. The purpose of the board of directors is to advise the management, and, as I see it, the more advisers we have the more difficulties we may expect.

Mr. MACDONNELL: Not with a man like Mr. Gordon; he keeps the directors in their place.

Mr. POULIOT: But Mr. Gordon is not the only man. We must have a board of directors to give direction to the board of management. The board of directors cannot have any say in the operation of the road so what difference does it make anyway.

Mr. MACDONNELL: Let me put it this way, Mr. Gordon; again, I don't want to appear to be interfering with the management; that is to say, I think the president and the executive are responsible. On the other hand, there are a great many conclusions which Mr. Gordon has to make which are very far-reaching and which I presume he brings to the attention of the board from time to time asking for their advice. And when I say I do not want the board of directors to interfere with management, I do not mean that they should not make decisions. They could make very important decisions, but they are decisions to be carried out by the president.

Mr. GILLIS: Has it not been your experience, Mr. Macdonnell, that the more men you get around a table, the longer it takes to get a decision?

Mr. MACDONNELL: I think there is something in what you say.

Mr. GILLIS: It generally boils down to one fellow making a decision and the others agreeing with him.

Mr. GORDON: It is a fact that in the day to day operation it is necessary that the head of any organization should be free to exercise his own judgment in regard to the immediate situation. But on broad questions of policy, that is where the board of directors functions. There are questions of policy and questions of broad interest to the operation of the property as to which the board of directors certainly should express views. Speaking for myself, I make it a very definite point to bring before the board of directors any questions of that type. Therefore I do not want to let your comment pass, that the board of directors do not do anything, because they certainly do. They make a very valuable contribution in regard to the decisions taken in respect to general policy.

Mr. GILLIS: I did not mean to say that they do not do anything. I was simply drawing a conclusion from what Mr. Macdonnell had said. He wanted to have a big board, but with no right to make policies or to direct the management.

Mr. MACDONNELL: I think that Mr. Gordon has stated it very accurately. I did not intend to imply that they were just going to be a lot of rubber stamps. I think the board of directors can be useful in questions of policy.

Mr. POULIOT: Rubber stamps or statues?

Mr. MOTT: I think, Mr. Chairman, there should be better geographical representation on the board of directors; with the great increase in development in British Columbia, I do not think you have a member of the board of directors who is from that province. I understood your wish was to have the directors closer in order to attend meetings of the board. Have we a representative from the west now, and if so who is he?

Hon. Mr. CHEVRIER: Mr. Parker is a resident of Winnipeg.

Mr. MOTT: That is the very answer I got the year before last, namely, that Winnipeg is as far west as the directors go. But I think, having regard to the great increase of industry in both British Columbia and Alberta, and in view of the fact that the Canadian National Railways are doing so much, that there should be a representative on the board representing those two provinces.

Hon. Mr. CHEVRIER: I think you made known those representations to me and to the government on more than one occasion; so I am apprised of them, Mr. Mott.

Mr. POULIOT: I am very sorry that I cannot agree with your idea of not tampering with the management and I will tell you why. If you have a car without a brake, where will you go? The idea behind having a board of directors is that of bringing to the attention of the management the ideas of the men on the street. It can be done with these six people, because these men are in all walks of life and they meet people, and therefore they know the feeling of people; so that when the company comes forward with a proposal of any kind, they can give their opinions, which are then weighed by the company. The company can then decide whether or not it can be done.

Mr. MACDONNELL: You seem to be agreeing with me, Mr. Pouliot, if I understand you correctly.

Mr. POULIOT: We nearly always agree; but in this case, while I do not know all the gentlemen personally, those I do know I think would be very useful because they belong to other boards and they meet business men and they can give to the management the opinions of the average business man or the average citizen.

Mr. MACDONNELL: If I gave you the idea in what I said that I had the slightest degree of criticism in mind, then I have slipped badly. I said that I thought it was possible to have a little more of a good thing. You said they would be able to bring to the board a cross-section of public opinion and I agree. But I think that 20 good men could do it better than 6 good men.

The CHAIRMAN: This matter has now been brought to the attention of the committee. The members will remember it, and when the time comes for us to draft our report, we may have something finalized. Shall we now turn to page 6?

Mr. GILLIS: We are on page 6, are we not?

The CHAIRMAN: Yes, on general questions.

Mr. GILLIS: I would like to ask Mr. Gordon what progress has been made in regard to the straightening out of the capital structure in line with the recommendations of the Royal Commission of Transportation. You made reference in your report to the fact that the royal commission had recommended some measure of relief. I notice according to this report that you are still about where you were. What measure of relief did they recommend, and when do you anticipate that that measure of relief may be forthcoming?

Mr. GORDON: I can only say that the railway has made its submission to the royal commission, and therefore the next step is a matter for the government, and I think the minister is the one to comment on it.

Mr. GILLIS: What measures of relief did they recommend? I have read the report of the royal commission and I certainly remember the recommendations made by Mr. Gordon for a complete revision of the capital structure and for some relief from that interest debt. But I did not see anything in the report of the royal commission that I would interpret as being a measure of relief.

Mr. GORDON: Oh yes, there is a definite recommendation.

Hon. Mr. CHEVRIER: If my friend will read the chapter in the report dealing with the capital structure of the Canadian National Railways, chapter 6, at page 180, he will see there the recommendations made by the Royal Commission on Transportation. They are pretty lengthy and fairly complicated. I do not think you will expect me to go into them here. But with respect to your question of what progress has been made, the President of the Canadian National Railways has stated in his report that he hopes that something will come out of these recommendations in 1952, and all I can say is that the government has given, and is still giving careful consideration to the recommendations of the royal commission. Whether or not it will be possible to incorporate any or all of them, I am not in a position to say at this time. All I can say is that we are giving them careful consideration and I hope that before the session is over it will be possible to bring in a bill that will meet, in part at least, if not entirely, the recommendations that the Canadian National Railways have been asking for over a period of years, for relief from their capital structure.

Mr. GILLIS: I hope that the government has something definite in mind. I read the report of the royal commission as well as its recommendations, and as you say I think they are ambiguous, complicated, and mixed up; and in trying to sort them out, I could not see very much relief in it. But I will take the word of the minister for it.

Mr. MACDONNELL: He did not say that.

Hon. Mr. CHEVRIER: I would like to follow Mr. Macdonnell's point and ask my friend not to put words in my mouth which I have not said. I did not say that the recommendations were complicated and ambiguous; but I did say they were difficult matters.

Mr. GILLIS: Oh, that is right; I added that.

The CHAIRMAN: Knowing Mr. Gillis' deep interest in that problem I allowed him to jump, as you noticed, to page 19 of the report.

Mr. GILLIS: No. It is right here in this review.

The CHAIRMAN: You will find the details are dealt with on page 19, under the heading of "Royal Commission on Transportation", and "Recapitalization". Are there any further questions, or shall I declare the item carried?

Mr. POULIOT: Mr. Chairman, if you will kindly permit me; the recommendations of the royal commission may be ambiguous, but the legislation sponsored by the Minister of Transport is always well drafted, and he is able to understand it.

Hon. Mr. CHEVRIER: Thank you, Mr. Pouliot!

The CHAIRMAN: Are there any further questions then on "Royal Commission on Transportation", and "Recapitalization"? If not, I shall declare the items carried.

Mr. FULTON: Wait a moment, Mr. Chairman. Could we not wait until we come to them?

The CHAIRMAN: Well, Mr. Gillis did not want to wait, and knowing his deep interest, I let him go on.

Mr. GILLIS: I was sorry to see that the railways were still carrying that $46 million of interest charge.

Hon. Mr. CHEVRIER: $46 million?

Mr. GORDON: Yes. That is the total of interest.

Mr. GILLIS: Yes.

Mr. MACDONNELL: Did Mr. Gordon deal with the question of "Operating Ratios", or would this be the correct place for him to do so? I wish he would say a word or two about it and perhaps give us some comparative figures, if this is the convenient place.

The CHAIRMAN: I think perhaps this might be a good place to do it.

Mr. GORDON: Page 29; is that the figure you have in mind, Mr. Macdonnell?

Mr. MACDONNELL: I mean actual.

Mr. GORDON: Comparative expenses?

Mr. MACDONNELL: How much of the dollar it costs you to earn a dollar?

Mr. GORDON: There is a comparison of our total revenue, 92.85.

Mr. MACDONNELL: Would this be a convenient place to give us the comparative figures of other north American railways?

Mr. GORDON: In a general way I would say that our percentage of operating in terms of expenses is perhaps somewhat higher than the class one railways of the United States.

Mr. MACDONNELL: Do you not think it should be perhaps the most directly comparative figures we could get?

Mr. GORDON: There are a number of qualifications, to be sure; that is, there is nothing that you can compare with the Canadian National Railways as such. If you take the United States Class one railways, they are, after all, railways operating in a limited territory; there is no transcontinental railway as such; there is nothing comparable in the way of our thin traffic lines which have been built in the national interest, and so on. Therefore, when you look at these things, you must come out with the conclusion, in so far as our operating ratios are concerned, that inevitably they are bound to be higher.

Mr. MACDONNELL: I am sure you have made clear the considerations to be borne in mind, and I hope that we will have sense enough to accept them as you have described them; but does this not give you a starting point?

Mr. GORDON: I agree.

Mr. MACDONNELL: What I am seeking is a comparison. Perhaps we can leave it now and you will be able to say something about it later.

Mr. GORDON: Yes. I shall see what I can set up on it later on.

Mr. MCLURE: Mr. Chairman, where can we find a breakdown of the operating revenues of the different regions of the Canadian National Railways?

Mr. GORDON: We do not break down our accounts in the form you are thinking of, Mr. McLure, region by region.

Mr. MCLURE: Yes?

Mr. GORDON: Our difficulty there is that there is quite an item of expenses which we call common expenses and which has to be spread over the whole system as part of the railway debt; so it is not possible to take out specific regions in a form which would allow for proper comparisons of the kind you have in mind.

We can, for instance, take specific comparisons of given areas for our own purposes, when we are trying to see whether or not their costs are higher than in other places, but that is a technical operation which we perform for departmental reasons. But you cannot get district comparisons of the type you have in mind because there is a common expense factor which has to be spread across the whole system.

Mr. POULIOT: If a car is loaded at Halifax for Vancouver, what region gets the credit for the freight? Is it Halifax—

Mr. GORDON: The originating point.

Mr. COOPER: It would have to be divided by regions.

Mr. GORDON: You are thinking of what goes into the revenue account?

Mr. POULIOT: No, I want to know what region is credited.

Mr. GORDON: Each region gets its share of the haul. We start off with the originating point and then we spread it across where the haul takes place.

Hon. Mr. CHEVRIER: The Atlantic region would get the share up to Diamond Junction, would it?

Mr. COOPER: It is divided into 50 mile blocks—that is the basis for division, inter-regionally.

Mr. MACDONNELL: Are your operating costs dealt with in the same way?

Mr. GORDON: Costs are direct.

Mr. MACDONNELL: I just wondered if it corresponded to the earnings pattern?

Mr. GORDON: Well, the cost factor does not arise. Costs are direct in the place where they arise. They do not have to be spread over other regions; they are applicable to the particular points.

Mr. POULIOT: The cost in each region is separate?

Mr. GORDON: Yes.

Mr. POULIOT: Whether freight charges are paid in Halifax or in Vancouver each would have a share?

Mr. GORDON: Generally speaking we would give each region its share of the revenue that arises out of the operation in that particular region.

The CHAIRMAN: Is that share based on the rate structure or on the mileage haul?

Mr. GORDON: Its basis, as Mr. Cooper points out, is a railway division of 50 mile blocks.

The CHAIRMAN: What do you do where there is a long haul with a low arbitrary?

Mr. GORDON: The same would apply.

The CHAIRMAN: So it is really based on a proper allocation of the freight rate?

Mr. GORDON: That is what we try to do, yes.

Mr. MCLURE: I have another question in connection with that. In the case of the Prince Edward Island regions and a long freight haul originating there, what proportion would be credited to the car ferry? Or, is it just taken in as a portion of the road?

Mr. GRACEY: It is a ton mile proportion.

Mr. GORDON: Mr. Gracey might answer the question. He is our comptroller and he will explain it.

Mr. GRACEY: Would you repeat the question?

Mr. McLURE: My question is simply this. If you were apportioning or crediting the long haul freight would the connecting link from our province to the mainland, meaning the car ferry system, be credited with their proportion of the long haul rate right straight through as an operating revenue? For instance, if there were thirty carloads—

Mr. GORDON: Do you mean to ask whether we include the car ferry as part of the Prince Edward Island operation?

Mr. McLURE: Or by itself?

Mr. GRACEY: By itself, yes.

Mr. GORDON: We do not maintain a record of revenue on the Prince Edward Island division as distinct from the Atlantic region as it is an integral part.

Mr. McLURE: The reason I bring the question up is that from time to time we see in Public Accounts the fact that there is a deficit on that railway. As I have always said, the word "deficit" should never occur there because it is a service. However, the bookkeepers still call it a deficit. I was wondering whether from time to time anything is credited to it to overcome that deficit?

Mr. GORDON: I should point out that the cost or the deficit, or whatever you want to call it, of the ferry is not included in the Canadian National accounts.

Mr. McLURE: No, I know it is not.

Mr. GORDON: It is not in this report at all.

Mr. McLURE: But it appears as a deficit from the C.N.R. to the government and a vote is given each year. I always say that it is a service which must be rendered and it is not a deficit. When we apply for improvement they always turn around and say: Well, here is a deficit.

The CHAIRMAN: I take it, Mr. McLure, that what you want to be assured of is that in arriving at this deficit, proper credit is given for all the earnings of the ferry?

Mr. McLURE: There would not be a deficit as it would be based on the service which the government has to render.

The CHAIRMAN: Are there any further questions on operating revenue?

Mr. MACDONNELL: I have one general question which perhaps might be left but I would like to hear Mr. Gordon say something as to it if it can be done conveniently. I refer to the effect on the C.N.R. earnings of the tremendous increase in trade with the United States. Perhaps that is too vague but I notice an increase of 73 per cent in pulpwood traffic, and I mention that only as an instance?

Mr. GORDON: Yes.

Mr. MACDONNELL: Would there by anything in your accounts which would enable you to say, even as a rough venture, how much of the increase in your earnings came from the tremendous increase of trade with the United States. For instance, would your Chicago, Portland and other American connections show great change?

Mr. GORDON: Our United States lines are kept separately from our general accounts. We could tell you the operations, for instance, of the Grand Trunk Western.

Mr. MACDONNELL: When you say they are kept separately do you mean they are not included here?

Mr. GORDON: No, but we can give you figures for the United States lines. In other words, we can tell you the results for the Grand Trunk Western or the Central Vermont railways.

Mr. MACDONNELL: Are those accounts not carried into this?

Mr. GORDON: They are included in this over-all, and I think we can give you something later to indicate the improvement or otherwise of traffic carried in the United States in 1951. However, I do not think I can answer your question completely because, I take it, you would like to know the amount of improvement in revenue that comes from an over-all increase in export traffic to the United States. We will have to look at that and see what we can do.

The CHAIRMAN: I wonder, Mr. Gordon, if a breakdown of that $41 million figure of increased volume of traffic would not give Mr. Macdonnell his answer?

Mr. GORDON: If you turn to page 45 you will see our revenue tonnage there by commodities. Pretty generally you will know what it is. Take wheat, for instance, you will see an extraordinary tonnage of wheat in 1951 as compared with 1950. You know that as a general thing wheat does not go to the United States.

Mr. MACDONNELL: How much of that would go through Portland?

Mr. GORDON: I forget, but relatively not very much. You will see that the table of breakdown of revenue tonnage bears out what I have stated in a general way in the report—that we have handled a very large amount of low rated traffic so our earnings per ton are lower than they were in 1950.

Mr. MACDONNELL: When you are giving figures as to the comparative operating statement, I take it you might be able to indicate something of the effect that your low grade traffic has—as compared with some other forms.

Mr. GORDON: Yes, we can do that.

The CHAIRMAN: Are there any further questions?

Mr. GILLIS: Would I be in order to ask Mr. Gordon about the $381,654,000 set out as the total wage bill?

Mr. GORDON: Yes.

Mr. GILLIS: You said that included salaries and administrative costs.

Mr. GORDON: You would like to know the labour cost by itself?

Mr. GILLIS: Yes, the percentage of that figure—

Mr. GORDON: Charged to operating? I do not know if that quite answers your question. We have a breakdown here. This total I have before me here is a breakdown showing labour costs as distinct from our material costs in our operating expenses. Labour cost in 1951 was $350,713,000.

Mr. GILLIS: That includes administrative expenses, salaries?

Mr. GORDON: No, labour only. I do not want to mislead you and I think I am.

Mr. GILLIS: I think you are.

Mr. GORDON: Yes, and I do not intend to. At least I think that what you want to know is what might be called manual labour as distinct from other forms of administration, is that it?

Mr. GILLIS: Yes.

Mr. GORDON: Well, that figure I gave you is certainly not that.

Mr. GILLIS: No, I did not think it was.

Mr. GORDON: We could get that for you.

Mr. GILLIS: I would like to get it.

Mr. GORDON: There is a problem as to where you break down the total. For example, a section man is labour; but a road master, is he "labour" or "supervision"?

Mr. GILLIS: I would say he is labour.

Mr. GORDON: Assistant superintendents, telegraph operators?

Mr. GILLIS: I would consider that all labour.

Mr. GORDON: The only way I can get you the figure is to know what you are trying to define as labour.

Mr. GILLIS: When you use the words wage bill, which you did, my interpretation of wages is wages that are paid to anyone who is in an operating position on the railroad, who has to do with the moving of a train. What I would like to get is the percentage of administrative cost. Now, my interpretation of an administrator is yourself, the staff you have here and the staff you have in the offices across the country.

The CHAIRMAN: Would labour include a station agent?

Mr. GILLIS: Yes.

Mr. GORDON: I would be glad to show you a table here which would perhaps meet your purpose, but again it is a question of where is the breaking point. Is a foreman labour?

Mr. GILLIS: Yes, I would say he is labour.

Mr. GORDON: Yes, but some people would not; some people would say a foreman is a supervisor.

Mr. GILLIS: I would not say that. I would say that anyone who has to do with the movement of trains is labour.

Mr. GORDON: I can show you, then, that on this breakdown table I have before me there is a total cost of salaries and wages amounting to $59,833,000—a breakdown under what is called "general". Now, under that heading of "general" we include executives, general officers, superintendents, architects, draughtsmen, engineers, chief clerks, other clerical forces, stenographers, machine operators, and so on and so on. Now, I do not like to make a distinction and say that a clerk is not a labourer. He works just the same as a fellow with a pick axe, but what you would like to know is the wage bill of the people using material, using tools?

Mr. GILLIS: Yes, that is right, operating trains, conductors and switchmen.

Mr. GORDON: And then I have another heading here, Maintenance of Way.

Mr. GILLIS: That is labour.

Mr. GORDON: That amounts to $60,700,000. That includes such people as road masters, foremen, supervisors, inspectors and assistants, bridge gang foremen, section men, and so forth. That is a physical job.

Mr. GILLIS: Yes, sir.

Mr. GORDON: There is $60,700,000 in that. Under the general heading of Maintenance of Equipment and Stores there is $101,000,000. That, again, includes different types and classifications of inspectors and stationary engineers, firemen, coach cleaners and people of that type, but, again, that is under the heading of Maintenance of Equipment and Stores.

Then there is a heading here called Transportation, in which we break down $42,000,000. That includes train dispatchers, stationmasters, agents, and it would include miscellaneous people like tower men who operate the gates on level crossings.

Mr. FULTON: Would it include the train crews?

Mr. GORDON: No. The train crews come in the next item. We have an item here of $84,000,000 which covers train and engine men, conductors, engineers, brakemen or firemen, helpers. That is $84,000,000. And there is $4,500,000 for yard masters, switch tenders, hostlers, etc. I have other items here, the express department, $15,000,000; the communications department, $13,700,000.

And that total amounts to $385,000,000.

Mr. GILLIS: Well, now, what is the figure for that classification you have listed there as "general"?

Mr. GORDON: The general figure is $59,833,000, and I will just read you exactly what goes into that. It covers executives, general officers, general superintendents, and other district officers on the system. It includes divisional superintendents and other divisional officers of the system. It includes assistant architects, draughtsmen, resident, assistant, and junior engineers, chief clerks, and all other clerical forces, stenographers, machine and phone operators on the system, and then there is a small item for miscellaneous employees.

Mr. GILLIS: Well, that answers my question to my complete satisfaction. I wanted to get that "general" group separate from the others.

Mr. GORDON: It has just been called to my attention that of the $59,800,000 that I mentioned, $32,800,000 of that figure is covered by clerks and other clerical forces; it covers the general body of clerical assistants out of the executive.

Mr. GILLIS: That is perfectly satisfactory.

The CHAIRMAN: While on this point, Mr. Gordon—you have given the committee the cost of railway material index for 1951, related to 1936-38 base, at 220·5. That is on page 9. Could you give us a similar index for labour over the same period?

Mr. GORDON: Yes, we have that here. Again, just checking my qualifications, because it seems to me there can be no straightforward answer to any question in connection with railways. On the question of employees covered by wage agreements, which, of course, is the great bulk of the railways employees, the index has risen to 223·9, using 1936-38 as a base. I think that is the figure you ask for?

The CHAIRMAN: Yes.

Mr. GORDON: If you applied that to all employees it would be 212·3.

The CHAIRMAN: Any further questions on operating revenues?

Mr. MCLURE: Just one question. This pulpwood traffic increase; the earnings from that would be all Canadian, would they not? We do not ship very much pulpwood to the United States, do we? Pulpwood is shipped from this country in another form, after it is processed into newsprint? We in Canada are the largest producers of newsprint in the world.

Mr. GORDON: There is a fair amount of pulpwood moved. I am just wondering whether we have that figure in our tables.

Mr. FULTON: It is on page 45.

Mr. GORDON: Yes, on page 45 you will find the tonnage figure for pulpwood was 7,321,157 as against 4,232,336 in 1950. There was a very large increase in the tonnage of that commodity. I have not the figure of the actual amount of that that went to the United States. Some went, undoubtedly. It is not an important element.

Mr. MCLURE: No, but what I was wondering was whether most of that pulpwood was processed in Canada and then shipped as newsprint to the United States.

Mr. GORDON: That is right.

Mr. MCLURE: Because they are the largest buyers in the world and we are the largest producers.

The CHAIRMAN: If there are no further questions on those two items, operating revenues and expenses—

Mr. MACDONNELL: It seems to me this would be the point at which to ask Mr. Gordon to say what are the comparable freight rate increases in the United States as compared to Canada. It seems to me that it is relevant to have some information of that kind. It is important information.

Hon. Mr. CHEVRIER: Well, the United States are still ahead of us, Mr. Macdonnell.

Mr. GORDON: I have it here. The overall figure—I suppose you are not interested in the breakdown—the overall figure shows that increases in freight rates effective in 1952 would bring the United States increase to 79·3 per cent. That compares with Canada's total of 54·7 per cent. Are you looking for the overall increases?

The CHAIRMAN: As long as the comparable figures are used we will get the true picture.

Mr. GORDON: The actual increases authorized in the United States would be—there is an increase which becomes effective on May 2—106·5 per cent.

Mr. MACDONNELL: Since when?

Mr. GORDON: That would be since 1948—it is from 1938 really, to date. The United States would be 106·5 per cent compared with the Canadian figure of 78·9 per cent.

Mr. MACDONNELL: From 1938?

Mr. GORDON: No, no. 69·9 per cent in Canada, as compared with 106·5 per cent in the United States as of May this year.

Hon. Mr. CHEVRIER: There was a recent increase in the United States?

Mr. GORDON: Yes, and that becomes effective on May 2.

Hon. Mr. CHEVRIER: You are including that in the 106·5 per cent?

Mr. GORDON: Yes.

The CHAIRMAN: Before we adjourn at one o'clock, one matter has been called to my attention, which is that the Defence Expenditure Committee meets tomorrow morning and some members of this committee will, of necessity, be absent. I think, this afternoon, if the committee is willing, we should give the right of way and even go out of order in considering the report, if necessary, in order that those members who will be absent tomorrow will be able to ask the questions which they would want to ask tomorrow morning. I should also indicate to the committee now as to our times of sitting. It has usually been the practice of this committee to have an afternoon sitting on the first day, but not to have an evening sitting on the first day; on the second day, to clean up our work and sit in the evening if we require to.

Mr. MACDONNELL: Is it considered absolutely inescapable that this committee has to sit tomorrow morning?

The CHAIRMAN: Yes, Mr. Macdonnell. We have not only the president here but the vice-president and the high ranking executive officers, and we cannot keep these men sitting around Ottawa at our convenience.

Mr. MACDONNELL: They have passes on the train to Montreal.

Hon. Mr. CHEVRIER: Meanwhile they are sitting here doing nothing.

The CHAIRMAN: We will accommodate members of the committee, then, who want to be away tomorrow morning. We will let them ask any questions in advance of our work, but we cannot ask these officials to be absent from their desks for more than two days.

AFTERNOON SESSION

April 28, 1952.

The Chairman: We have a quorum, gentlemen; we will carry on. Are there any further questions on operating revenues or operating costs?

Mr. Fulton: Have you finished with paragraph 1?

The Chairman: If not, I will declare the item carried.

Mr. Fulton: Paragraph 1, you mean, I take it?

The Chairman: No, it covers the whole subject of operating expenses.

Mr. Fulton: I have something that I want to raise when we get down to paragraph 23, under the heading operating expenses, employee compensation. I thought that you were taking it paragraph by paragraph.

The Chairman: No.

Mr. Fulton: That is all right. Under paragraph 23, I would like to ask Mr. Gordon whether there has been any approach by the employees—I am afraid that I do not remember the exact technical term for the employees concerned—but I mean those who went on strike—

Mr. Gordon: The non-operating.

Mr. Fulton: —in 1950. Has there been any request by them for a revision of the agreement which was arrived at as a result of the recommendation of the arbitrator? I am asking you that because early this Spring they approached me and pointed out that the agreement was made operative for two years whereas the normal contract arrived at by the ordinary collective bargaining process was operative for only one year; and since about the time the decision of the arbitrator was applied the increase in the cost of living has gone well up at a pace even faster than was usual and therefore they were severely prejudiced by their own inability to look for a revision or a new agreement except at the end of two years. But to a small group who approached me I said that I thought the proper thing to do in the first place would be to take it up with the railway management and see if they were willing to enter into talks recognizing the difficulty of the men, and they have indicated to me that this particular local would find it difficult to do that, but they indicated to me that there was some chance that their union would do it. I wonder if Mr. Gordon would say whether there was any approach for a revision of that agreement, or, if it was binding for the whole period of two years.

Mr. Gordon: Yes. We have been approached by the representatives of the non-operating trades who asked that we consider the fact that the cost of living had risen since the agreement was signed and whether we would be willing to discuss with them a revision in wages for this reason. We met and discussed the request with them and told them that our point of view was that the basis of their request couldn't be justified in that way. We pointed out that the cost of living had risen roughly 12 per cent, but that their wages as put into that agreement had risen by 25 per cent; and that if they were really prejudiced in the amount of money, so to speak, it was by reason of the fact that they had elected to take a 40 hour week instead of a 48 hour week, so we felt that there was no firm basis for re-opening agreements which were scheduled to run for two years. That is where the matter stands now; that would be the non-operating groups. We have before us currently quite a number of demands from the operating trades which are now in process of discussion.

Mr. Fulton: I do not want you personally to answer this, Mr. Gordon, because I think that it should be discussed privately between the unions and yourself. Am I correct in my understanding that with respect to the position of the non-operating trades they have the right under the arbitrator's decision to serve notice—is it six months before the expiration of the two years?

Mr. GORDON: No, it is 60 days.

Mr. FULTON: 60 days, and my recollection is—that makes it sometime around September of this year?

Mr. GORDON: That agreement expires in September of this year so notice would have to be given to us 60 days in advance of that expiry date; they would have to serve notice on us about the first of July.

Mr. FULTON: Sometime about the first of July?

Mr. GORDON: That is right.

Mr. FULTON: Then it would be sometime now before you will be taking this matter up with them again.

Mr. GORDON: Yes.

Mr. FULTON: Unless someone else has a question on that point, Mr. Chairman, I would like to ask one on paragraph 27.

The CHAIRMAN: We haven't reached paragraph 27 yet, Mr. Fulton; if you don't mind? Are there any further questions on the sections up to and including section 26? If not, I will declare the first part of this report carried.

Mr. McLURE: With reference to purchases, I would like to ask one question about the 10 per cent sales tax. Does the C.N.R. have to pay that 10 per cent on all its purchases of supplies for individual lines?

Mr. GORDON: Yes, exactly as a private company does.

Mr. McLURE: That would be quite a large item, would it not?

Mr. GORDON: Yes, it would be a considerable amount. I haven't got the detail down here. We might be able to get a figure on that for you. I have a statement here which shows our taxes on materials purchased—that is really what you have in mind?

Mr. McLURE: Yes.

Mr. GORDON: On them we paid federal sales tax estimated at $16,362,000 and a further amount of $3,331,000 in duty.

The CHAIRMAN: Shall paragraphs 1 to 26 carry? If so, we will go on with—

Mr. POULIOT: Mr. Chairman, just before you leave that, I would like to ask Mr. Gordon if they have any separate figures showing the relative earnings on the central region as compared to the other regions. I would like to know how much the earnings were on the central region, on the maritimes—the eastern region, and so on.

Mr. GORDON: While we have accounting figures for the various regions I do not think we make a practice of breaking them down for the different sections. Did you have in mind getting that information section by section?

Mr. POULIOT: Well, Mr. Gordon, I will tell you why I asked that. I understand that the central region is the largest region on the system?

Mr. GORDON: That is correct, in a sense; but, you see that is the difficulty of taking one region—you might have more revenue there and that would show in our accounting figures for that region; for instance, that might be the one region on which you had your greatest volume of traffic.

Mr. POULIOT: I know that, but there are regions in which you have less traffic and which pay less.

Mr. GORDON: That is quite right, quite so; in other words, our heaviest volume of traffic is in the central region and there we get our highest amount of earnings out of the central region.

Mr. POULIOT: And the western region has the longest mileage?

Mr. GORDON: Yes.

Mr. POULIOT: And the shortest mileage is the eastern, the maritime region?

Mr. GORDON: If you are talking about region by region; yes, that is correct.

Mr. POULIOT: Yes.

The CHAIRMAN: Shall paragraph 26 carry?

Carried.

Then we will take paragraphs 26, 27, 28 and 29.

Mr. FULTON: Under other income accounts, paragraph 27; I would like to ask Mr. Gordon if there is any figure included in that total in the form of revenues from oil leases in Saskatchewan?

Mr. GORDON: Yes, it appears in that general total.

Mr. FULTON: Can you tell us—I raised this simply because I remember we had some, shall I say vigorous discussions about it a couple of years ago?

Mr. GORDON: The annual rental earned from our oil leases, in total, amounted to $326,875.

Mr. FULTON: You use the word "rental", Mr. Gordon: is that the usual form of lease rental payable prior to any production?

Mr. GORDON: We call that rentals, it is revenue from the leases.

Mr. FULTON: From the leases; in other words, there has been no oil production from this planned as such?

Mr. GORDON: That is quite right.

Mr. FULTON: Are you in a position to give us any expectation with regard to the production of oil?

Mr. GORDON: No, I am afraid I cannot do that. I do not know.

The CHAIRMAN: If there are no further questions on paragraph 27:

Carried.

On paragraph 28—sale of land.

Mr. MACDONNELL: I noticed the sale of land is credited to income account. It looks like capitalizing it.

Mr. GORDON: I would like Mr. Cooper to speak to that. These are figures we have argued about many times ourselves.

Mr. COOPER: It would be a capital gain but the amount involved is quite small in relation to the size of our income account.

Mr. MACDONNELL: What do you mean by capital gain; profit?

Mr. COOPER: Excess over the book price, yes.

Mr. MACDONNELL: I was not just clear as to what it meant.

The CHAIRMAN: The Income Tax Department, if it were a private company, would say it was a capital gain, a gain on capital account—any sale in excess of the depreciated value.

Mr. MACDONNELL: I did not realize that.

Mr. COOPER: The sale price, to the extent that it recovers the original cost, would be credited to our investment account; any excess over that is a capital gain; but for our accounting purposes, we account for it through the income account.

Mr. GORDON: It is a matter on which a difference of opinion can exist. There is no doubt about that.

Mr. MACDONNELL: I did not realize as I read this. It seemed at first blush to indicate that this is land which you sold to Abitibi. Would it be a land grant?

Mr. GORDON: Originally; I will give you the details. It was land that was originally obtained from the Grand Trunk Pacific Railway in 1909 and 1910 as a subsidy for construction of the Lake Superior branch, between Fort William and Sioux Lookout. It covered 10 blocks of land between Fort William and Sioux Lookout; and it comprised altogether 635,039 acres, with mineral rights. But we sold the mineral rights in order to save taxes. We considered it very carefully, and that was a decision which we weighed for some time, whether or not we were to waive or to retain the mineral rights. But we came to the conclusion that the taxes which we would have to pay in order to retain them just did not seem to justify it.

Mr. MACDONNELL: What taxes have you had to pay per year?

Mr. GORDON: I think I have that information here. The retaining of the mineral rights would involve the railway in an annual payment of approximately $63,000.

Mr. MACDONNELL: I suppose there has been some geological assistance sought with respect to this matter?

Mr. GORDON: Yes. It has been explored. We have given permits to people for many years, and there have been prospectors in and out of that country, and it has been gone over very completely. We also had that in mind when we took our decision.

Mr. MACDONNELL: In your investment account, how did you arrive at it? What was the amount of the investment? What price did you pay, and at what price did you sell?

Mr. GORDON: Did we mention a sum here? Let us say we had a consideration of $1,600,000. It was the difference between that and—oh, you had better not give that figure. But we got a price which was a good price, we thought; and I should say incidentally that that property had been leased to the Abitibi Power Company on a long standing lease, which gave them cutting rights on the property until 1970. Therefore the property was encumbered by that lease which had been given to the Abitibi people, and therefore the Abitibi people were the logical purchasers. If we had sold it to anybody else, it would have had to be sold subject to the provisions of the lease.

Mr. MACDONNELL: Do you carry it in your investment account at the full investment, and so on? I mean, would the taxes go into it as well?

Mr. GORDON: The taxes would be carried in our income account.

Mr. MACDONNELL: So actually you are reckoning your profit, as you have said, at a cost of $1 an acre.

Mr. GRACEY: That was not the profit. You asked for the value.

Mr. MACDONNELL: I was trying to figure out how you arrived at your profit.

Mr. GORDON: The profit should be put in inverted commas. What we are talking about is this: there is a difference between what we carry it for in our books, our book value, and the amount which we received.

Mr. MACDONNELL: But how did you arrive at the amount which is shown in your property investment account?

Mr. GORDON: Originally?

Mr. MACDONNELL: No. The amount which was set out when you sold it.

Mr. COOPER: It was a figure which was arbitrarily set up for bookkeeping purposes. As a matter of fact, the land cost us nothing.

Mr. MACDONNELL: Yes; but you had to pay the taxes from year to year.

Mr. COOPER: That was not part of the cost of the property to us.

Mr. GORDON: We are getting income from the property in the form of a lease. We are taking income in there and we are charging against the property any expenses we have in the form of taxes or anything else for the upkeep of the property.

The CHAIRMAN: Are there any further questions on paragraph 28?

Carried.

Are there any questions on paragraph 30, "Hotel Operations"?

Mr. McLURE: May we have the amount of the net operating gain for the Hotel Charlottetown?

Mr. GORDON: Would you look at the results?

Mr. McLURE: And it also operates the Dalvay, a summer resort.

The CHAIRMAN: I shall now call paragraphs 30, 31, and 32 so that you may have a full discussion on them.

Mr. GORDON: The net operating income for all hotels is reported as being $588,000. You will refer to paragraph 30, on page 9 at the bottom; the Chateau Laurier showed a $388,000 profit. Did you want the other hotels? The Fort Garry, $60,000; the Macdonald Hotel shows a loss of $164,000 which is due in part to the fact that we are starting a write-off in connection with the extension we are building in the Macdonald Hotel. The rest of them is $85,000. These are profits, incidentally, $57,000 for the Nova Scotian; $13,000 for the Charlottetown; $16,000 for the Prince Arthur; $20,000 for the Prince Edward; $106,000 for the Jasper Park Lodge; and $13,000 for the Minaki Lodge; $3,000 for the Pictou Lodge; and a shortage of $9,000 for the Newfoundland Hotel.

Mr. MACDONNELL: What do you charge that on?

Mr. GORDON: That is simply operating results; it does not include any interest or depreciation.

Mr. GEORGE: What do you mean by "shortage" for the Newfoundland Hotel? Is that a deficit?

Mr. GORDON: A deficit, yes; not a cash disappearance, no.

Mr. MACDONNELL: Are these hotels an easy load to carry?

Mr. GORDON: The only effect of charging them with interest and depreciation would be to show that they are operated at a substantial loss right through the picture.

Mr. MACDONNELL: Yes, I appreciate that.

Mr. GORDON: It would not make any difference to the results of our over-all system. We take it in on one side and pay it out on the other.

Mr. MACDONNELL: Well, I am very old fashioned to prefer showing the actual situation; and you must agree that is not the actual situation. It is not the kind of thing that anyone, except it be a government enterprise or system, would do.

Mr. GORDON: We do it for our own information. The only difference between the two methods is that in this system we just take in the net results in our figures.

Mr. MACDONNELL: But in respect to the railway as a whole you are showing us the full picture. So why do you feel it necessary with respect to these hotels to show us such a highly unreal picture? Is it for the sake of the morale of the employees, or what?

Mr. GORDON: We have stated the net operating income. We have stated the truth.

Mr. MACDONNELL: I know; and I only ask you to tell us the reason.

Mr. GORDON: I cannot give you a reason at all except that it has always been done that way. Have you any reason for it, Mr. Cooper?

Mr. MACDONNELL: We did not expect you to say that.

Mr. COOPER: The same might be said with respect to all the services of the railway, such as the express and communications departments. If all the interdepartmental activities of the railway were apportioned between departments, it would involve a very great deal of effort to arrive at the final result. If you want to know the results of any separate operation, we can give you the figure; but it is not usual in a system such as ours to have one department charge another with interest or depreciation.

Mr. MACDONNELL: You say it is not usual in a system such as yours to have one department charge another with interest or depreciation; but let us consider the railways in the United States. Do any of them run hotels?

Mr. COOPER: I do not think so, unless, they have separate companies for that purpose.

Mr. MACDONNELL: Would their express departments be treated in the same way, or would they have to carry the load of depreciation?

Mr. COOPER: They do not have express departments such as we have.

Mr. GORDON: This is a consolidated balance sheet; and when you have a company which is a consolidation of a lot of other companies, they usually wash out their interdepartmental entries as being meaningless. It is the net effect that gets into the balance sheet; and most accountants wash out their interdepartmental entries; and it is the totals which go into the consolidated balance sheet, which this is. It does not cover the Canadian National Railways. It covers the Canadian National System and it includes from 130 to 150 different units of departments of companies and so forth and it washes out any interdepartmental entries.

The CHAIRMAN: Would this answer your question? Mr. Cooper has said that he has the information available; and if he would give you the actual detailed information, let us say, with respect to the Chateau Laurier Hotel, would it answer your question, Mr. Macdonnell?

Mr. MACDONNELL: I do not want to labour the point and take up the time of the committee; but I would like to make this observation: first of all, this seems to me to be different from a good many other aspects of railway work because it seems to me it is not necessarily a railway activity; it is one which can be isolated. I do think—and I feel very confident about this—that in any private business they would want to have that before them constantly; they would want to have the exact results before them. I happen to live in a Canadian National Railways hotel and I do not want them to raise their rates; but it seems to me very desirable that the railway should not feel that it has an operating income of $588,000 when it probably has a deficit. That is all. I asked Mr. Gordon why it was done that way, and he said that it has always been done that way. I wonder if when Mr. Gordon comes here next year he would tell us if he has considered it on its merits and feels that it is either a good thing or a bad thing; in other words, not tell us merely that it has always been done that way.

Mr. GORDON: I will justify it or I will tell you that I have changed it.

Mr. FULTON: What is the practice of the Canadian Pacific Railway with respect to their hotels? Is there any indication of their practice to be drawn from their annual report?

Mr. COOPER: The Canadian Pacific would not charge their hotel department with interest on their investment in hotels.

Mr. FULTON: Would they charge depreciation against the revenue of the hotel?

Mr. COOPER: Yes, they would, because they do so with all fixed property, including their hotels and railways, but we do not. We do not set up depreciation on fixed assets.

Mr. GORDON: In view of the recent announcement by the government that the Canadian National would be subject to income tax, we may be taking a new look at our accounting methods.

Hon. Mr. CHEVRIER: If Mr. Gordon takes a look and is able to produce a document which shows a deficit on these hotels, the government might decide to close down some of them. It would not be so good.

Mr. MACDONNELL: That would be the government's responsibility; but your argument, Mr. Minister, or what you are really arguing is that we should not —you are implying that we do not want to look at the reality of the thing because it might be unpleasant. But I feel that in business it is very desirable not only to have the relevant background, but to have it before your eyes as much as possible.

Hon. Mr. CHEVRIER: If we looked at the record, we would not build any branch lines.

Mr. MACDONNELL: If we are going to build branch lines, we want to know what is being done.

The CHAIRMAN: Paragraphs 30 to 40, property investment account.

Mr. FULTON: You have not got anything there, Mr. Gordon, on the Sherridon line. Was that not started last year in time to be reflected in this property investment account?

Mr. GORDON: There was a very small amount last year. It is mentioned further on in the report.

Hon. Mr. CHEVRIER: Yes, there is a rather good statement on it on page 17— under new branch lines.

The CHAIRMAN: Shall we deal with it under new branch lines?

Mr. FULTON: Yes.

The CHAIRMAN: Shall sections 30 to 40 carry?

Carried.

Mr. MACDONNELL: Are you carrying 30 to 40 all at once?

The CHAIRMAN: Well property investment account.

Mr. MACDONNELL: I would like to hear something of the breakdown of that $85 million.

Mr. GORDON: If you will turn to page 32 you will see the breakdown of the whole thing.

Mr. MACDONNELL: There is a large figure for equipment. Perhaps when you come to the 1952 budget you will be able to give us the information?

Mr. GORDON: Yes, it is detailed in the budget report.

The CHAIRMAN: Are there any further questions on paragraphs 30 to 40?

Carried.

Paragraph 41—financing.

The CHAIRMAN: Paragraph 41?

Carried.

Mr. MACDONNELL: I would like to ask a question rising out of paragraph 41. I notice in your operating expenses you show a large figure for the depreciation of equipment—page 28. Would Mr. Gordon say something about that kind of depreciation of equipment and in general with regard to the rest of the operation too? I notice that in your U.S. lines you have certain references to depreciation. Does that mean there is a difference with respect to the accounting on U.S. lines, and would you say something about it?

Mr. GORDON: We have a different system on the U.S. lines and on the Canadian lines. Again I will have the accountant speak specifically because depreciation accounting on the railroad is a very complex subject. Mr. Cooper could make it much clearer than I.

Mr. MACDONNELL: I do not want to take up the time of the committee but I want to understand in a general way what is done with respect to depreciation accounting.

Mr. COOPER: In so far as rolling stock equipment is concerned our practice in Canada is identical with the practice in the United States—

Mr. MACDONNELL: Which is what? Would you just describe it? I notice you have a figure of $21 million for depreciation equipment, is that right?

Mr. COOPER: In our expenses?

Mr. MACDONNELL: Yes? How is that arrived at?

Mr. COOPER: It is based on the original cost, with an allowance for salvage, and the difference is ammortized over the expected life of the equipment.

Mr. MACDONNELL: What does "equipment" include?

Mr. COOPER: Engines, passenger cars, freight cars, and steamships.

Mr. MACDONNELL: In other words, rolling stock or the equivalent?

Mr. GEORGE: We cannot hear a thing down here; they are carrying on a private conversation.

Mr. COOPER: In brief I may say that we charge expenses with 3⅓ per cent per annum on the ledger value of our equipment. Does that dispose of equipment?

Mr. MACDONNELL: Yes, I think it does.

Mr. COOPER: We have a difference in practice between Canada and the United States with respect to fixed property—meaning stations, shops, bridges, and things of that nature. I wish to exclude what is called track structure, meaning rails, ties, fastenings, ballast—

Mr. FULTON: Infrastructure?

Mr. COOPER: I beg your pardon?

Mr. FULTON: Just a passing reference.

Mr. COOPER: What I am speaking about is not track structure, it is fixed property other than track structure. In Canada the Canadian National Railway does not accrue depreciation on fixed property, but in the United States we do. Under the accounting rules of the Interstate Commerce Commission we are required to accrue depreciation on roadway property, so there is a difference between our Canadian and United States lines in that respect.

Mr. POULIOT: By "track structure" do you mean the right of way?

Mr. COOPER: Not the right of way itself. I mean the rails, ties, fastenings and ballast.

Mr. MACDONNELL: Getting away from the words in technical terms, do you in fact charge yourself in respect of your trackage on the whole railway line with enough year by year to provide not only for repairs but renewals?

Mr. COOPER: Yes, provided you are speaking of renewals at original cost. We do not provide through operating expenses for the difference between original cost and the cost to replace a unit of property. If, for example, a water tank had been constructed twenty years ago at a cost of $10,000, and if it were renewed today at a cost of $15,000, the full cost of the renewal is not charged to operating expenses.

Mr. MACDONNELL: Is that usual railway practice on this continent?

Mr. COOPER: It is standard railway practice, yes.

Mr. MACDONNELL: When you have a different figure for the United States it does not indicate they are there in effect providing for it. As I understand it you actually provide depreciation although you do not use the word. You provide it providing the costs have not risen—although there is not enough to take care of replacement which is in excess of the original cost in the ordinary case?

Mr. COOPER: That is so, and that is the practice in the United States and American railroads would not be permitted to do otherwise.

Mr. JAMES: It would be practically the same in any industry?

Mr. COOPER: Yes. Depreciation is based on original cost and not on the cost of replacement.

Some Hon. MEMBERS: Carried.

Mr. POULIOT: Before it is carried is it possible to know the standard weight of rail on the railroad?

Mr. GORDON: That varies depending on whether it is a main track, a branch line, a spur line, and so forth.

Mr. POULIOT: What is the average?

Mr. GORDON: We range from the lowest class of 56 pounds to 132 pounds. The 132 pound rail is what goes on the main lines—that is our super railway.

Mr. POULIOT: Yes, with steel plates under the rails?

Mr. GORDON: In some cases, yes.

Mr. POULIOT: For the fast trains?

Mr. GORDON: Yes.

Mr. POULIOT: But that is not an answer to my question. I would like to know the average weight of rail?

Mr. GORDON: I do not know if I can give you an average weight. In main line structure—what would you call a main line?

Mr. POULIOT: Montreal to Toronto?

Mr. DINGLE: Well, in the case of Montreal to Toronto we range there from roughly 115 pounds to 132 pounds.

Mr. POULIOT: I know down home that it is 120.

Mr. DINGLE: It would be in that range, or a little lighter.

Mr. POULIOT: On the Montreal to Toronto line it is 130?

Mr. DINGLE: The heaviest rail we have on the Atlantic region is 100 pounds.

Mr. POULIOT: 100 pounds?

Mr. DINGLE: Yes, sir.

Mr. POULIOT: Trains go at terrific speed?

Mr. DINGLE: Yes, sir.

Mr. POULIOT: Is it the intention of management to improve the rail conditions?

Mr. DINGLE: The rail weight depends on the density of the traffic. On a heavy traffic line we will install heavier rail than on a light one.

Mr. POULIOT: But it is a vicious circle. If you do not put heavy enough rail on some types of railways you cannot expect much traffic?

Mr. GORDON: We have to cut our coat according to the cloth. Every year we come to this committee with a very substantial budget for relaying rail and ballast and so forth, and we proceed as quickly as we can with the labour and supplies at our command. The railway is never built; it is always being built. We are building it every day.

In our main lines we are trying, as quickly as we can, to bring them up to a standard which will be common.

Mr. POULIOT: But you will probably agree, Mr. Gordon, that the first thing for railway safety is a good track structure?

Mr. GORDON: Quite so.

Mr. POULIOT: It is the basis of the transportation?

Mr. GORDON: It is one of the safety factors. Of course we have that in mind in connection with the speed and the loads on trains. We have rail in mind when we marshal the trains; when we run trains through a given weight of rail the operating instructions take cognizance of the fact that certain speeds have to be maintained or kept in hand.

Mr. POULIOT: What railway and branch railway lines have only 56-pound rail?

Mr. GORDON: The 56-pound rail would only be on sidings or spur lines where it is not a safety factor at all. There is practically no—or I do not know of any important main line which would have 56-pound rail left on it. Would that be right, Mr. Dingle?

Mr. DINGLE: We have 277·69 miles of 56-pound rail on the Atlantic region; 192·04 56-pound rail on the central region and in the west we have 552·44 miles; and on the Grand Trunk Western we have 10·80 miles.

Mr. GORDON: If you consider that in terms of the figure of 24,273 miles of main line track, as I say, it is not a factor of importance.

Mr. POULIOT: I am not so sure of that. What is the average life of rail?

Mr. DINGLE: That depends.

Mr. POULIOT: The lifetime.

Mr. DINGLE: It is hard to say what the lifetime is. Where the traffic is heavy it is less than on the lighter traffic lines.

Mr. POULIOT: Yes, but the average lifetime of rail is what?

Mr. DINGLE: Some rail has been in service thirty or forty or close to fifty years on some of the lighter lines.

Mr. POULIOT: Even more than that?

Mr. DINGLE: I would imagine so, in some places.

Mr. POULIOT: Would you please tell me lines in the Atlantic region where the rail is only 56 pounds?

Mr. DINGLE: Well, the Temiscouata is one.

Mr. FULTON: Were you not practically forced into buying that?

Mr. DINGLE: I do not have a breakdown of the whole mileage.

Mr. POULIOT: But on what other lines in the Atlantic region have you that rail? If you prepare a memorandum I will be satisfied.

The CHAIRMAN: Mr. Pouliot, would it be satisfactory if Mr. Dingle gave you a typewritten answer to that question?

Mr. POULIOT: Yes, Mr. Chairman.

Mr. GILLIS: But I would like to see it in the record. I would like to find out where the rail is that has been down for fifty years.

The CHAIRMAN: Oh, it will go into the record.

Mr. POULIOT: We will take it up again after we study it.

The CHAIRMAN: When you get the answer, if you wish to ask any supplementary questions you may.

Mr. POULIOT: Thank you, it was just an interlude.

Mr. JAMES: I have a question in connection with the Port Hope to Millbrook line which was listed. I wonder if you are keeping good track of that. We hope to be one of two places mentioned in the recent announcement regarding the iron ore in Durham and Northumberland and for that reason I hope you are keeping pretty good track of that line. When the time comes possibly you will have a right of way and be able to put the rails back in if it becomes necessary. I do not know whether you have any information on that?

Mr. GORDON: Are you referring particularly to the line to Millbrook?

Mr. JAMES: That is the one.

Mr. GORDON: I have no information before me particularly. Your question is whether we are keeping the right of way in such shape that if we discover later that new business is offered we will be able to carry on?

Mr. JAMES: Yes.

Mr. GORDON: I will take a note of that but I cannot tell you. Do you remember if we decided to pull the rails up there, Mr. Dingle?

The CHAIRMAN: Perhaps you would be content to an answer to that later?

Mr. JAMES: Yes, that is fine; there is no hurry.

The CHAIRMAN: Paragraph 42.

Mr. MACDONNELL: Well, I am very conscious of the fact that I am taking more time than some people and that is not because I want to do it but either we are here to discover some of the important things or we are not.

The CHAIRMAN: Any questions you want to ask please ask?

Mr. MACDONNELL: Quite frankly I find it quite tiresome, when I am trying to find information to have someone else say carried. I am quite willing to stand aside in favour of others, but I don't think we have explored this question of depreciation sufficiently yet. It has been said, and with truth, that in an ordinary company when depreciation is set up it is set up in respect of the original cost, but that is not the final answer as far as the railway is concerned. The ordinary company has found that replacement costs two or three times as much. I understand the Trans-Canada Air Lines in their accounts is giving effect to that. I was told the other day they were setting aside a special amount because of the increased cost of things. What I want to get at is this: with costs going up two and three times, as they have been doing in certain cases, are we running into a tremendous cost which is pyramiding against us in respect of replacement I think we should know it now, if that is so. On the other hand, if the account is taking care of itself gradually there is nothing much to say, and if Mr. Gordon assures us to that effect, I think I am content, but I think we should be clear that we are not gradually getting into a situation where the capital grants we are going to have to make to replace, say, for steel rails and all kinds of other things will cost a greatly increased amount, and that we are not going to be faced next year with extra tens of millions. Perhaps Mr. Gordon will speak to that later. I think this is a very important matter.

Mr. GORDON: I would like to say this, that each year this committee has reported our capital budget and each year you will see there what it is we are asking in the form of new equipment or capital expenditures for additions and betterments, and each year you will see the amount we set up out of depreciation. and from those figures you can form a judgment as to what has happened to our capital account. I do not know how it is possible to suggest a method of depreciation which will provide for inflation. I do not know how you could measure the degree of inflation to take place over the next ten, twenty or thirty years on a given piece of property. I do not know how to do it and I do not think any accountant has found out, either. It is one of those accounting discussions that we can have different views on all the time. The standard practice has been, and confirmed in the United States railways, that we depreciate on the original cost, and then the inflation that takes place in regard to cost of the replacement is provided for when the new article is bought with a capital requirement. Now, the same thing is true in reverse. Suppose we may get a situation where the replacement cost will be less than the original cost.

Mr. MACDONNELL: This leads me to an item of $9 million here.

Mr. GORDON: What happened there is that through the war $35 million was set aside to take care of what is called deferred maintenance. In other words, it was recognized that during the war it was impossible to get either labour or material to maintain the railway currently to the extent which it should have been maintained and there were very heavy arrears of maintenance that accumulated through the war, so $35 million was set up and each year we take the amount set over five years. That is, we took $9 million as the last portion of that $35 million.

Mr. MACDONNELL: And the reason for the credit is that that was all a special fund that was brought in?

Mr. GORDON: That is right. It was brought in again.

The CHAIRMAN: Any further questions on depreciation?

Carried.

Mr. POULIOT: One question, Mr. Gordon. You probably are aware of the fact that the railway bought two new steel bridges a year ago for the Temiscouata Railway. One is at Edmundston and the other is at Riviere du Loup. These are steel bridges and they have been lying rusting in the field instead of being put into place. Why is that?

Mr. DINGLE: That was simply, Mr. Pouliot, because of the fact that our bridge gangs were completely tied up on the Atlantic Region last year on account of heavy floods on the Gaspé line. It is the intention to install these bridges this year.

Mr. GORDON: Incidentally, your reference to the bridges rusting and so forth—I might say that that will not do them any damage. The bridges are not being damaged at all by the way they are stored.

Mr. POULIOT: Well, the railway is not so good without the bridges.

Mr. GORDON: I will agree a railway line without bridges is something to be deplored.

The CHAIRMAN: Shall item 42 carry?

Carried.

Shall item 43 carry?

Mr. FULTON: Could you give us a recapitulation of the purposes of the borrowed capital, $73 million?

Mr. GORDON: On page 36.

Mr. FULTON: Yes. What I mean is, I do not recall—and I have not been able in the time at my disposal to look at the debates and see—what actually you wanted that capital for that you got last year. What are the major items or classifications on which you use that capital?

Mr. GORDON: Are you referring to the figure in paragraph 43?

Mr. FULTON: Yes.

The CHAIRMAN: The net increase in borrowed capital is $73 million. That shows on page 36.

Mr. GORDON: Your question here is complicated by the fact we are talking about a net figure there, but if you will look at page 36 you will find that we borrowed from the government during the year a total of $121 million, and out of that $121 million, $63,400,000 was used to pay off a maturing obligation in the hands of the public, and we paid off the public and borrowed the money from the government. $57 million would represent general expenditures on capital during the year in the form of the budget that we put before the committee last year. It would cover the financing for the improvements to property during the year. It would cover such things as rolling stock, building track, building stations, in fact, anything at all affecting the railway generally.

Mr. MACDONNELL: Would that represent everything that the railway received during the year outside of its own earnings?

Mr. GORDON: You see, first of all we spent our earnings and this represents the additional amount of capital, at least the capital we spent.

Mr. MACDONNELL: Yes, I understand that, but is this all?

Mr. GORDON: That would be the whole thing, yes. I am sorry; perhaps I should have said that in addition to that, of course, we have our depreciation reserves. We spent those, too.

Mr. FULTON: As I see it from the table on page 36, the net borrowed capital which you used for capital acquisitions, if I am using the right words there, would be a total of $13,500,000, plus the balance of $57,568,000 remaining from what you borrowed from the government. Would that be correct, a total of $71 million?

Mr. GORDON: The increase is $73,893,000, you will see the figure at the bottom of the table there; it comes out to the net figure. While our loan from the government increased $117 million, the increase in our capital debt is only $73,800,000, because we used the balance to pay off maturing debt.

Mr. FULTON: Does that $73 million represent also the amount of new capital assets that you acquired during the year?

Mr. GORDON: Yes, it would.

Mr. FULTON: Are you able, then, coming back to my first question, to give us—you see, what I find is that it does not correspond.

Mr. GORDON: I see your difficulty, Mr. Fulton. That expenditure covers the fact, for instance, that we got 5,000 box cars—taking that as an example. It covers our equipment purchases and it also covers the expenditures for the maintenance of the railway, at least, that portion of maintenance which we regard as new capital. When we do a job on the railway our practice is to consider part of it capital and another part general maintenance. If it is maintenance, we charge it to operating and if we regard a portion of it as new capital, then we charge our capital account.

Mr. FULTON: Could you indicate to me if there is any place in the report where we can get any summary of capital additions and betterments?

Mr. GORDON: If you will look at page 42 you will see an inventory of railway equipment there and you will notice that we start with what was on hand January 1, 1951, and then we show details of what we added during the year and what we retired, that is, wrote off our account during the year, and also what we did in our own shops in the matter of conversion of equipment and so forth, and that brings it to what we had on hand as at December 31, 1951.

Mr. FULTON: So those figures would mean that that $73 million represents the capital portion of maintenance charges, is that correct?

Mr. GORDON: Yes, I can give you that. We will take the equipment figure, if we take the ledger value of our equipment as at December 31, 1950, the ledger value increased by $57,183,000.

Mr. FULTON: I am sorry, I did not get that.

Mr. GORDON: If you will look at our property investment account on page 32, you will find a figure which comes out for our equipment, $57,183,000. Now, that is part of the $73 million. You are referring to the rest of it and that would be what I describe as being other capital projects. This is the rolling stock portion, in other words, of the capital plant.

Mr. FULTON: I do not want to pursue it to too fine a point, but I had in mind if we could get at what the railway acquired for this $73 million, and I take it, then, that you can take $57,183,000 and say that is the balance, the difference, between that and the $73 million figure you read, the last item you mention.

Mr. GORDON: That is right. Put it this way: property investment other than rolling stock would be as good a description as any.

Mr. FULTON: That would include the hotels?

Mr. GORDON: Yes.

Mr. FULTON: The Edmonton hotel?

Mr. GORDON: Yes.

The CHAIRMAN: Any further questions on paragraph 43?

Mr. MACDONNELL: Just one question on that figure on page 32. You refer to two kinds of indebtedness there. The first you call, you speak of increase in loans from the government of Canada, $117 million, which I understand is a difference between the $43 million and the $117 million. Now, you say, increase in loans from government of Canada, $117 million, increase in capital debt, $73 million. You make a distinction there. The capital debt is something that is funded and permanent, and this other figure you speak about just as a loan from the government.

Mr. GORDON: Yes, this is the same thing as the funded debt, because the last paragraph is the loan that carries interest, pays interest to the government just as if it were any other loan. It is a temporary loan. It is intended—perhaps I am speaking too fast here—but the intention is in due course we will float a public bond to repay the government for this advance.

Mr. PICARD: Unless you get relief from the government and you are not forced to pay it.

Mr. GORDON: That is something I could not comment on. We owe the government money as a railway and we intend to pay it back. There is no question mark against the validity of that loan any more than on any of our debt that we owe to the public.

Mr. PICARD: Any more than on your funded debt as a whole.

Mr. GORDON: No, we regard this as being in the same category.

Mr. FULTON: Would we not be justified in assuming this, that you regard loans made in recent years for capital acquisition in a different light from the things you had in mind in your submission in respect to reduction of your capital debt? As I understood it, what you had in mind there was old obligations which you took over and which, speaking generally and perhaps candidly, you would not have, say, any chance of repaying. Surely, you regard these in a different category from those?

Mr. GORDON: That is the basis of the submission we made for recapitalization. That debt charge is much too high against the property; and what form of relief we get for that will be for the government to determine.

The CHAIRMAN: Is it not true that the difference between the increase in loans from the government, $117 million, and in the increase in capital debt of $73 million is the net amount by which you have reduced existing liabilities by retiring existing securities?

Mr. GORDON: The net amount by which we have increased our liabilities in other words.

The CHAIRMAN: Well, an increase of $73 million—

Mr. GORDON: That is right.

The CHAIRMAN: All right, but the increase in your loans from the government of Canada is $117 million?

Mr. GORDON: Yes.

The CHAIRMAN: And the net difference between those two amounts is the amount by which you have retired existing debt, securities?

Mr. GORDON: That is right, the extent to which we have paid off public advances.

The CHAIRMAN: Certainly.

Mr. FULTON: That is, in other words, $43 million.

Mr. MACDONNELL: Yes, $43 million.

Mr. GORDON: Yes.

Mr. FULTON: Where does that $43 million come from?

Mr. GORDON: That was borrowed from the public.

The CHAIRMAN: All right, it was borrowed from the public—

Mr. GORDON: And paid back at maturity.

Mr. FULTON: Paid for by the road?

Mr. GORDON: By borrowing from the government.

The CHAIRMAN: So it is an exchange of a government loan for a 4·5 per cent liability owing to the public.

Mr. GORDON: I would not want to have the impression get abroad that we regard a debt to the public in any different category, as any different form of liability. We owe that money and intend to pay it.

The CHAIRMAN: Yes.

Mr. GORDON: How we pay it is another matter.

The CHAIRMAN: Right. I just wanted to take the occasion here to establish the difference between the increase in loans from the government and the amount which you show as an increase in your capitalization.

Mr. GORDON: What we could have done just as easily when that loan matured was to go to the government for an increase in the public issue but we chose not to do that. The government and ourselves in discussion chose, for reasons of the effect on the market and otherwise—we decided that we would borrow from the government at the present stage.

The CHAIRMAN: Now, we come to operating performance. Would you care to make a brief statement of the broad reasons why you have been able so materially to increase the efficiency of your operation?

Mr. GORDON: Well, I think in large measure it is due to better mechanical operation, better tools, better machines, technological improvements and so on which have gone into the railway, and we are reaping the advantage of them now.

The CHAIRMAN: It appears to me to be a marvellous performance.

Mr. GORDON: I put in this paragraph particularly to highlight the fact that it is not true to say that the railways have not kept up with the times, so to speak. A lot of people are inclined to think that the railways are old fashioned and do not keep up with modern developments. This demonstrates clearly, I think, that over the years the operating efficiency of the Canadian National Railways has improved very materially by reason of taking advantage of these technological improvements.

The CHAIRMAN: Are there any further questions on "Operating Performance"?

Mr. MACDONNELL: Are you going to say anything about the suggestion of using lighter cars?

Mr. GORDON: We have in our research laboratories a number of interesting experiments under way, to see if we can reduce the weight of our cars. We have five aluminum hopper cars to test in actual service. We are not yet ready to say whether or not they will stand up under the beating which they get in handling heavy freight; but they are definitely being run in actual service and we shall learn from the tests, perhaps, about different kinds of construction, perhaps with aluminum. It may be that aluminum cannot be used just the same as steel; there may be different stresses and strains. I merely used aluminum as being one way of defining it. It may be that we can use a lighter metal. Aluminum is not the only one. We have progressive tests going on, and we are trying to see if we can get anywhere with a combined wood and steel construction, and with things of that kind, such as laminated materials of wood and so forth.

The CHAIRMAN: Have you any tests going on with respect to roller bearings?

Mr. GORDON: We have road tests on roller bearings of all types going on all the time.

The CHAIRMAN: For use in freight cars?

Mr. DINGLE: And on passenger cars.

The CHAIRMAN: Shall "Operating Performance" carry?

Carried.

Mr. MCLURE: Mr. Chairman, under the heading of "Operating Performance and Technological Improvements" I would like to ask Mr. Gordon if he would make a brief statement with regard to the experiments with diesel electric locomotives as they are operated today in Prince Edward Island; and does he find them cheaper to operate?

Mr. GORDON: Mr. Dingle will be able to give you a more detailed answer than I can; but let me say that we have been quite satisfied with our experiment in Prince Edward Island. Our savings and economy in operation has worked out to pretty near what we estimated when we put in dieselization. Mr. Dingle will continue the answer from an operating point of view.

Mr. DINGLE: We show an operating economy in diesel versus steam of $291,600 in Prince Edward Island, over a period of 12 months. In other words, the per cent of diesel to steam cost is 72·8 per cent, and we have a return on our investment there of 16·3 per cent.

Mr. MCLURE: And you would say that the shipping public are quite satisfied with it, are they not?

Mr. DINGLE: Yes.

Mr. MCLURE: I was under the impression that when diesel engines were put into operation in Prince Edward Island that no railway man would lose his position; that is, it would not cut down labour and would not throw a certain number out of employment. Well, I believe on the other hand they will. Several men have been thrown out of employment and have not been able to secure the same employment they had previous to the introduction of the diesel engines?

Mr. GORDON: That raises a general question in respect of the whole dieselization program. I think that I may as well deal with it now.

The CHAIRMAN: Yes, surely.

Mr. GORDON: I have stated in my report quite definitely, and I would like to quote:

> This program will involve large capital expenditures, and can only be justified by the substantial economies made possible not only in train operations but also through the re-arrangement of servicing and repair facilities.

Now, I think it is well to keep in mind that the day of the steam locomotive is over. There are no new steam locomotives being built on this continent and they have not been built for some years. We will never buy a steam locomotive again because we cannot buy them. The question of dieselization is merely a matter of time—just a matter of how long we can carry on—how long we can carry on with the existing equipment. It is uneconomical to build into a steam locomotive more mileage than you intend to run out of it. So the only way, and what we have been trying to do, is gear the program for dieselization to make it fit in with the studied abandonment of the steam locomotive. Obviously that means a change in our activities respecting shops and respecting labour.

Our policy is to do it in as considered and orderly way as we can. What we have done is to set up training schools well in advance of the time we are going to need the schools training and every man who wants to will have an opportunity of equipping himself so as to get a job in the electrical work and so on that will be increased under dieselization. Certainly there will be some disruption or there will be some change.

As I have said before we cannot come before this committee and ask for very large expenditure of funds necessitated by this program unless we feel it to be economically justified.

As I say, it does mean some disruption but we are making a very great effort to do everything possible to retrain railway staff and to move men to places where they can be used—the older men particularly, who have been brought up with the steam locomotive. We will try to keep them on with the decline of the steam locomotive as long as we possibly can. I do not want to say anything that would lead anyone to believe that the program I have outlined does not mean change and does not mean some distress.

Mr. MCLURE: Well, I want to find this out. It is not any longer an experiment. You have found it 100 per cent satisfactory?

Mr. GORDON: Absolutely. I can tell you this. I sat down last year, and as one of the first things I did when I came to my present position, I sent for our officials to find out what program we had in regard to dieselization. Frankly, we did not have a very carefully mapped program. We put special officers to work and they have been working over a year. It is a very big operation requiring considerable planning. We have established pretty generally on our through freights that we can afford to pay the capital necessary—the large amount of capital necessary in the through freight runs. By the economies achieved we will pay off that capital expenditure in a period of ten years.

Now, that is pretty good. It is pretty good, but remember in doing that that the use of diesel locomotives means that diesel repairs are only a fraction of steam repairs. That is one of the large economies one gets from dieselization. Your repair bill is cut way down. You get your biggest saving in the use of diesels in the fact that you get the maximum utilization of the locomotive. You can keep it busy. You can run a diesel almost steadily whereas a steam locomotive, like a human being, has to go into the roundhouse and get a little rest, and get pepped up again before it can go on with its work.

The CHAIRMAN: When Mr. McLure is through, Mr. George has the floor.

Mr. GEORGE: I would like to ask Mr. Gordon if the number of personnel employed presently in Moncton shops is going to be decreased—and it could very well be from what he has just said.

Mr. GORDON: I do not like to make forecasts because I think it is unfair to cause unnecessary worry.

Mr. GEORGE: May I add the rest of my question? If that statement of mine is found correct, could the railway give consideration to building some of their own rolling stock in this shop rather than giving it to outside firms?

Mr. GORDON: We have given considerable thought to the question of whether or not it would be wise for us to build our own equipment, and we came to the conclusion—our answer is no. I am giving that as a general statement, but the reason for it was that we did not feel we could get the economies to make it worth our while to make large capital expenditures which would be a duplication of existing facilities in this country, and, therefore, uneconomic from the standpoint of the country.

Mr. GEORGE: But you are still not necessarily saying the number of men that will be affected?

Mr. GORDON: I am not saying how the number of men will be affected because we have just started on this program on a long range basis. The program I mentioned is a five-year program and we have here a five-year objective and we hope to realize our objective year by year. That will cause adjustments in various years and various working classes, but I am not prepared to say the degree of the impact of it.

Mr. GILLIS: I would just like to say this, that technological advances inevitably will displace men. It is designed for that purpose. At the meeting of this committee last year—and Mr. Gordon will remember—I was not so much concerned with the displacement of manpower, because that will come anyway, but I was concerned about the effect that the dieselization of everything east of Montreal was going to have on another industry basic to the maritime provinces. At that time Mr. Gordon stated—and his statement today is completely in reverse to what it was at that time—he assured me at that time that the program of dieselization had to do with the west mostly and no program was in for dieselization east of Montreal, but since that date it seems there has been a lot of dieselization going on in that end of the line, particularly in freight. Am I to understand that the program of the Canadian National Railways, as set out by yourself today, is to replace all steam locomotives east of Montreal?

Mr. GORDON: I say that force of circumstances are bound to bring that about because there are no more steam locomotives being built. It is a question of time. It may be 20 years or 25 years before we have completely dieselized; but I say that inevitably there will be no steam locomotives as time goes on.

Mr. GILLIS: Then the projected objective of the C.N.R. is to become dieselized wherever they can—

The CHAIRMAN: No, no.

Mr. GORDON: No, no; I have never said that.

The CHAIRMAN: It was the eventual result forced by events, as I understood the answer.

Mr. GORDON: In other words, we have an inventory of steam locomotives. And now, this is a matter which has been before the executive many times as to how long can we keep our present equipment going by repairs and replacements—I refer to these same locomotives—how long? I can't give you that precisely, I say that it is a matter of judgment that will have to be taken from one year to another, and there will be portions of Canada where it is more economical to dieselize now than later. I must say that you are mistaken about what

I said last year. What I said—at least as I remember it—we were talking about the use of oil, and I said that our conversion to oil was largely in western Canada. That is what I said.

Mr. GILLIS: There was something about the program east of Montreal for dieselization at that time.

Mr. GORDON: Oh, I do not think I said that because, Mr. Gillis, at that very time diesels were running in the maritime region, and any such statement at that time by me would have been denied by the facts.

Mr. GILLIS: As I recall what you said was that there may have been one or two there as experiments. That is exactly what you said.

Mr. GORDON: I would like to check the record on that later, and if I find that is what I said I would like to withdraw it, I did not mean that.

Mr. GILLIS: What I am getting at is this: the coal industry is the basis of Nova Scotia's economy and it is going to be affected—anyway I would judge that it is going to be affected—by the loss of the C.N. market for coal, it is going to be quite a handicap for us; and I believe that there is a definite program that the C.N. is going out of the coal business at that end of the line. That being so, then I believe the people of Nova Scotia, particularly the coal mine operators in the district, and the industries, should have some definite time-table so they may be able to regulate their business as to the time they may expect to lose that C.N. market. I would be pleased if Mr. Gordon could just give us some indication along the line of a time-table as to when they expect the large coal market that we now have with the Canadian National Railway to be cut off.

Mr. GORDON: I do not foresee it as being a sudden loss. It will be a gradual decline as our steam locomotives wear out. I can give you a somewhat informal guess, but that is about as far as we can get.

Mr. GILLIS: I would like to ask you a question. Of course, I do not believe that you will be able to use diesels east of Truro, down that road.

The CHAIRMAN: I notice a number of members looking at the clock and I would appreciate it if the committee would bear with us so that we might finish this item we are on now so that we might start tomorrow morning with item 14, signalling and track equipment. If the committee are willing I would very much like to finish with the item now before us.

Mr. GILLIS: I am willing to drop it right here. There may be some other item on which I can bring it up again.

Mr. GORDON: I can give you just a guess, if you will take it as a guess—you understand that it is nothing more than that?

Mr. GILLIS: No.

Mr. GORDON: If you are willing to take it as a guess; in our studies in our five year program we estimate in the carrying out of our program that there will be a reduction in the steam coal used by the C.N.R., that the reduction in the maritime provinces will be, roughly, about 280,000 tons annually.

Mr. GILLIS: Annually?

Mr. GORDON: Yes; that is starting from 1951 as a base.

The CHAIRMAN: Mr. Fulton.

Mr. FULTON: The question I wanted to ask is: Based on what you have said and from what I read in the report which is now before us, as to the large initial expenditure, is the initial cost for these locomotives very much greater than that of a steam locomotive?

Mr. GORDON: Yes, I could give you some figures on that.

Mr. FULTON: Would you just give me one for comparison—perhaps you could table that and so not hold up proceedings.

Mr. GORDON: Well, roughly speaking—I haven't got the relative cost of steam—again, much depends on the types of locomotives we are discussing; but a passenger locomotive cost us about $170,000 each the last time we bought them. I do not know how far back that is, it is some years. To take a rough comparison, these steam locomotives might have cost us around $150,000, and the probable cost would be $220,000 to $250,000 for diesels.

Mr. FULTON: You mentioned a five year utilization program. Do you feel that you are in a position to give us any highlights of that program so that we can check progress from time to time?

Mr. GORDON: Yes; I think I could make a note to mention it in the annual report each year.

Mr. FULTON: Are you in a position now to outline it, without disclosing some information which you would rather not divulge?

Mr. GORDON: If I should start talking about the number of units contemplated in a particular year, that would put ideas into the heads of manufacturers and so on, and they would be down on me like a ton of bricks to get me to buy more or less, as the case may be. But the program we have in mind over a five year period would be, providing we carry it out, as follows: there are four different sections; on the through freight sections we estimate we could use about 350 diesels in our through freight service and thereby get the kind of economy I mentioned; we think we could write that off over a ten year period.

In our switchers, on the same basis of the five years, we think we could put in another 128 units and still get economies. There is an interesting point with respect to switchers. Where we plan to put in diesel switchers is on a 24 or a 16 hour assignment; that is, when we get to places where we have only 8 hour assignments, we think they are not at all as economical as steam. Therefore we will use steam. And as for our way-freight program, it is still under study. That is about the size of it.

Mr. FULTON: I take it that it is the through freight system at the moment which is the basis of your five year program?

Mr. GORDON: For the five year program which we have in mind, at the present trend of prices, it would cost us roughly about $95 million; and for complete dieselization of the Canadian National, it would cost us about $500 million.

Mr. FULTON: That is about one-fifth of the complete dieselization cost?

Mr. GORDON: I might say that I would not dream of advising the government to spend $500 million over a period of any time, whether it be 10, 15, or 20 years, unless I could point out that it was an investment which would pay handsome dividends.

Mr. FULTON: One last question: concerning that $500 million which is a hypothetical figure, what portion do you estimate would be covered by previous depreciation of steam locomotives, and what portion would you have to go and borrow because of the increased cost factor which you have already mentioned? Can you strike any rough proportion?

Mr. GORDON: I do not know. I would have to think about that. I do not know how to sort that out in my mind because, as far as depreciation is concerned, from an economic point of view, we would have to write off the old steam locomotives.

Mr. FULTON: They are not yet worn out; and you would be writing them off before they were worn out; I see.

Mr. POULIOT: When you made your plans for dieselization, I take it that you considered the question of manpower too?

Mr. GORDON: Very definitely; and as I said before, we have in mind, and we have done, a series of retraining operations for our men, and we have provided classes where these men can go and learn about diesel locomotives; and we hope in that way to be able to derive our manpower requirements from within the existing personnel.

Mr. POULIOT: And where is this retraining being done?

Mr. GORDON: That is being done at our various shops.

Mr. POULIOT: What shops?

Mr. GORDON: Point St. Charles is one.

Mr. DINGLE: Yes, Point St. Charles is one.

Mr. GORDON: Where diesels are being serviced now, we have classes under way.

Mr. POULIOT: And are they the only shops which have retraining for the men?

Mr. GORDON: No. Eventually all the shops will have retraining, when we get on with the program.

Mr. POULIOT: Yes, but did all your men have an opportunity to retrain?

Mr. GORDON: Everybody who wanted to take advantage had the opportunity, yes.

Mr. POULIOT: Were they notified? Were the shops notified accordingly?

Mr. GORDON: It is entirely on a voluntary basis, you understand.

Mr. POULIOT: Yes, but that is not my question. I want to konw if all the men working in the shops have been informed that they can be trained at definite points?

Mr. GORDON: I think I see the difficulty. I am talking about a training program which is part of this program but it is not in effect yet.

Mr. POULIOT: It is not in effect yet?

Mr. GORDON: No. We are only starting. We have had some classes but it has not become a general thing yet; because we are not ready to go ahead with the program completely. You see, we have no got delivery of the diesels we have ordered for this year.

Mr. POULIOT: How many erecting shops have you on the system?

Mr. DINGLE: We have them at Moncton, Rivière du Loup, Pt. St. Charles, Stratford, Transcona and Fort Rouge. Some heavy repairs are made at Calder and Port Mann as well.

Mr. POULIOT: Now if dieselization of the system comes into effect which shops will be first affected by that?

Mr. GORDON: The first shops that would be affected would be those in the area where the dieselization program is to be expanded, and one of the first shops that will be directly affected will be Rivière du Loup, Quebec.

Mr. POULIOT: Why is it Rivière du Loup? Why is it not Moncton or any other place?

Mr. GORDON: Because our dieselization program has now reached a stage where the facilities at Rivière du Loup are not going to be required in due course. I do not say immediately, but there will be a gradual reduction.

Mr. POULIOT: Why did you start with the province of Quebec?

Mr. GORDON: Because that it where the diesels are. That is where they are running.

Mr. POULIOT: They are running in Moncton?

Mr. GORDON: Yes.

Mr. POULIOT: Moncton will not be affected?

Mr. GORDON: It will be affected, yes.

Mr. POULIOT: As well as Rivière du Loup?

Mr. GORDON: It will be a matter of time. You see, Rivière du Loup is only equipped to do light repairs on steam locomotives. It has not got the machinery—

Mr. POULIOT: Well, Mr. Gordon, you know very well that Rivière du Loup has been sabotaged by Moncton?

Mr. GORDON: No.

Mr. POULIOT: I will establish that with authority, and I would like to have the general storekeeper at Moncton to prove it in a conclusive manner.

Mr. GORDON: What do you mean by "sabotaged"?

Mr. POULIOT: I mean by "sabotage" many things. I mean by "sabotage" three things: In the first place the machinery that was in Rivière du Loup has been transferred to Moncton. I mentioned it in the House of Commons at the time of Appleton and Barnes when the shops were closed. Mr. Hungerford gave definite instructions to the Rivière du Loup foreman that he could make his choice of the machinery that was required. Then, Mr. Barnes, the superintendent of MP and MC in Moncton came to St. Malo and changed things so they went to Moncton. Mr. Hungerford then gave definite instructions that the machinery should be sent to Rivière du Loup in spite of the change by Barnes. That is a fact that can be verified by anyone in the railway at the time. Moncton wanted to take over everything belonging to Rivière du Loup. If we were dispossessed of our machinery and men in the first place it was due to crooked politicians belonging to both parties during the first war. That, however, is a thing of the past and now we have to consider the present. We have suffered injustice from Moncton all the time. We could not get a fair deal. Now, my points are these. The minister knows about it and he has perhaps sent a copy of my letter to the management. I will give one to Mr. Dingle and to him.

In the first place, there was some machinery at Riviere du Loup that was essentially for the repair of steam locomotives, which was partly transferred to Moncton. In the second place, essential parts that should have been in the store at Riviere du Loup were not available, and, in the third place, when the storekeeper at Riviere du Loup asked the general storekeeper at Moncton for parts that were essential, he had to send even three tracers after his first request to get those things, and most of the time he did not get any answer. But when the superintendent of motive power at Moncton was telegraphed, he got all the parts by the next train, shipped on passenger cars. It shows that the parts were there. There was something wrong with the storekeeper or the office; they were unwilling to send it to Riviere du Loup. This is what we want, to get rid of the Moncton office, and we want to be with the Central Region, and there is a round robin which has been signed by nine members of parliament who do not want to have anything to do with Moncton.

Mr. GORDON: I would like to give you my personal assurance that I have made a careful examination of the various things that you have made reference to and I am perfectly satisfied that none of our Moncton officials, nor indeed any official that I can find, has had any bias such as you mentioned, or has acted unfairly in any way. Now, it is quite possible that on given occasions there would be a shortage of equipment or essential parts at Riviere du Loup. That occurs with every shop in the system. We cannot keep supplies where we are going to have everything at a given place at a given time, but I can personally assure you that it is not done by reason of spite or dislike—it is one of those things which happen in the course of every day life.

Mr. POULIOT: How is it that when the superintendent of motive power was contacted they came the day after?

Mr. GORDON: There have been occasions on which we have taken essential parts from Riviere du Loup and sent them elsewhere. We cannot keep things just as we would like to. Sometimes there will be wrecks or breakdowns in particular shops, where they are in need of a particular part. That can happen at any time.

Mr. POULIOT: You may not admit it without firing those concerned, but I can tell you that we are being dealt with unjustly and unfairly from the start, and I have the idea they fight against us all the time, and I would mention Barnes. That is strictly true and it is a fact, and that is why we do not want to have anything more to do with Moncton under any consideration.

Mr. GORDON: I am sorry you feel that way.

Mr. POULIOT: I am sorry, too, and it is very unpleasant and I do this very reluctantly, but I have to put the facts before you. In addition, I am very sorry, too, because they are in a part of the system that meets with a deficit and we have to pay for it. I find it tough, at a time that we hear so much about civil defence, that we have such a centralization of the railway shops. They should be decentralized, and there should be lines of rail going to Gaspe. We had submarines there during the last war, and there were complications. There was a telephone that was working only part time and it was most unsatisfactory. This German submarine came 30 miles from Riviere du Loup, near Trois Pistoles and Bic. All the repair shops of the railways should be decentralized to a large extent.

Mr. GORDON: Well, that is your view, which I do not share, Mr. Pouliot; and I have the responsibility as the president of this railway, and my responsibility is to determine what is the most value; the best way to manage the railway and particularly the shops at a particular point. If it is shown to me that it is efficient to centralize by reason of the high cost of machinery and so forth, that is certainly what I will do, and the management at this time are following that policy.

Mr. POULIOT: Yes. I know very well, Mr. Gordon, that it is done on purpose, that one may come to a shop and start a repair and they refuse to send the parts and the cost goes higher in the books.

Mr. GORDON: Well, it is quite so and I admit it; but I might say that Riviere du Loup has not got the equipment, either with respect to the type of machinery or the men trained to handle heavy repairs. We have found it more economical to centralize that in Moncton, in the Moncton shops. It is a matter of judgment on the part of management. I ask you to accept it. If you do not think that we are managing the railway efficiently then you are right in so stating. After all, it is my responsibility to determine that.

Mr. POULIOT: I do not think there is any support for the charge that Riviere du Loup is not efficient. And I tell you again that the Moncton people, the office at Moncton, have been unfair to Riviere du Loup right from the start, and they are cursing the French Canadians there; and that is why there have been so many protests from the union which I sent to Mr. Johnson. At the time I didn't keep them, I did not think that I would ever need them.

Mr. GORDON: I am very sorry to hear you make that statement because I can assure you that there is no bias against French Canadians.

Mr. POULIOT: There is no place in Canada where there is so much bigotry as in the Moncton office.

Mr. GORDON: That I must deny.

Mr. POULIOT: You should deal with him.

Mr. GORDON: I have dealt with the matter. I have made a personal investigation into each one of the statements you have made and I am satisfied, as a fair minded man, that your allegations in respect of our Moncton officials are not founded on fact.

Mr. POULIOT: I regret that, but I know them very well.

Mr. GORDON: Then we must agree to disagree, Mr. Pouliot; I am sorry.

Mr. FULTON: I think that there are a lot of things that should be done at Kamloops instead of Vancouver, but I do not think that there is any prejudice against us.

The CHAIRMAN: Shall we go on to the next item, signalling and track equipment?

Mr. CARTER: I have one question I would like to ask on the item now before the committee, but I can ask it tomorrow.

The CHAIRMAN: I would like to finish with this item now so that we will not have to come back to it again.

Mr. CARTER: I understand that dieselization reduces materially the cost of switching.

Mr. GORDON: Did you say dieselization? What does it do?

Mr. CARTER: That it reduces the cost of switching?

Mr. GORDON: In the first instance, yes. It all depends on continued use. Where you get an economic advantage from the use of a diesel is where you can keep the diesel locomotive working all the time. If you can keep it active, working for you; and they can do a very substantial amount of work. The economy in a diesel switcher is that it needs very little maintenance upkeep. It is a productive piece of equipment.

Mr. CARTER: From your experience perhaps you could answer this question: is it your intention to economize by the use of switchers, to economize in cost by their use?

Mr. GORDON: Yes, we have that same thing going on all the time.

The CHAIRMAN: We will meet at 11 o'clock tomorrow morning.

Mr. POULIOT: Just one more item, Mr. Chairman.

The CHAIRMAN: Let us finish.

Mr. FULTON: We will be here until 9 o'clock.

Mr. POULIOT: I would like to have the figures about the probable reduction, or change-over, at Stratford, Fort Rouge and Strathcona. What plans have you made for the change-over there?

Mr. GORDON: It will be generally the same. As I have tried to explain earlier, there will be a gradual reduction in steam locomotive repairs that will be available for these shops, and some of these shops will be discontinued in due course. I can't tell you exactly when. Some of them will be changed over. It costs less for us, for example, to handle diesels than it does steam. It all depends on the type of shop and the work being done there. That is a program which will carry through maybe over the next 20 years. It will be a gradual change-over. It will not be done suddenly, but each one of these shops will be changed. Each one will notice the change.

Mr. FULTON: That will extend over a period of 20 years. I presume that in the next year you will be using more of them?

Mr. GORDON: Oh yes. I am saying that we are making a start now. I am talking about the whole of Canada. There will be some of these shops that will be affected this year.

Mr. FULTON: To what extent?

Mr. GORDON: That will depend on how far we get our diesels, depending on our diesel deliveries. We have diesels on order. We do not know exactly when we will get them delivered; it may be 6 months, it may be a year—as a matter of fact, I do not think any are expected, any more diesels until next Spring on these orders.

Mr. GRACEY: Next year.

Mr. GORDON: It will be next year before we really get enough diesels in other areas to make the changes anticipated.

Mr. FULTON: Mr. Gordon, could you give us any figures showing the effect this change-over will have from points such as Stratford, Fort Rouge and Strathcona?

Mr. GORDON: I can tell you generally that Stratford will probably be the place where we will find it advantageous to concentrate steam locomotive repairs. It is admirably suited for that purpose, and it may be one of the last shops to be affected.

Mr. FULTON: And both will be done; steam repairs and diesel repairs will be made at Moncton and Stratford?

Mr. GORDON: Both will be used in that place, yes.

Mr. POULIOT: Can you tell me when you expect to renovate your plant at Stratford?

Mr. GORDON: Stratford is the place where we will probably find it to be most economical to send most of our steam repair jobs; they will be centralized there for steam only. We do not intend to provide a diesel repair shop at Stratford, and we are not putting diesels in at Stratford.

Mr. POULIOT: So you will have diesel and steam repairs made at the Point St. Charles shops?

Mr. GORDON: That is right.

Mr. POULIOT: And at Moncton?

Mr. GORDON: Yes, at Moncton.

Mr. POULIOT: And the steam repairs will be made at Stratford?

Mr. GORDON: Yes, but with no diesels at Stratford.

Mr. POULIOT: No diesels at Stratford; now what about Fort Rouge and Transcona, when those shops are closed?

Mr. GORDON: There will be a change there; but again it will depend on the rate of dieselization in that area.

Mr. POULIOT: You do not mean that all the steam locomotives from the Maritimes will go all the way to Stratford for repair?

Mr. GORDON: No.

Mr. POULIOT: You will have them repaired at Moncton?

Mr. GORDON: Steam locomotives will be repaired at Moncton.

Mr. POULIOT: And Riviere du Loup will be the first on the list?

Mr. GORDON: Riviere du Loup, as it stands now, is probably the starting point, by reason of its particular situation, its equipment, and its location.

Mr. FULTON: Are there advantages which will accrue to Riviere du Loup as a result of that feature which has been discussed?

Mr. GORDON: The advantages are that as dieselization comes about in that part of the country there will be better service. That is all.

Mr. POULIOT: You know very well that there are many engines which are closer to Riviere du Loup than to Moncton, and which could be repaired at Riviere du Loup.

Mr. GORDON: It is our intention to spin out this program as long as we can because we recognize that we have a duty to the people of any community where we have been located; but it is an unfortunate fact that we have to start somewhere, and it is an unfortunate fact that because of the location of Riviere du Loup plus the type of shop we have there it is going to be one of the first shops affected by the dieselization program. It just cannot be helped.

Mr. Pouliot: Now we have to talk about very sad prospects that may not be probable but that may be possible. If the Moncton shops are bombed, where will you have the repairs made?

Mr. Gordon: Well, that is a hypothetical question!

Mr. Pouliot: It is not probable?

Mr. Gordon: The only answer I can give to you is: not at Moncton.

Mr. Pouliot: You do not believe in decentralization?

Mr. Gordon: No, I do not. I think that it can be demonstrated quite well by our technical officers that, in the light of the heavy power we are now using, and with the great weights that we handle and so forth, it is much more economical to centralize heavy machinery at specific points. If we wanted to expand and put in cranes which could handle heavy locomotives at various points across the country, we might have to buy from 12 to 15 cranes, when one would do, if we centralized.

Mr. Pouliot: Yes; but you would have a crane idle at St. Malo which could be used at Riviere du Loup.

Mr. Gordon: Riviere du Loup is not equipped with a heavy crane which could handle heavy repair jobs.

Mr. Pouliot: Yes, but you have an idle crane at St. Malo.

Mr. Gordon: I do not know what you are referring to. They are not our cranes.

Mr. Pouliot: Where have they been transferred to—the cranes that were at St. Malo?

Mr. Gordon: We are unaware of any cranes belonging to the C.N.R. that are lying there.

Mr. Pouliot: No, but there were big cranes there and I would like to know where they have been sent.

Mr. Gordon: If there were cranes I would presume they have been transferred to Moncton and Point St. Charles.

The Chairman: Would you be satisfied if Mr. Dingle would look that up and put it on the record as an answer to your question, Mr. Pouliot?

Mr. Pouliot: I am not going to keep the committee any longer but this will be carried on division and I reserve the right to take it up again when we look at the other figures.

The Chairman: The committee has been pretty patient and you have made a marvellous presentation of your case. Are you not content to leave it at that?

Mr. Pouliot: I leave the matter now on division but I will take it up again when we examine the figures.

The Chairman: We stand adjourned until 11 o'clock tomorrow morning.

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 29, 1952

C.N.R. Annual Report (1951) and Budget (1952).
C.N. Steamships Limited (1951) and Budget (1952).
C.N.R. Securities Trust (1951).
Auditors' Report to Parliament.
Estimates—Items 485, 486 and 493.

WITNESSES:

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

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

MINUTES OF PROCEEDINGS

TUESDAY, April 29, 1952.

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

Members present: Messrs. Benidickson, Carter, Dumas, Follwell, Fraser, Fulton, Gillis, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Pouliot.

In attendance: The Hon. L. Chevrier, Minister of Transport; and Mr. Donald Gordon, Chairman and President; Mr. S. F. Dingle, Vice-President (Operations); Mr. T. V. Gracey, Comptroller; Mr. T. H. Cooper, Vice-President (Accounting); all of the Canadian National Railways.

The Committee proceeded with the study of the Canadian National Railways Annual Report and the examination of Mr. Gordon.

During the course of the proceedings Mr. Chevrier answered questions specifically directed to him.

At 1.05 o'clock p.m., the examination of Mr. Gordon still continuing, the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Carter, Cavers, Churchill, Dumas, Follwell, Fraser, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

In attendance: Same as indicated for morning sitting. The Committee completed its study of the Canadian National Railways Annual Report (1951) and the examination of Mr. Gordon thereon. The said annual report was adopted.

The Committee then considered and adopted the Annual Report of the Canadian National (West Indies) Steamships, Limited (1951). During the consideration of the said report Mr. Chevrier and Mr. Gordon were questioned.

The Committee then considered and approved the following estimates referred to the Committee:

Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit
Vote 486—Canadian National (West Indies) Steamships, Limited, Deficit
Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

The Committee then considered and approved the Canadian National Railways and Canadian National (West Indies) Steamships, Limited Income Account and Capital Budget—1952.

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Mr. Gordon made an introductory statement on the above and was questioned in detail thereon.

The Annual Report of The Canadian National Railways Securities Trust (1951) was considered and adopted.

The Committee then considered and adopted the Auditors' Report to Parliament (1951) on the Canadian National Railway System and the Canadian National (West Indies) Steamships, Limited.

Mr. F. P. Turville of Georges A. Touche & Co., was called, questioned and retired.

Answers to questions asked by Mr. James, Mr. Pouliot, Mr. Dumas, and Mr. Carter were tabled and ordered to be printed as part of this day's evidence. (See also Appendix A—Notes J 56 No. Rail).

The Chairman expressed the appreciation of the Committee to Mr. Gordon and his officials. Mr. Gordon emphasized the steady technological advances being made within the railway industry and expressed the determination of the Canadian National Railways to keep abreast of these changes, and in so doing keep pace with the growth in the Canadian economy.

At 6.00 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m., Wednesday, April 30, 1952.

R. J. GRATRIX,
Clerk of the Committee.

EVIDENCE

April 29, 1952.
11:00 a.m.

The Chairman: Gentlemen, we have a quorum.

Mr. Pouliot: Before you go ahead: I would like to raise two points of order. The first one is about *Hansard,* our committee *Hansard.* It must be the same as court reports—stenographic notes of the evidence given by witnesses—the only difference is that witnesses are not sworn, don't take the oath. I am not a purist in the English language and my knowledge of English is basic English, and when I use the word "tough" I do not want it to be changed by another word on the copy of *Hansard*; "tough" is said, "tough", and "tough" should be on the record. *Hansard* should have no make-up, no Toni permanent wave. *Hansard* shall be exactly a written picture of what is said in the committee. That is my first point of order.

My second point of order, sir, is about my right to sit here as a member of parliament. I have the greatest respect for you. I will support the chair every time that necessity arises; but yesterday the *Hansard* copy reports you, sir, as having said that the committee had been patient with me. I do not expect the committee to be patient with me, but I expect the committee to be just as courteous with me, which has been done, as I am with others; and it is not exactly the language you have used, but it amounts to nearly the same thing. Now, what I tell you is that I have no prejudice of any kind. I have no animosity; but I am here as a member of parliament to do something about the C.N.R. business; and, until now, and I hope in the future also, I have been a C.N.R. man. But I am here to have information and to make my observations which may be similar to those of the directors, or similar to what the directors could make if they felt like it. And, that being said, I hope that whatever I have to say will be taken as it is said.

The Chairman: Mr. Pouliot, I am sure that the reporters have noted your remarks in regard to the first point of order, and I would suggest that it might be helpful if you would sit a little closer to the reporters to give them a chance to really get down your questions.

Mr. Pouliot: I am not complaining about the way the questions are reported.

The Chairman: It is the editing that you complain of?

Mr. Pouliot: I am complaining about the embellishments.

The Chairman: All right. As to your second point of order; I, also, am not a purist in the English language.

Mr. Pouliot: Oh, you are.

The Chairman: If the word which I used, Mr. Pouliot, caused you any offence I want immediately to assure you—

Mr. Pouliot: It is not the word, it is the idea.

The Chairman: —I did honestly feel that the committee was working under pretty strenuous pressure, and I did feel that you were given a full opportunity—

Mr. Pouliot: You did use the word "latitude" yesterday, but it is not on *Hansard.*

The Chairman: I have not read the record.

Mr. Pouliot: It is that word which I objected to, the word "latitude"; and you were close to the stenographer—if I am out of order, stop me at once.

The CHAIRMAN: No, I do not think there was any latitude, but I do feel that you were given full opportunity to present your views on the matter that was before the chair.

Mr. POULIOT: You know very well, Mr. Chairman—

The CHAIRMAN: I was just making a suggestion; you have always been pretty co-operative with the chair, and I was just making the suggestion that perhaps in view of what had happened you would be content to rest your case there; you made out a pretty full case and you did give all the details—

Mr. POULIOT: Without great success.

The CHAIRMAN: Well, the chair has no responsibility as to the success or failure; but I do think that you were given full opportunity; and I was not trying to cut you off unfairly or to suggest that you were accorded any special privilege because you made the comment you did.

Mr. POULIOT: No, but I will tell you—I am the judge, as every member of the committee is the judge of the opportunity to expound a case. Thank you.

The CHAIRMAN: All right. Now, gentlemen, we are on signalling and track equipment. Mr. Fulton is especially interested in this subject but he has to be absent from the committee for an hour or so this morning. Is the committee willing that this item should stand?

Mr. GILLIS: No, we can discuss it. Mr. Fulton is not the only one interested in it. I think that we might very well go on with it.

The CHAIRMAN: In that event we will carry on. Shall we reserve the right to Mr. Fulton to ask further questions when he comes, Mr. Gillis?

Mr. GILLIS: That is entirely up to you, Mr. Chairman.

The CHAIRMAN: I think that it is up to the committee, and I usually find that most folk respond to good treatment; and I would not want to be accused of being unfair to any member of the committee. We will call the item now, then, and you carry on, Mr. Gillis.

Mr. GILLIS: You see, Mr. Chairman, what I cannot figure out is this; why stand the work of the committee for one member? Would you do that?

The CHAIRMAN: I would, if the committee took that view—

Mr. GILLIS: Well, perhaps you would have some justification. You see, our group in the House is pretty small and we are spread very thin. Mr. Fulton's group in the House is quite large.

The CHAIRMAN: You carry on, and if I appear to be leaning over backwards, you let me know.

Mr. FRASER: You must take into consideration the fact that there are a number of the committees sitting this morning. I think it is very kind of you, sir, to suggest that Mr. Fulton be allowed to refer to this section before us when he returns to the committee.

The CHAIRMAN: Well, Mr. Gillis, let us get on.

Mr. GILLIS: I would like to ask Mr. Gordon this question: is there anything in the budget this year to provide for improvements in the main line between Sydney and Truro? In 1942, when this Canso project was before the Reconstruction committee, that committee recommended at that time the Canso project that is being carried out by the government, or the railway, and the double tracking of that main line from Sydney to Moncton. They suggested particularly that that be done with respect to the line, to that part of the line running between Sydney and Truro particularly. And now, as you know very well, Mr. Gordon, that particular section of line is under a severe handicap in that there are a number of grades and curves in the road there pretty well all the way from Sydney to Truro. I was just wondering if when the C.N.R.

is compiling their budget this year, having in mind the improvements that were going to be made in that crossing and the huge development in traffic that has taken place since Newfoundland came into Canada—and there is quite an extension anticipated both with respect to traffic from Newfoundland and from Sydney—and in the next four years there is going to be perhaps a hundred per cent more traffic on that end of the line than there is at the present time which in its present condition is much to be desired—I was just wondering if, Mr. Gordon, you could tell us what the prospects are in the immediate future as to improvements there, particularly on your main line between Truro and Sydney?

Mr. Donald GORDON, C.M.G., (President, Canadian National Railways): The general circumstance on the Truro-Sydney line is that it would be impossible to provide a faster or a more comfortable service between Truro and Sydney on our existing line because of the grades and curvatures which affects adversely our traffic over that line; and the only way that that could be improved would be by relocating a major portion of this railway on a lower grade and with also a minimum of curvature; and that would cost about $15 million.

During 1951, extensive work was performed on this section to improve track conditions. New and improved ballast was supplied in 42 miles of track, and 23 miles was relaid with new 100 lb. rail. In 1952, we are scheduled to continue this improvement by laying 17 miles of 100 lb. rail, and by applying 15 miles of improved ballast.

Practically 100% of the line, Truro to Sydney, with the exception of the portion between Linwood and Mulgrave, approximately 13 miles, which will be abandoned with the construction of the causeway across the Strait of Canso, has been relaid with new rail and ballasted during the past 12 years.

The quantity of work performed on this section during 1951 was very much more than the average amount of work performed on the remainder of the Atlantic Region on a mileage basis. Obviously, the section of Truro to Sydney is not neglected.

Passenger carrying cars regularly operated between Halifax and Sydney on trains 5, 6, 7, 8, 9 and 10 are all steel or steel underframe steel plate construction. All the sleepers and the majority of the coaches are air-conditioned.

Mr. GILLIS: Well, that was in effect in the recommendation of the Reconstruction committee in 1947; that it should be relocated and that these grades and curves were a handicap to any improvement. I was thinking more particularly of about one half of the line from Sydney to Truro. I think that Mr. Gordon will agree with me that a considerable part of that line will have to be relocated. And now, we have heard a good deal about double tracking the line in the maritime provinces; and in connection with Nova Scotia, and Newfoundland also, I think that there is going to be a terrific increase in developments in that part of the country; and, even if it did cost $15 million I think that it is an expenditure that can be justified and we would be doing something for the coming generations. I do not think that at a time when we are talking about the development of the country as a whole, when we are talking about the seaway project and all these things, that a $15 million expenditure in that part of the country which is going to benefit three provinces is excessive at all.

Mr. GORDON: Well, Mr. Gillis, I am interested in having your viewpoint on that. The only comment I care to make at this point is that the capital requirements of the C.N.R. under present day conditions are so enormous, I am just a little frightened. You realize that when we come to consider the whole situation we get into figures which have a meaning in terms of financing possibility, which have to be examined and transferred into terms of the capacity of the country to raise the money. And every item of this kind, of course, is just one more addition which you will have to make to a very large program. I do not disagree with you at all. If it were possible to relocate that line nothing would please us better, because certainly it would give us an easier job; but I think these things are relative to what we have to consider, and that we have to consider them in terms of the enormous capital requirements which are confronting us under present day conditions. That phase of the question is still to be settled; but for the present, at least, it would seem to be an inadvisable expenditure.

Mr. GILLIS: I would not expect you to undertake it tomorrow.

Mr. GORDON: No.

Mr. GILLIS: This is the thing which bothers me, and I agree with you with regard to capital outlay over 10 or 15 years, that it will be quite big; but I am not unmindful of the fact that we are bringing 150,000 to 200,000 immigrants into this country each year, building up our population, and they will require services. The thing that bothers me more than that is that in all of this huge capital outlay, instead of bringing benefit into that part of the country it appears to be working to our detriment and to turn us away from any thought of the rehabilitation of the maritimes.

Mr. GORDON: If you will permit me I would like to make further comment in reference to a paragraph in the press yesterday which related to the coal situation in the maritime provinces. I think perhaps the way I expressed it has caused the press to improperly interpret my comments because the statement in this morning's paper is worded to make it appear that I suggested there would be a reduction of 1,200,000 tons of coal over the next five years. That is not what I had in mind at all, and I think that it would be of interest if I just reviewed the situation a little more completely. What I was trying to say is that we have worked out a five year provisional program in regard to dieselization. That is in the form of a program. It is objective in its nature; that we are approaching this situation, approaching this conversion, transitional period, in an orderly, planned sort of way, instead of just in a sort of harum-scarum sort of way. Now, the five year program has been worked out along these lines, we have said that our total coal consumption of the Canadian National Railways would drop at the end of that five year period. I mean, assuming that we get everything done with regard to that five year period we would be using two and a half million tons less coal than we did last year. Now, of that two and a half million tons of coal that we would be burning less per year, it is estimated, roughly, that of that amount about 280,000 tons would have an effect on the maritime provinces section.

Mr. GILLIS: But you said annually.

Mr. GORDON: Yes. Now, that again is qualified with this; last year we had shipments of coal in the Canadian National Railway of 7,149,200 tons; of that, 1,949,600 tons came from Canadian sources and 5,199,600 tons came from United States sources. That means that at the end of five years we will still be a large user of coal, to the extent, roughly, of 4,600,000 tons; but we still buy that coal wherever we can get the best price competitively; so it boils down to a quesiton of price. As I explained to you last year, the economic area with respect to coal is conditioned by where we can use coal in competition with American coal. The amount that we can use varies, depending upon the price of coal quoted in the maritime provinces as compared with the United States; and the economic area as I referred to it, will expand at times and it will contract at times; so that if the producers of coal in the maritime provinces are competitive with American coal the area in which we can use maritime coal will be greater. Now, in the area that we would expect they would be competing in—we will buy all the coal they can possibly sell us at that particular period.

Mr. GILLIS: Can you give us some idea of the competitive position now as between American and Canadian coal?

Mr. GORDON: Yes, it has worsened lately. I cannot give you the proper forecast for 1952 because we are just in the middle of negotiating. I do not know what the water rate is as compared with rail. But I can tell you this, that the economic area last year covered Sennetere-Garneau, Quebec, and all points east; and the quantity of coal that we required in that area, I am speaking of the C.N.R. of course, was 1,535,000 tons. That is what we needed in that area. Now the coal which we got, the Canadian coal which we got in that area, was 1,045,000 tons. In other words, you can perhaps put it better this way; that there was 490,000 tons of coal that could have been bought and which would have been bought by the Canadian National Railways if the price had been competitive in that area. Now, I hope that I have made it clear to you—it gets a little complicated because there are varying figures here—relating to the shipment of coal, the consumption of coal, and so on.

Mr. GILLIS: You spoke about the competitive position having worsened. That does not speak very well for the mechanization of Dosco, which Dosco has been carrying out?

Mr. GORDON: I would not be prepared to be critical of that. I do not know anything about it. The competitive position has worsened because in the United States the price has dropped while prices here have risen, and that has had an immediate effect on the competitive picture. As a matter of fact it changes from month to month; and the result of that situation is that with regard to coal from the United States viz-a-viz Canadian coal, there will be a lot of American coal bought because of the market fluctuations and the lower prices which prevail there at present.

Mr. FRASER: Would the exchange situation at the present time be a factor?

Mr. GORDON: You refer to the American exchange rate?

Mr. FRASER: Yes.

Mr. GORDON: It would help American coal, yes.

Mr. FRASER: You can buy it cheaper?

Mr. GORDON: We can buy it, if the Canadian dollar remains where it is—that certainly would be a factor.

The CHAIRMAN: Are there any further questions on signalling and track equipment?

Mr. GORDON: If I may add just one more comment? It has a bearing on the competitive price situation. The maritime province coal operators may have the advantage of subventions; if subventions are applicable to the movement of coal under the Dominion Coal Board orders, then the degree of subvention as it applies would have a bearing on the competitive economic area.

Mr. GILLIS: While you are on this subject of dieselization, are there any experiments now being carried on with the turbine locomotive? Are you still interested in that, or have you dropped it?

Mr. GORDON: No, far from it. We are very interested in turbine development and are keeping closely in touch with the experiments which are going on. We are also closely watching an experiment which is going on between our research and development branch and McGill University which relates to the relative economy of oil-fired gas turbines and coal-fired gas turbines. That presents a real possibility and we are watching it with great interest.

The CHAIRMAN: Mr. Pouliot.

Mr. POULIOT: Thank you, Mr. Chairman. Mr. Gordon, would you please tell us whether you are making any provision for the repair of tracks and the extension of the Temiscouta railway.

Mr. GORDON: Yes, I can give you that. When we took over the Temiscouta railway we estimated the total cost of the rehabilitation of this line would amount to $1,300,000. The particular program decided on at that time was designed to run over a period of five years, and what we have been doing there is to proceed with that program. The total maintenance expenditure during the year 1951 amounted to $443,392; and the cost of normal maintenance was estimated at $250,000; and we have in our capital budget submission for 1952 a revote on the Temiscouta account of $323,000.

Mr. POULIOT: Would that complete the line?

Mr. GORDON: Pardon me?

Mr. POULIOT: Would it complete the line to Riviere du Loup?

Mr. GORDON: The line—that is from Riviere du Loup to Edmunston, and from Edmunston to Connors—yes, it will take care of it.

Mr. POULIOT: No. What I mean is—you say last year the work was done from Edmundston southwards—no, northwards to St. Louis?

Mr. GORDON: Yes.

Mr. POULIOT: And I would like to know if the work will be done from St. Louis to Riviere du Loup this year?

Mr. GORDON: This year—can you answer that, Mr. Dingle?

Mr. DINGLE: The entire program is based on the five year period Mr. Gordon mentioned, and we will do a portion each year. For example, we hope this year to install 10 miles of new rail—it will be part of the program extending over a period of five years.

Mr. POULIOT: It will take you five years to complete it?

Mr. DINGLE: That is correct.

Mr. POULIOT: And from what time does that period of five years start?

Mr. GORDON: Five years from January 1, 1950.

Mr. POULIOT: Oh, yes.

Mr. GORDON: The program started in 1950.

Mr. POULIOT: Yes.

Mr. GORDON: And the entire program is to be completed by 1955.

Mr. POULIOT: I hope that I will live long enough to see the completion of the line.

Mr. GORDON: I would certainly underwrite a life insurance risk up to 1955, Mr. Pouliot.

Mr. POULIOT: Now, Mr. Gordon, have you got something for the improvement of the railway yards at Riviere du Loup?

Mr. GORDON: I was just wondering, Mr. Chairman—this question will arise in connection with the budget. And perhaps you would rather deal with it then.

The CHAIRMAN: Yes.

Mr. GORDON: We will be prepared to go into it in detail on the budget item when we get to that point.

The CHAIRMAN: Are there any further questions on this subject?

Mr. FRASER: Yes, Mr. Chairman. This is under section 15, it is marked here, automatic signals; that covers signals for snow slides, does it? That is what that covers?

Mr. GORDON: No, automatic signals. Block signals are not snow slide signals. They are in the same area as that we had been experimenting with snow slide signalling, but I may tell you that we have pretty well come to the conclusion that the snow slide detectors are not a satisfactory device.

Mr. FRASER: You say they are not satisfactory?

Mr. GORDON: No; as a matter of fact, we have just about come to the conclusion that in some respects they are very dangerous.

Mr. FRASER: Is there any other method which can be employed?

Mr. GORDON: We have just about come to the conclusion that the automatic block is the best method.

Mr. FRASER: That is the type of signal that is mentioned here?

Mr. GORDON: That is right.

Mr. FRASER: Will that automatically check snow slides? Does that?

Mr. GORDON: No, it does not, none of these signal devices do; as a matter of fact, a lot of people seem to have a wrong impression, they seem to have the impression that the automatic block, or centralized traffic control is a nearly fool-proof system. It is not. We had one experience just the other day. There was a washout, a slide, whatever you want to call it; and a section of the road was washed out. A train had gone over it just a short time before, but there was no indication on the signal system that there was anything wrong with the track. The engine had gone off the track but the track had not been broken so the signal still showed green despite the fact that the engine was off the track. So, you see, there is nothing that is absolutely fool-proof.

Mr. FRASER: Of course, there is nothing in the world that is fool-proof. You are absolutely right there. Mr. Chairman, are we also under this section taking up the matter of tracks?

The CHAIRMAN: What do you mean?

Mr. FRASER: For instance, the tracks between Toronto and Peterboro. I was just wondering if anything had been done on that to bring it up to date.

Mr. GORDON: Yes, we have had a great deal of work done on that. There, again, you will see the program we are providing when we get to our budget item.

Mr. FRASER: May I ask a question there?

The CHAIRMAN: Yes.

Mr. FRASER: You are going to revert to this item and allow Mr. Fulton to ask further questions on it?

The CHAIRMAN: Yes, we are going to allow Mr. Fulton to ask his questions when he comes back from the other committee, if the committee permits him to do so.

Mr. MCLURE: With reference to the Hillsboro bridge, I understand that it was condemned by the Canadian National Railways, which interrupts the traffic from Charlottetown to Murray Harbour. What further arrengements, if any, are being made with reference to this matter?

Mr. GORDON: The Hillsboro Bridge was condemned not by the Canadian National Railways but by the Board of Transport Commissioners in the first instance as being unsafe for railway operation; and in view of that fact we were prohibited from operating trains across the bridge. There was a hearing held later on by the Board of Transport Commissioners to see whether or not the alternative service which we proposed was adequate; but we have given up operation across the Hillsboro Bridge and we have received authority to discontinue the passenger and mixed train service over to Murray Harbour, for a distance of approximately 11 miles. We are operating an alternative service.

Mr. DINGLE: Yes, in the form of a taxi service.

Mr. GORDON: Across the bridge.

Mr. DINGLE: We use taxis to take the people over from the lower end of the bridge.

Mr. GORDON: We are operating trains to Southport, and the passengers are transported back and forth between there and Charlottetown by taxi, at a cost of 10 cents per trip, for a distance of 1½ miles.

The CHAIRMAN: Are there any further questions?

Mr. FRASER: Owing to accidents when cars bump into freight trains and passenger trains and one thing and another, I was just wondering if any consideration has been given to a different form for the railway crossing signs? This has been brought to my attention. In most cases they just say "railway crossing", but they do not indicate on the sign the direction in which the railway crosses the highway.

Mr. GORDON: I beg your pardon.

Mr. FRASER: The railway crossing signs as presently in use do not show on the sign the direction in which the railway crosses the highway.

Hon. Mr. CHEVRIER: You mean as signs do on the highway?

Mr. FRASER: Yes.

Mr. GORDON: You mean by indicating the angle of the crossing on the sign?

Mr. FRASER: Yes. They do not show the angle at which the train tracks cross the highway. In many cases you might expect it to be at a right angle, but it will turn out to be in an entirely different direction.

Hon. Mr. CHEVRIER: That is a matter to which the Board of Transport Commissioners give consideration continuously. They make representations to us for certain amendments to be made to the Railway Act, but I do not recall if this is one of the things they have taken up. The board has a duty, through its engineering department, to study the matter of these grade crossings, and such things should certainly be brought to their attention.

Mr. FRASER: I know a man who was in a crash of that kind who said that if he had known which way the tracks crossed the highway, he did not think it would have happened.

Hon. Mr. CHEVRIER: Of course, it is pretty hard to foresee all eventualities that are likely to happen at a grade crossing.

Mr. FRASER: It was just an idea and I thought this was the time to put it before the committee.

The CHAIRMAN: Paragraph 17, "Communications". Are there any questions?

Mr. CARTER: I would like to ask a question about our telegraphers in Newfoundland who are also postmasters. I understood that last December a conference was held between the officials of the Post Office Department and C.N.T., at which certain understandings or recommendations were arrived at. I wonder if Mr. Gordon could bring us up to date on whether these recommendations have been implemented.

Hon. Mr. CHEVRIER: I understand there was a meeting between officials of the Post Office Department and our officials of the Department of Transport, with the object of alleviating grievances, and I think they did a pretty good job to alleviate the grievances of these employees. The Post Office Department and the Canadian National telegraphers agreed to inaugurate certain changes. They are as follows:

> 1. Payment by the Post Office Department to the Postmasters.
>
> The Post Office Department are working out a new plan for the payment of their services as postmasters, based on the volume of mail handled, both incoming and outgoing.

2. Seven days a week on account of C.N.T. business.

The volume of telegraph and telephone business handled by the employees on Sunday is very small, and as an experiment, the C.N.T. will close their offices all day Sunday, and the employees will not have to be on duty on Sunday. If this experiment is satisfactory, it will be extended to include statutory holidays.

3. Relief Operators to enable Regular Operators to take holidays.

In future, these employees will be granted two weeks holidays with pay. The C.N.T. will furnish relief operators. The relief operators will act as postmasters during the relief period, and the Post Office and C.N.T. will share in the cost, with the exception of travelling and living expenses of the relief operators, which will be paid by the C.N.T. The above will apply to some 115 offices where the employee must be a qualified telegraph operator, but will not apply to stations where only telephones are installed, as the operation of telephones does not require special qualifications, and the persons who are acting as postmasters could also operate the C.N.T. telephones.

4. Separation of Postal Services from C.N.T. Services.

At the present time, it is not possible to completely separate the two services, due to a lack of accommodation at these remote points, and in some cases, it would be necessary for the C.N.T. to construct new telegraph and telephone lines for considerable distances in order to locate their offices in separate locations, but it was agreed that the separation of the services would be desirable, and in places where the C.N.T. services can be separated from the postal service without too heavy an expense, separation would be undertaken, but it would probably take at least 5 years before separation of all offices can be completed.

Mr. CARTER: Have these recommendations all been implemented now?

Hon. Mr. CHEVRIER: Yes.

Mr. FRASER: In regard to the telegraph offices, in most cases they are closed on Saturday, and in addition, it is pretty hard to send an express parcel on a Saturday.

Hon. Mr. CHEVRIER: I think we can usually run down to the station in places such as yours or mine, if we need to send a telegram.

Mr. FRASER: Yes, provided somebody is there.

Hon. Mr. CHEVRIER: Surely there is somebody there in Peterborough.

Mr. FRASER: No, that is not always the case in Peterborough on a Saturday. I wonder if there is any way by which a person can get better service on a Saturday or a Sunday? If you have an express parcel which comes in on a Saturday, you simply cannot get it, or if it comes in on a Friday, you cannot pick it up on a Saturday, because they are not open.

Mr. GORDON: You are referring to the first transitional result of the five day, 40 hour week.

Mr. FRASER: That is true.

Mr. GORDON: We have not been able to work out all the quirks in it yet, and there are some cases in which legitimate complaints will be corrected. By and large, in the smaller places, the telegraph stations were closed at least one day a week and now it is two days. But where we feel that the burden of inconvenience to the public is extreme or more than appears to be justified, all things considered, we shall try to make arrangements; but we shall have to have a period of time in which to work it out. It will take us a year or so before we really know the places where it has gone too far and where we need to given better service.

Mr. FRASER: I was thinking more of urgent telegrams which come in, life and death propositions.

Mr. GORDON: They will get through somehow.

Mr. FRASER: They do in most cases, but there are some cases in which they do not get through.

Mr. GORDON: There are bound to be cases which will have to be worked out; and when we get such major changes as have been imposed by the 40 hour week, it makes it very difficult.

The CHAIRMAN: Is "Communications" carried?

Carried.

"Other Research". Are there any questions?

Mr. POULIOT: I refer to a speech made by the Prime Minister at the Engineering Institute last Saturday in Montreal in which he mentioned that as soon as the cold war is over, we could expect atomic power to progress to the point of meeting civilian needs. I do not know if you attended that dinner, Mr. Gordon?

Mr. GORDON: I am sorry, but I was not able to do so.

Mr. POULIOT: Well, you probably read the report of it.

Mr. GORDON: I did indeed.

Mr. POULIOT: I wonder if the management or the scientists who work for the railways and who are in touch with McGill University are also in touch with the Atomic Board of Control? Are they?

Mr. GORDON: Mr. Fairweather, our vice-president in charge of research, is a very extraordinary individual and he keeps very closely in touch with all these developments. About three months ago he attempted to explain atomic power to me and he managed to make me understand it, so I can assure you that he is very closely in touch with current developments in this field.

Mr. FRASER: He must be good!

Mr. GORDON: He certainly is!

Mr. POULIOT: This is only a preamble to what I am going to ask you. Owing to Mr. Fairweather's learning and interest in scientific matters, can you foresee the date when diesel locomotives will be replaced by locomotives which will use atomic power instead of oil?

Mr. GORDON: I am afraid that is going too far into the future for me to predict. But I will say this: that developments in the scientific world affecting the production of energy are something that we will always keep in touch with; and if it becomes a practical matter, we will have to deal with atomic energy just the same as we deal with diesel engines now. There is a constant stage of evolution, and there is no place where such developments are more apparent than in the transportation field, because energy is one of our most important factors.

Mr. POULIOT: I take it that if atomic energy proves to be practical, you will abandon all the diesel locomotives?

Mr. GORDON: It will depend on the economics of the situation; but what we have to think about here is the cost involved in scrapping existing equipment, and what savings could be made. I think that we are much too far away from the practical appreciation of the costs involved to form any intelligent judgment about the matter yet.

Mr. POULIOT: Well, do you consider it to be possible?

Mr. GORDON: I do not rule out the possibility. I do not rule out anything as being impossible.

Mr. POULIOT: You cannot say then that it is impossible?

Mr. GORDON: No, I cannot.

The CHAIRMAN: Carried.

"Condition of the Property"; paragraph 23, on page 15. Are there any questions?

Mr. MCLURE: I would like to ask one question on paragraph 21.

The CHAIRMAN: Very well.

Mr. MCLURE: I see there an item mentioned in which the hon. minister and myself are always interested; I refer to refrigerator cars. Are we going to have an experimental installation in the near future of these refrigerator cars?

Hon. Mr. CHEVRIER: Yes.

Mr. MCLURE: Well, I do not think there is any better place to make that experimental installation than right down in Prince Edward Island, because we always have that problem with us there, with respect to refrigerator cars. I think the hon. minister will bear me out in that.

Hon. Mr. CHEVRIER: You have a problem, yes.

Mr. GORDON: As regards testing, from the standpoint of making a practical experimental test, the question of where these tests are made is relatively unimportant. The real question is, after testing them, where do we put them into service? We could test them right at Montreal probably more effectively, because we have the staff there and the necessary equipment and so on to perform the test. But if it is a success, I would agree with you that it would be of considerable interest to Prince Edwart Island.

Mr. MCLURE: Then I shall change my question to the second one.

The CHAIRMAN: Are there any further questions? If not, "Condition of the Property", 23, on page 15.

Mr. KNIGHT: I have a question which relates to paragraphs 24 and 25.

The CHAIRMAN: Very well. We will call it paragraphs 23, 24, 25, and 26.

Mr. KNIGHT: Mr. Wright, the member for Melfort, asked me to bring up this question, as he has been receiving complaints continuously about the state of the equipment on what is commonly called the Prince Albert Division. I too am interested in that part of the country, Saskatoon, Prince Albert, and Melfort. I think it is what they call the P. A. Division. At any rate, the Board of Trade has been making some recommendations either to the government or to the railroad; and I think they have received some assurance that when new equipment becomes available—and I think this applies to passenger equipment as well as to freight cars—they would get some of it. Might I ask to what extent they have been furnished with such equipment now, and if not, what are the plans for getting further supplies?

Mr. GORDON: That question you will find answered in the budget, if it is passenger equipment that you refer to.

Mr. KNIGHT: Partly, at least.

Mr. GORDON: There is no question about it but that we have a large amount of passenger equipment that is not in good shape. There is a backlog which is now being approached in our budget which is coming before you today, where you will find very substantial sums of money for the provision of passenger equipment. Apart from the roomette cars which went into service a year or so ago, some 20 of them, there has been no new passenger equipment going into this railway for at least 10 or 12 years.

Mr. DINGLE: Outside of some coaches.

Mr. GORDON: 1942 was about the last time that any coaches went into service, and then only 25 at that time; so there certainly is a backlog of need, and we are attempting to meet it through these recommendations. And if these recommendations are approved and in due course are voted on in the House of Commons as far as the money to be spent is concerned, the time lag in all that equipment is pretty extreme; it will run into a question of years before we can get new equipment manufactured and placed in service. In the meantime, of course, there is more and more equipment getting into bad shape, and we just have to spread it out as best we can.

Now, with respect to the question of freight equipment, again it is true that quite a lot of our equipment was not in good shape. So we put on a special drive a couple of years ago to catch up on our bad order situation and we have been successful in substantially reducing the percentage of bad order cars from about 8 per cent to about 3 per cent. The program involved considerable money and considerable effort.

Mr. KNIGHT: I presume that the president is talking in a general way of the whole road; but these people think that they perhaps have a particular claim because they think that their division is in particularly bad shape in comparison with a good many other divisions; moreover, they think that their line is a branch which is fairly profitable to the railroad as a whole.

Mr. GORDON: As a general thing, each section of the country thinks that its section is a special section.

Mr. KNIGHT: I make no apologies when asking about this particular branch line on behalf of my friend, because it is one in which he is most interested. I wonder if the president would care to comment on this question: how does he compare, from the point of view of profit, this branch line with other divisions?

Mr. GORDON: Which line are you referring to?

Mr. KNIGHT: I think it is known as the Prince Albert Division, and it runs between Saskatoon, Melfort, and Prince Albert.

Mr. GORDON: We could not. I could not give you at this time any breakdown. I think this was discussed yesterday. We do not keep our accounts in such a way that we can make an analysis of a particular division of that type. It is true that we do it in specific cases when we are considering the abandonment of a line; but that calls for a specific examination.

Mr. KNIGHT: You could not give me the earnings of this Prince Albert division?

Mr. GORDON: Not on a basis that would be intelligible. But I do not recall any specific complaint with respect to this division. Do you recall any, Mr. Dingle? I was asking Mr. Dingle, the vice-president of operations, and he tells me that he has not heard of any specific complaints with respect to the Prince Albert division. But as we get deliveries of new equipment, each division will be treated in as fair a way as possible in relation to the available supply.

Mr. KNIGHT: I have a letter before me addressed to Mr. Percy Wright, who represents that division, from the Minister of Transport; and I also have a letter from the Melfort Board of Trade in which they say:

> The Melfort Board of Trade have been agitating for an improvement in running equipment on the Melfort-Saskatoon, and Melfort-Prince Albert lines of the C.N.R. The question is still under consideration with the promise, that when new equipment is available, improvements will be made.

That would indicate, I think, that some communication had gone forward either to the railroad or to the government.

Hon. Mr. CHEVRIER: What happens in a case like that is: that I get the letter from either a member or from a Board of Trade, and I send it over for comment to the Canadian National Railways, who in turn request information from the regional superintendent of that area; so that the reply which you gave us is a reply which was made by the officers of the railway. I think that matters such as this should be handled in that fashion.

Mr. KNIGHT: We have been told that this division is one of the best revenue earners in the province, but we cannot get anything concrete along these lines. But at least, Mr. Chairman, I have raised the matter and I have brought it to the attention of the president. The claim is that their passenger equipment is particularly poor.

Hon. Mr. CHEVRIER: It has been brought to the attention of the management by yourself as well as by myself.

Mr. KNIGHT: They feel that this line justifies somewhat better accommodation.

The CHAIRMAN: Paragraph 27, "Terminal Facilities."

Mr. POULIOT: What can you tell us about the roomette cars on the Ocean Limited? Where do they operate?

Mr. DINGLE: Roughly, they operate from Montreal to the Lake St. John territory, from Montreal to Campbellton and Halifax, through from Montreal to Toronto, Niagara Falls and Chicago, and in Western Canada.

Mr. POULIOT: Thank you.

Mr. FOLLWELL: Under paragraph 23 I would like to bring to the attention of the officials the very rough condition of the road bed between Brockville and Kingston.

Hon. Mr. CHEVRIER: Would you mind extending that down to Cornwall too?

Mr. FOLLWELL: Yes, I will.

Mr. FRASER: I think he should extend it right through to Toronto because there was a passenger on the Flyer yesterday, and he could not even write.

The CHAIRMAN: In the spring time you can expect that right across Canada.

Mr. GORDON: I have heard these complaints, and you will find in the budget the sort of expenditures we are recommending to fix up these particular parts of rough riding line. People seem to forget that any form of movement means vibration, and means some discomfort; and that there is no form of transportation that I know of which does not give you discomfort in one form or another. If you drive your car in the spring, you will find yourself jolted a good deal more than when the frost is coming out of the ground; or if you are on a ship and you run into a storm you get tossed around, you know that these things are normal, and that they are not unusual. So there will be situations, seasonal though they may be, when no matter how good the road bed may be, we will get a rough ride. Movement does mean vibration. And I think that the program which you will find in the budget, which we have for ballasting will indicate to you, when you come to it, that we are pressing as hard as we feel we can, the question of improving particular stretches within the limits of the money available to us, as well as the labour and the materials.

The CHAIRMAN: Paragraphs 27, 28 and 29 "Terminal Facilities". Are there any questions?

Mr. FRASER: Have you also considered the riding qualities of your coaches?

Mr. GORDON: Yes, and I think you will find there has been very considerable improvement in the riding quality of our coaches within the last 10 to 20 years and when you consider the improvements in roller bearings, gears, and so on, you will find there has been a tremendous technological improvement in that respect.

Mr. FRASER: I refer to the "Chief" which runs from Chicago to Los Angeles; you can ride in the "Chief" without any motion hardly at all.

Mr. GORDON: You must remember that we have equipment which we are running now which is 40 to 50 years old; and you must realize that we take this equipment into our shops and we do the best we can with it; but starting out with old equipment, you are faced with the fact that you have to accept it.

Mr. FRASER: I understand it is the under-carriage which has got to be doctored up?

Mr. GORDON: In most cases, yes.

The CHAIRMAN: Paragraphs 27 to 29.

Mr. POULIOT: Would you please tell me when you are going to answer my question about the 56 pound rails in eastern Canada?

Mr. DINGLE: The answer is being typed, and I expect to present it to you this afternoon.

Mr. GORDON: The question of the weight of rail is not the deciding factor as to whether or not the ride is a good one or a bad one, or whether or not it is an easy riding train. It depends on the sort of equipment and so forth that you operate; and it may be in some cases that a road bed of 56 pounds may do a better job than one of 120 or 130. You cannot judge it from that.

Mr. POULIOT: You must realize that the base of the larger weights, the 120 and 132 pounds is wider, and besides that, in our part of the country we use cedar ties, while in other parts of the country they use hard wood ties; and you must realize that they also have steel plates between the ties and the rail, which makes a great difference; moreover, the base of the 56 pound rail is smaller and narrower than that of the 120 or 132 pound rail, and it cuts the tie by vibration.

Mr. GORDON: That will depend on the weight of equipment that we run over it.

Mr. POULIOT: And in addition, it may open the switch and cause an accident. You must realize that I am not an expert in these matters.

Mr. GORDON: I think you have explained them very well.

Mr. POULIOT: I took the trouble to get some information in order to discuss it properly with you.

Mr. GORDON: Yes. Thank you.

Mr. GILLIS: Before we leave "Terminal Facilities" I would like to ask Mr. Gordon about the policy of the Canadian National Railways now with regard to the use of the Portland, Maine, terminal for the shipment of grain and so on. I remember 4 years ago there was quite a controversy on the matter here, and Halifax in particular was afraid of that policy, that she was going to lose a lot of business. Might I ask to what extent you are using the Portland, Maine, facilities now?

Mr. GORDON: During the last year I went down to Portland, Maine, myself to take a look at it. We have had considerable discussion as to what our future policy should be concerning Portland, Maine; and all I can say at this point is that there is a difference of opinion within our own organization which I have not yet had time really to settle down and resolve. The matter is before the management and at the moment I am not prepared to say what our attitude should be. I would first have to analyse the situation and familiarize myself with it, and I have begun to do so to the extent of having made a trip down to Portland where I have seen the physical facts of the situation; and if I can find time some day I shall sit down and go to work on it. I can say to you at this time that there is difference of opinion in our own organization, which difference of opinion I shall have to resolve.

Hon. Mr. CHEVRIER: In so far as Portland is concerned, I might say that the Transport Controller has received no requests from the Canadian Wheat Board to ship wheat through Portland. And then I know too that our shipments of wheat via United States ports have decreased considerably over the last period —1941 to 1945. There used to be a considerable amount of Canadian wheat going through American ports, and as a matter of fact the reduction in that amount has been the cause to some extent for the delays at the head of the lakes during the last crop year.

Mr. GILLIS: The reason I asked that question is as you will remember that there was a pretty live session two or three years ago and then this thing seemed to just sort of simmer off. I was interested in finding out if the C.N.R. had changed its policy; they seemed to be very much in favour of it then.

Hon. Mr. CHEVRIER: It was a question of rates at that time, I think.

The CHAIRMAN: The economic environment; page 17, paragraphs 1 to 8.

Mr. DUMAS: I would like to ask a question of Mr. Gordon about the branch line to Barraute. Has there been any request made by the Howard Smith Paper Mills or any other pulp and paper company to extend that line on to Barvue or Bell River onto Kiask Falls?

The CHAIRMAN: I think that would come under new branch lines, Mr. Dumas. If we might just carry economic environment, paragraphs 1 to 8:

Carried.

The CHAIRMAN: Now, new branch lines:

Mr. DUMAS: Excuse me, Mr. Chairman, under paragraph 8 there is reference to the spur line from the trans-continental line near Barraute to the properties of the Barvue Mines Limited.

The CHAIRMAN: You are right, that refers to spur lines.

Mr. DUMAS: Yes. The Canadian National is building or has built a spur line of 4·8 miles from the former trans-continental line near Barraute to the properties of the Barvue Mines Limited.

Mr. GORDON: Where did you say that line was?

Mr. DUMAS: From the former National trans-continental line near Barraute into the Barvue Mines property.

Mr. GORDON: Yes.

Mr. DUMAS: Was the cost of that spur line entirely paid by the Barvue Mines Limited?

Mr. GORDON: We made an agreement with them—as I remember the discussion on it—we made an agreement which was generally speaking on the basis that they would assume responsibility for the cost of line over and above the extent to which traffic in our view justified the cost.

Mr. DUMAS: Has any provision been made for extending the line on to Bell River, for acquiring the right of way between the Barvue Mines property and Bell River?

Mr. GORDON: I don't recall if there was—do you remember that Mr. Dingle? I don't believe there was.

Mr. DUMAS: I wonder if you could tell also whether any negotiations were entered into with respect to acquiring a right of way in range 7 in the township of Barraute for the purpose of extending that right of way.

Mr. GORDON: I would have to take that up as a question to be answered later on. Your question was as to, what range?

Mr. DUMAS: My question was have there been any negotiations entered into with Mr. Therrien in respect to acquiring a right of way through range 7 in the township of Barraute for the purpose of acquiring land required for the right of way.

The CHAIRMAN: The answer to that question will be printed as an appendix, Mr. Dumas.

Mr. DUMAS: I would like to have that.

The CHAIRMAN: Now, new branch lines—paragraphs 9 to 11.

Mr. FRASER: Under that section, Mr. Chairman, I would like to ask Mr. Gordon what is meant by the future growth of this section, in consideration of the financial considerations involved.

Mr. GORDON: What paragraph is that?

Mr. FRASER: The last paragraph of that section on new branch lines.

Mr. GORDON: You mean the Kitimat line?

Mr. FRASER: Yes.

Mr. GORDON: That is the same general thing as we do as a matter of policy in any of these extensions, and that is we have the aluminum company requesting a branch line built in there; we have to figure out with them what we can see in the form of traffic, they have undertaken to provide that traffic up to a minimum, indicating an amount that will be forthcoming, and if it is not forthcoming they will reimburse us.

Mr. FRASER: They reimburse you?

Mr. GORDON: In other words, they guarantee that there will be a minimum amount of traffic available to the line over a period of years; if that fails to materialize then under a formula which we have worked out, they will reimburse us for the difference.

Mr. FRASER: You figured out what you expect your overhead would be for the 10-year period?

Mr. GORDON: That is right, what it works out at.

The CHAIRMAN: I should call your attention to the fact that there will be legislation on this point.

Hon. Mr. CHEVRIER: It is on the order paper now.

The CHAIRMAN: And perhaps it would be wise to wait until then.

Mr. FRASER: We might not get all the information we need.

The CHAIRMAN: Oh yes.

Mr. DUMAS: Mr. Chairman, I would like to ask a question, if it is in order, regarding the extension of the line from Barraute to the Barvue mines, the extension of that spur line further east. Has there been a request by the Howard Smith or any other pulp and paper company for carrying the extension of that line on to the Bell River?

Mr. GORDON: You mean, recently?

Mr. DUMAS: Well, within the last year.

Mr. GORDON: Not that I recall.

Mr. DUMAS: I refer to the extension of that line east to Bell River.

Hon. Mr. CHEVRIER: Is that the same line?

Mr. DUMAS: Yes, it is the same line.

Hon. Mr. CHEVRIER: And that goes from the old National Trans-Continental main line into the Barvue mines.

Mr. DUMAS: Yes.

Hon. Mr. CHEVRIER: Parliament approved the building of that line from Barraute into the Barvue mines and further east, in all it was to run some 35 miles, as I recall it, and the Canadian National are the people who have been appointed to build it. What you want to know now is whether there have been any requests for the building of that line further east?

Mr. DUMAS: Yes.

Hon. Mr. CHEVRIER: I am not aware of any. The Howard Smith people did support the original application, but so far as I am aware there have been no further requests from any of the pulp and paper companies for an extension of that line.

The CHAIRMAN: Are there any further questions on this section?

Mr. KNIGHT: Under new branch lines I would like to ask Mr. Gordon what progress has been made on the Lynn Lake extension to which reference was made.

Mr. GORDON: That is pretty well covered in the report.

The CHAIRMAN: If you will read paragraph 10, Mr. Knight.

Mr. KNIGHT: Especially in regard to the last three lines of paragraph 10: "under an agreement with the Sherritt-Gordon Mines Limited, the objective is to have the line ready for service by October 1953"; does the progress made up to date justify the production, or the early production; and, will the line be ready?

Mr. GORDON: We hope the contractor will be able to meet that date. I have had a recent discussion with him, and while he got away to a slow start recent developments are very satisfactory and we have every confidence that he will meet that date.

The CHAIRMAN: Other transportation developments—paragraphs 12 to 14:

Mr. CARTER: Mr. Chairman, I wonder if the minister or Mr. Gordon could give me any information as to the progress on the new ferry for service between Port au Basque and North Sydney?

Hon. Mr. CHEVRIER: Well, the contract for the ferry has been given to Canadian Vickers, and they are proceeding on schedule with the production of it. Meanwhile, the terminals are being constructed. Contract has been let for the terminal at north Sydney and for the terminal at Port au Basque. The north Sydney terminal is almost completed—that is entirely completed, so I am informed—and the Port au Basque one lags behind the other. The object is to complete the terminals and the ferry at the same time so that all three can be put into operation at once.

Mr. CARTER: I was wondering if the keel of the ferry had been laid yet?

Hon. Mr. CHEVRIER: Not yet.

Mr. CARTER: Mr. Chairman, I believe there is a similar type of ferry running between Tormentine and Prince Edward Island.

Hon. Mr. CHEVRIER: It is not the same kind of a ferry because it is a longer crossing, but it is built for the carrying of freight cars and passengers—I am informed that it does not carry freight cars—

Mr. GILLIS: Mr. Gordon, might I ask you in connection with that Canso causeway if you have anything in the budget for the terminals at Mulgrave?

Mr. GORDON: Yes, I believe we have.

The CHAIRMAN: We will come to that in the budget.

Mr. GILLIS: Might I ask the minister if any contract has been let for that project as yet, or if you have any applications?

Hon. Mr. CHEVRIER: No, they have not been let but tenders have been advertised for and the date of expiry I believe is the 3rd of May; no, it is the 13th of May.

Mr. GILLIS: Have you had any applications for it?

Hon. Mr. CHEVRIER: There have been many applications for it. I am pleased to say that there are a very large number of contractors exceedingly interested, at least from the demands which they have made for tender forms. I am now informed that there are 34 such contractors making application.

Mr. GILLIS: And the closing date for receiving tenders is May 3?

Hon. Mr. CHEVRIER: No, May 13.

Mr. GILLIS: That it should be under way by June 15?

Mr. GORDON: If I may reply to your direct question as to the construction of the approaches leading up to the causeway, contracts on this account have not been entered into, but at the rate at which our surveys are going ahead it is expected that we will be ready to call for tenders for this grade late in 1952 so that the whole thing may be completed by December of 1954.

Mr. GILLIS: Thank you very much.

Mr. MCLURE: Will there be any difference in the freight rate when the causeway comes into operation?

Mr. GORDON: It will not affect the freight rate as far as I know.

Mr. MCLURE: I thought that when the ferry was taken over and the causeway came into operation there would be a lower freight rate.

Mr. GORDON: It is not intended to affect the freight rate.

Mr. GILLIS: Will it be a toll crossing?

Hon. Mr. CHEVRIER: That will be a matter for the provincial government to determine, but it is my understanding that it would not.

Mr. MOTT: I would like to ask Mr. Gordon if there have been any negotiation with the provincial government acting with the Canadian National Railways for a branch north there on across Lillooet.

Mr. GORDON: Negotiation? In what way?

Mr. MOTT: I mean in connection with the Canadian National Railways carrying it out.

Mr. GORDON: The connection with Prince George, of course, has been worked out.

Mr. MOTT: Not that one, I mean the other one, going from Squamish northward, on the P. G. E.

Mr. GORDON: No, we are carrying on no discussion on that.

The CHAIRMAN: Are there any further questions?

Mr. FOLLWELL: I notice under paragraph 13 it says: "the new ferry will be of a special design, and will employ a type of portable freight container, adaptable for use on Newfoundland railway equipment, which will not only speed up freight handling but reduce loss and damage resulting from transhipment between boat and rail." I am wondering if you will explain that "portable freight container"?

Mr. GORDON: Yes. As you remember the Newfoundland railway is a narrow gauge.

Mr. FOLLWELL: Yes.

Mr. GORDON: We have especially designed the ferry to make a special recognition of that fact and we will switch a load from the main line on to a special type of container which will be in fact a box car which can be lifted right off the ferry and put on to the narrow gauge railway car without unloading and rehandling. We believe that we have struck a device there which will reduce very much the loading and handling costs and will speed up the service. But its purpose is to recognize the difference between standard and narrow gauge operation such as we have on the Newfoundland railway.

Mr. FOLLWELL: I was just interested to see why this refers to a new type of container guaranteed to save handling costs.

Mr. GORDON: That is built especially for Newfoundland.

The CHAIRMAN: The St. Lawrence seaway project; paragraphs 15 and 16. Shall they carry?

Carried.

The competitive framework, paragraphs 17 to 22 inclusive.

Mr. CARTER: Mr. Helme, the member for Prince Albert who is unavoidably absent today, has asked me to ask a question on his behalf. The first question is to Mr. Gordon: would the proposed new low rates, or agreed charges, on petroleum products in western Canada show any substantial financial gain to the railways?

Mr. GORDON: Well, yes. Before we could put in an agreed charge, we have to demonstrate before the Board of Transport that it is compensatory rate; that is, that we will make some money out of it. We cannot put in an agreed charge, a base rate, which will not give us back our dollar so to speak and something over.

Mr. CARTER: And the second question is: would the proposed new low rates be available to all companies, large and small?

Mr. GORDON: Only the ones that we have an agreed charge with.

Mr. CARTER: Oh, I see; yes.

The CHAIRMAN: Highway competition:

Mr. CARTER: Just one more question, Mr. Chairman; if I may.

Mr. GORDON: I suppose I should add to what I have said that while these rates are restricted to companies with whom we have made arrangements, they are also open to any company who makes an application before the Board of Transport asking that they should be made applicable to them in the same shape. I think that is what he is after.

Mr. CARTER: The third question is: could the minister say if representations from the trucking industry will be heard by the Board of Transport Commissioners?

Hon. Mr. CHEVRIER: The answer to that is, no; and I think the reason for it is that the trucking industry requested that the Transport Act be amended to include them in the definition carriers; and we gave it careful consideration and decided against it because to have decided favourably would have been, I think, an infringement to a large extent on provincial rights; and then, decide the question recommended by the Royal Commission on Transportation.

Mr. FULTON: May I ask the minister a question on that point? I understood you to say that you had already made a decision.

Hon. Mr. CHEVRIER: Yes.

Mr. FULTON: Is that decision only in so far as trucking within the province is concerned, or does it extend—

Hon. Mr. CHEVRIER: I think that you have misunderstood me, or possibly I did not make myself clear with reference to the decision. I said that we had not made a decision on the question of trucks. What we did make a decision on was the request of the truckers of Saskatchewan to be included under the definition "carriers" in the Transport Act; and we decided that to decide that question in the affirmative would be to decide the larger question of taking over trucking internationally and interprovincially.

Mr. KNIGHT: On a point of order, Mr. Chairman; are we now on highway competition?

The CHAIRMAN: We are at "the competitive framework" and just happened to spill over into "highway competition"; both of these headings might be taken together; so, go ahead with your question.

Hon. Mr. CHEVRIER: The only thing that we decided was the question having to do with including them in the definition.

Mr. FULTON: You have not reached any decision yet as to whether or not trucking in the interprovincial and international field should or should not be included under the jurisdiction of the Board of Transport Commissioners?

Hon. Mr. CHEVRIER: We haven't concluded it.

Mr. FULTON: You have not concluded it?

Hon. Mr. CHEVRIER: No.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Just one other question: Is there at the present time an application from the carriers, or the Automotive Association, before you for consideration on that point?

Hon. Mr. CHEVRIER: No, not that I am aware of. The only request they made was to have the Transport Act amended to include them as carriers so they could make representations to the Board of Transport Commissioners.

Mr. FULTON: That is, there was just the one specific application from the province of Saskatchewan?

Hon. Mr. CHEVRIER: No, that was from a dominion-wide body.

Mr. FULTON: That is the point I am making. Perhaps I have misunderstood. I thought from the answer the minister gave earlier, I understood the question to include trucking generally, both in the interprovincial and the international field, coming within the jurisdiction of the Board of Transport Commissioners—that that point had not been decided.

Hon. Mr. CHEVRIER: That is right, perhaps I should have said that. However, representations were made by both at a later date to the government; I mean, representations were made by the Canadian Automotive people, with particular representation by that organization from Saskatchewan; and they requested that an amendment be made in the definition of carrier, that it be changed to include them. All of this has to do with agreed charges.

The CHAIRMAN: Mr. Knight.

Mr. KNIGHT: Mr. Chairman, I thought that would come up under paragraph 23.

The CHAIRMAN: I think the committee might take paragraphs 17 to 30 inclusive in one group, and they are now open for discussion.

Mr. KNIGHT: Well then, I can say now that that agreement in western Canada, particularly in Saskatchewan—the agreement between the railroad and Imperial Oil—has caused a good deal of concern to the trucking people. A great many of these men are in business in a small way, with one truck or two; they are veterans usually, and in most cases the trucks were purchased out of their grants; and I am concerned about the effect of that agreement on that trucking industry, if we might consider that; and I think it is going to be an increasing, a terrifically difficult problem. I endorse this paragraph in the centre of section 24 which says: "In this connection the most promising field is to be found in providing supplementary or substitute services on the highway co-incident with the curtailment of rail operations on branch lines where, as a permanent condition, traffic revenues fall short of meeting direct costs. In general the policy of the management is to employ road transport as an adjunct to basic rail services. Wholesale and indiscriminate entry into bus and truck operations is not contemplated." I was going to ask Mr. Gordon, first of all, to what extent the railroad itself is indulging or participating in the trucking business.

Mr. GORDON: You would like to have an outline of the points at which we operate trucks and buses?

Mr. KNIGHT: Well, largely to what extent is what I had thought rather than the localities.

Mr. GORDON: I think that I can answer that by saying, not to a great extent. I can give you the details here if you want, as to where we are operating. We have in operation in the Atlantic region the Mackenzie Coach Lines which connects up St. Stephen, St. John, Halifax and Spring Hill. That covers six buses. Then we have another service, which covers 12 trucks. Then, in the central region, at the lake head, Fort William, we have four buses in passenger service; and we have at various points around here in Ontario other services, mostly where other services are not available such as in northern Ontario. We have 5 trucks, 2 semi-trailers and 2 trailers; that is, covering L.C.L. freight. On the Niagara, St. Catherine and Toronto railway we have in passenger service 68 buses which service Niagara Falls and St. Catherines city. Then we have a small service of trucks and trailers running between Belleville and Picton. Then we have another service at Oshawa City where there are 29 buses in service; and then at various other points we carry L.C.L. freight, and have 20 trucks in that service. We operate in total mileage of bus operation, 1,126 miles; 779 miles of L.C.L. and 491 miles of express, and 310 miles of express and L.C.L. combined with express.

Mr. POULIOT: Then, Mr. Gordon, your Mackenzie Coach Line would be an international operation, would it not?

Mr. GORDON: No, we operate the line from St. Stephen and the Maine Central Railway takes over the operation from there.

Mr. POULIOT: That is between St. Stephen and Sydney?

Mr. GORDON: That goes between Glace Bay and St. Stephen and also operates to Springhill.

Mr. POULIOT: But it does not go further on to Boston?

Mr. GORDON: No, not under our operation. We stop operation at the border and the Maine Central Railway takes over the operation from there on. We only operate in Canadian territory.

Mr. POULIOT: Do you not operate any bus lines in the province of Quebec?

Mr. GORDON: No, I do not think we have any in Quebec—yes, we have one truck service having to do with air express which operates between Montreal and Dorval. That is all we have.

Mr. POULIOT: And then, Mr. Gordon, have you any interprovincial buses, or direct lines?

Mr. GORDON: No, we would not have any interprovincial at this time—with the exception of the Mackenzie Bus Line which runs across three provinces; yes, there is the Mackenzie Bus Line, they are the only ones, and they go through Nova Scotia and New Brunswick.

Mr. KNIGHT: Just one general question regarding this point. Would it be correct to say that the trucking business, the trucking industry is affecting railroad business?

Mr. GORDON: Very definitely, yes.

Mr. KNIGHT: And that would be a problem, that is more likely to increase the railroad's difficulties?

Mr. GORDON: That is correct.

Mr. KNIGHT: I have some few observations relative to what happened in Britain in this particular regard. Here one hears that your railroad is putting out of business a great many truckers, particularly with regard to long hauling. In Britain the reverse is true, that trucks are not putting the railroads out of business and they are looking forward to going further. I was wondering if you would care to comment on the need for some sort of overall transportation policy in this country that would co-ordinate these services for the good of the public and preserve the rights of the truckers as well as of the railroads. In the Old Country they can take a trip by railroad and you can come home by bus if you wish to. I would like to have your comment, if you don't mind.

Mr. GORDON: I think this matter was pretty well dealt with before the Royal Commission on Transportation. It is a pretty big subject.

Hon. Mr. CHEVRIER: I was going to say this, that more co-ordination is certainly a desirable thing. Highway transportation does not come under the jurisdiction of the federal government, and the only thing that does come under the jurisdiction of the federal government is interprovincial and international traffic. In England you haven't got that position at all, it is all under one government; whereas, in Canada it is sometimes under a number of governments.

Mr. KNIGHT: I quite realize that. What I am wondering is if it would not be better if somehow the federal government had complete jurisdiction over the general picture; otherwise—I mean, is there any other solution to the problem? Is there an alternative solution?

Hon. Mr. CHEVRIER: We did try a solution in 1935—in 1938 I am told—when the then Minister of Transport introduced a bill in the Senate which later had to be withdrawn by which he attempted to control international and interprovincial traffic. The provinces raised such serious objections through their Ministers of Highways—and the trucking industry as well—that I am informed that the minister decided to withdraw the bill. Now the royal commission has recommended exactly what was done then, which was simply an amendment to the Transport Act; and, until we have had an opportunity of studying that recommendation, which we haven't yet, I do not think it is possible to make a decision on it. I think the truckers are willing to be placed under the supervision of the Board of Transport Commissioners and I think there should be some basis of agreement between the railroads and the truckers; and certainly, they don't want to put them out of business. The question is not whether they will be put out of business.

Mr. KNIGHT: I know one or two who have gone out of business now.

Hon. Mr. CHEVRIER: I do not know why they have gone out of business because nothing has been done which would put the truckers out of business. As a matter of fact, the Board of Transport Commissioners who have to decide the case, when the railway made its application for the agreed charges to be put into effect—that is when representations were made to us and it was decided to fix a date for the hearing of this case at Regina; and the Transport Act clearly states that any party feeling himself aggrieved, either a shipper or a carrier, may make representations against the approval of an application for an agreed charge. And the Transport Act further sets out that an agreed charge—the effect which the making of that agreed charge, or the fixing of the charge, is likely to have or has had on any revenue of the carrier—and so on; and it must be able to satisfy the transport commission as Mr. Gordon has said, that the rate will be compensatory. I do not know what the position in Saskatchewan is but I would not attempt to comment on it. All I can say is that we did not know of any of these people having been put out of business, more particularly because the case has not even been heard.

Mr. GORDON: I would like to make this comment; from the standpoint of the railway versus commercial trucking the dice is loaded against the railway right from the start.

Mr. FULTON: Mr. Chairman, I would like to add something to this discussion. I have before me an issue of the Motor Carrier, a magazine published in British Columbia, by the Columbia Trailer Company Limited. This was sent to me by the publisher because in an interview I had had with him I expressed interest in the matter previously. It was sent down to me last session but it was too late to be used in the committee last year. But it contains an editorial, which I think is very interesting, written by a prominent member of the Canadian Automotive Transport Association to the provincial body. His letter makes a very complimentary reference about a statement made by Mr. Jefferson, traffic vice president of the Canadian Pacific Railway, and also a statement made by Mr. Gordon, commenting on their efforts to end the bitterness which had arisen between the trucking interests and the railways; and then he goes on to review the history of some of this controversy; and it ends up in this way:

> But in the ensuing furor of brickbats hurled from the newly-opened public relations office of the CATA, relations were soon ruptured. Railway entry into the motor transport field was fought. Railway-owned truck lines, through their provincial organizations, were barred from participation in CATA affairs. Federal control of international and interprovincial transportation, long sought by the railways and recently recommended by the Royal Commission on Transportation, was fought, and is still being fought, with 'every resource' at the CATA's command.
>
> In such an atmosphere, harmony between rail and highway interests serving Canada was short lived. Except on the west coast, where railway and truck brass still tackle mutual problems in a spirit of friendly competition and rail-owned truck lines are welcomed on the membership rolls of the Automotive Transport Association of B.C., both sides retired to their arsenals to grind out fresh news releases damning their competitors.
>
> Now, climaxing long years of monotonous rabble-rousing by both forms of transportation, Canada's transcontinental railways have indicated a willingness to co-operate with motor transportation interests in the solution of this nation's complex transport problems.
>
> The interests of the people of Canada transcend the selfish objectives of any unit of the transportation system. If the efficient and economical movement of men and merchandise can be bettered through mutual co-operation, it is the duty of the Canadian Automotive Transportation Association to accept the railways' invitation to assist in the "promotion of sound business practices."

I wrote to the editor of the magazine and said that I was very interested in this particular letter and asked if I had his permission to use it as giving the view point of his organization at any rate, and he said I could use it; and doing so I thought it might contribute perhaps to a more friendly feeling and a better understanding of the problem confronting both forms of transportation, that they had much more in common than they thought they had in the way of conflicting interest.

Hon. Mr. CHEVRIER: I understand that since the date that letter was written —it was written in May of 1951, was it not?

Mr. FULTON: In May of 1951, yes.

Hon. Mr. CHEVRIER: Yes, May of 1951. I understand that since that was written the attitude of the Canadian Automotive Transport Association has changed considerably. I do not have any authority for saying this, other than what I have been told; namely, that the Automotive Association would now be not too unfriendly to the taking over of interprovincial and international traffic, or both of them, by the Federal government.

Mr. FULTON: I am glad the minister said that. I was going to go further and say that I think credit must be given to the officials of both railways—Mr.

Gordon is entitled to his share—and the Automotive Transport Association and various groups concerned, for the efforts which have been made to bring about a better understanding. Now, that being the case,—I want to go back to the suggestion that the jurisdiction for at least interprovincial and international traffic, so far as trucking is concerned, should be placed under the Board of Transport Commissioners. I understand that he has not received any reply from the B.C. delegation—that is why I wanted to be fair on the position with respect to the decision which the minister said had been made recently, that they could not accede to the request.

Hon. Mr. CHEVRIER: There was no decision on that point at all, not on the point you are discussing now.

Mr. FULTON: I might go back over it again, but if I were to do so I might only confuse myself again.

Hon. Mr. CHEVRIER: It is under study.

The CHAIRMAN: Before we leave branch lines, is there anything else anybody wants to ask about them?

Mr. KNIGHT: Mr. Chairman, I would just like to have one last word. In view of Mr. Gordon's statement that he considered that the dice were loaded against the railways in this matter, I want to make it perfectly clear that I do not want the dice to be loaded against the Canadian National Railways.

Mr. GORDON: I am glad to learn that. I thought from your views you were of the opposite opinion.

The CHAIRMAN: Shall that section carry?

Mr. KNIGHT: Just a minute now. Putting it precisely, I do not want the dice necessarily to be loaded against these individual truckers. And that is my reason for saying that I think in the near future we will have to work out some form of co-ordination between these two forms of transportation.

The CHAIRMAN: Shall the item carry?

Mr. FULTON: Is the minister in a position to say whether we might expect some legislation arising out of the consideration which you have given this matter?

Hon. Mr. CHEVRIER: If I were to speak again, I would say no.

Mr. JAMES: I would like to ask Mr. Gordon, or perhaps I should ask the minister, whether there has been any development rising out of this truck situation—

Hon. Mr. CHEVRIER: That was the item which Mr. James discussed with me earlier I think. Is that what you are speaking about, Mr. James?

Mr. JAMES: Yes, but I don't want to be misunderstood.

Hon. Mr. CHEVRIER: I had forgotten precisely what the matter was but I recall that I wrote to Mr. James about it. I would be glad to look into it further.

Mr. FOLLWELL: I would like to ask Mr. Gordon about the trans-Canada highway and truck competition which might develop over that. I would just like to ask Mr. Gordon if he wishes to comment on the nature of the truck and bus competition initiated for the purpose of that operation.

Mr. GORDON: Mr. Chairman, I prefer not to answer that question.

Mr. FOLLWELL: All right, sir.

Mr. FRASER: I would like to ask a question on the competitive frame-work. Respecting the oil pipe line contemplated between Toronto and Montreal, that will not affect the railways at all, will it? Owing to the fact that in most cases deliveries have been made by boat. Is that not the situation at the present time?

Mr. GORDON: That is my general understanding, that it will have very little effect on our traffic.

Mr. FRASER: It will not affect you hardly any?

Mr. GORDON: No.

Mr. FRASER: Another question I want to ask comes under paragraph 18, mail traffic competition with the air lines.

Mr. GORDON: Did you say number 18?

Mr. FRASER: Yes, number 18.

Mr. GORDON: On page 18, yes.

Mr. FRASER: Page 18, paragraph 18.

Mr. POULIOT: That relates to air mail, and that reduced the revenue you produce.

Mr. FRASER: No, it takes it out of one pocket and puts it into another—or, out of both pockets. What effect does that have on the C.N.R. in regard to this?

Mr. GORDON: You mean the competition of the air lines?

Mr. FRASER: Yes.

Mr. GORDON: It has had a considerable effect on our passenger business.

Mr. FRASER: I mean, in regards to mail, that is one of the important things they have.

Mr. GORDON: Well, I do not know how to answer that; the fact is that the T.C.A. carries mail that if they were not carrying we would carry.

Mr. MCLURE: Mr. Chairman, I have just one point: has the Canadian National Railways acquired by purchase a bus and truck franchise in Prince Edward Island?

Mr. GORDON: We have discussions going on with Prince Edward Island now in respect to getting permission to run both buses and trucks, and that has been referred by the premier of the province to a special committee for discussion.

Mr. MCLURE: Yes?

Mr. GORDON: They have not responded to our specific application which has been before them now for some considerable time.

Mr. MCLURE: You had better not quote what he said about the railway either.

Mr. GORDON: I would not mind quoting him on that any time.

Mr. MCLURE: The Canadian National Railways are now operating a truck and bus service in Prince Edward Island?

Mr. GORDON: A truck service.

Mr. MCLURE: A truck service only?

Mr. GORDON: Yes, just on L.C.I. and express; but what we are asking for is permission to operate both trucks and buses giving them a coordinated railroad and bus and truck service which we believe would be a much better service for the people of P.E.I. and at the same time reduce our cost. We have undertaken too that in the event that weather conditions become difficult, for instance during certain portions of the winter, sufficiently so as to interfere with our operations, we would restore the train service. We have manifested reasonable patience and we are hopeful that before long we will have a decision. As I said, the matter has been referred to a special committee of the legislature, as I understand it—I do not know what the technical term is—oh yes, it has been referred to a select standing committee to deal with the matter generally and we are expecting to make representation to that committee at an early opportunity.

Mr. FOLLWELL: Is that the only place where you intend instituting such a joint service?

Mr. GORDON: No, we have quite a number of places that we have under consideration to see whether or not we can make use of this coordinated service.

Mr. FULTON: I would like to ask a question about accounting. You will recall that the royal commission opposed—rather the royal commission recommended a unified system. I would like to ask you what progress has been made recommending the introduction of a uniform system of accounting.

Hon. Mr. CHEVRIER: May I say, sir, that we amended the Railway Act in the last session to cover that point and the Board of Transport Commissioners were given instructions to deal with that matter which was recommended by the Royal Commission on Transportation. My information is that they have undertaken the implementation of that section of the Act; they have taken on one accountant some additional staff to deal with that question.

Mr. FULTON: You mean the Board of Transport Commissioners have?

Hon. Mr. CHEVRIER: Yes.

Mr. FULTON: Has it got it down to the point where the railways, either one of them, have been asked to make any changes in their system as a result of the board's action?

Hon. Mr. CHEVRIER: I do not think it has yet.

Mr. GORDON: We have been invited by the Board of Transport Commissioners to study the problem with them and it has been discussed with both railways, but it is only in the discussion stage yet.

The CHAIRMAN: If there are no further questions on that section we will go on to employee relations.

Mr. FOLLWELL: In regard to pool trains; I presume co-operation continues but there will be no change in that situation?

Mr. GORDON: I would not say that. We have as a matter of fact a joint committee between the railways which are very carefully studying that problem and I am hopeful that we will be able to extend our pool operation.

Mr. FOLLWELL: One further question the rank and file of the employee to not seem anxious to have the C.N.R. eliminated on any of these runs.

Mr. GORDON: There is that attitude on the part of both railways. The question of prestige particularly is involved, where the employees of each railway much prefer to have a particular train recognized as being their train. But I have gone into the question sufficiently to satisfy myself that economies are possible in some of these pools are such that we cannot justify allowing prestige considerations to prevent us from making that saving. It will still be the case that there will be employees feeling that they would much rather not be contaminated by the other railroad.

Mr. FOLLWELL: That is right.

The CHAIRMAN: If there are no further questions shall we carry that section?

Carried.

The CHAIRMAN: Now, employee relations:

Mr. KNIGHT: Mr. Chairman on employee relations and the efiect of of pensions on employees. I have often taken up the case in the House of Commons on behalf of employees who are pensioned at the rate of $25 a month. I am very glad to notice this line in paragraph 40: "a revision and improvement of the Canadian National pension plan has been made effective as from January 1, 1952." I admit that I am glad of it. That refers, however, only to those who are now working, and I am concerned about the plight of those people—particularly in regard to the increased cost of living—those who happen to have a pension of $25 a month and that only; and I would like to get from Mr. Gordon his idea of the division of responsibility in regard to this matter. We have had some difficulty in the House between the government and the Canadian National Railways in this regard; and our information was that if the government would give what I think someone called the green light the Canadian National Railways would adjust this matter more satisfactorily for these men. They are only a small group, a group of old men; and I feel that something should be done for them; and although I may be using strong terms, it is something of a national disgrace, that there should be any railway pensioner in Canada drawing a total subsistence allowance of $25 a month. Would Mr. Gordon care to answer my question, as to upon whom the responsibility rests and then we would know the situation and we could make representations to the government or to the railway.

Hon. Mr. CHEVRIER: Perhaps I should say a word in connection with this. I do not think there is any difficulty where the responsibility lies, or that there is a division of responsibility. I tried to make that clear in the House the other day when I said that the Canadian National Railways had made representations to the government after discussions with the employees with reference to the revised pension plan and that after careful study they have not changed their view. Having reference particularly to what I think Mr. Knight would like the government to do, I think that would be to instruct the Canadian National Railways to increase the basic pension. Thus far we have not found it possible to do that.

Mr. KNIGHT: Now, are we talking about the same thing? What you referred to was an increase in the basic pension. What I am more particularly interested in, or at least what I am speaking about at the moment, is on behalf of those people who are existing on a pension of $25 a month. Can we not separate that?

Hon. Mr. CHEVRIER: All right, let us separate it, but their position is far better than it was at this time last year.

Mr. KNIGHT: In what respect? I am not disputing it.

Hon. Mr. CHEVRIER: Because of the fact that they are now able to receive the universal old age pension of $40, if they are 70 years of age.

Mr. KNIGHT: Is it your opinion that that should be considered in regard to the service that they have given to this railroad?

Hon. Mr. CHEVRIER: I am not putting it in that light. But the actual position is that, that the employees of the Canadian National Railways who are in receipt of a basic pension of $25, if they are 70 years of age or older would be entitled to an additional $40 a month.

Mr. KNIGHT: I think—

Hon. Mr. CHEVRIER: Let me go on. If they are between 65 and 70 they are still also in a position to qualify for an additional $40 a month.

Mr. KNIGHT: I think this is a special case. We are not comparing it to any parallel case on what we call a basic pension. I will not go into that now. What I am trying to work out is this special case. I do not think the fact that some government comes along and offers these people $40 or $50 or $60 a month has anything to do whatever with the matter, or that there should be a means test applied to anyone getting one of these $25 a month pensions—even if the government wants to give these people $100 a month as soon as they reach 70 years of age. That, to my mind, has nothing to do with the service these people have performed with the Canadian National Railway. They were responsible for the building of this railroad, they were responsible for the operation of the line, for the development of the railroad, and now they have a miserable pittance of $25 a month from the railroad.

Hon. Mr. CHEVRIER: I do not agree with that contention at all, Mr. Knight, because under the revised pension plan they are able to contribute just like any other group and in that way they can increase their pension if they wish to do so, and they could have done so before the revision.

Mr. FULTON: But is it not a case there that under the revised plan they contributed 5 per cent or more during the period of their employment—5 per cent of their wages?

Hon. Mr. CHEVRIER: I would like to ask Mr. Gordon to carry on with the details of the pension plan. He is more familiar with that than I am. But before we leave it, I made it quite clear in the House the other day, or at least I intended to if I did not; but certainly I think that all parties discussed that. Until the government is able to deal with the other groups such as those I mentioned—superannuated civil servants, retired pilots, and so on—thus far it has not been able to deal with this one particular group.

Mr. KNIGHT: Before Mr. Gordon replies, or comments, I would like to have someone give us the figures as to the number of people about whom I am talking. How many of these pensioners now receiving $25 a month are there? I would like to get that figure. I would like to find out what the cost to the country would be of raising that pension in terms of the present cost of living increase, raising the rate at which that pension was granted.

Hon. Mr. CHEVRIER: Raising it up, you mean increasing it to $40 a month?

Mr. KNIGHT: I am not stating to what extent. I said: how much would it cost the country to raise that pension corresponding with the rise in the cost of living, basing it on the cost of living index, which for this pension group I feel satisfied would be mere justice? If it were a higher pension, if it were a pension on which a man could live, I would not say anything about it, but this is a pension which everybody knows is altogether too low in relation to the cost of living. These men are dependent upon their relatives and friends, whatever you like. That is my case. I would like to know those two figures; if it is possible to work them out: first, how many there are of these men; and, secondly, what it would cost the Canadian National Railways to raise that pension comparative to the cost of living index today in relation to the time when these pensions were granted. If we have those figures it would clear the situation up and then when we go down to the House we would know what we were talking about.

Mr. GORDON: I would like to make a general comment on that situation. There has been a great deal of misunderstanding and this might be a good time to try to make clear the situation with regard to the matter about which we are talking.

Mr. KNIGHT: Very good.

Mr. GORDON: I do not know as much about it as my predecessor would. The situation when I came to the railway was that there had been discussions going on between the management and the minister in connection with the position of these basic pensioners. These discussions were in the form of consideration as to whether anything could be done to improve their lot. That went on backwards and forwards, and shortly after I came in office we worked out a formula which we thought we could recommend. While we were in the midst of that and discussions were going on with the unions, the announcement of the old age pension was made. We had not known of that in advance of these discussions and when we realized that the old age pension plan was to become operative we recognized that it would give these basic pensioners a minimum monthly income of $60 per month—and in some cases $65 per month. Then it was felt both by the labour representatives and ourselves that the discussions we were carrying on had no further point. You see, in the first place, the so-called basic pensions are the payments which went into effect in 1935. You will also recall that the provision in the pension plan which went into effect at that time carried with it the right to contribute to an additional pension, that was a provision in the pension plan. Now, these men you are talking about did not choose to take advantage of that opportunity and that is why when their services terminated they received this small basic pension. That pension is now augmented to an extent by the old age pension and that brings the amount received up to as much as $65 a month. And now, as regards the C.N.R. increasing the basic pension, that would be meaningless, it would simply mean that the C.N.R. would be paying the additional sum instead of the provinces paying it. Most of these people would become eligible at age 65 or over. In connection with that I may say that the labour representatives supported our view on this point and in that respect I would like to quote to you from a letter.

Mr. KNIGHT: Could you give me the date of that letter?

Mr. GORDON: This letter is dated March 22, 1952, and it is commenting on the revised pension plan and congratulating us on the new pension plan which had been announced.

Mr. KNIGHT: Was that from Mr. Hutchinson?

Mr. GORDON: Yes, from Mr. Hutchinson.

Mr. KNIGHT: We have another letter from Mr. Hutchinson.

Mr. GORDON: In the letter dated March 31, he says—

> The expressions of opinion appeared to be almost universally in approval of the improvements which have been made.
>
> Some of those who did not contribute toward annuities expressed disappointment that their lot is not improved but could not seem to impress the meeting that they were entitled to very much consideration on account of the fact that they had not made any effort to improve their lot.

Now, that as I say, is the view of the men themselves in a meeting assembled on this specific point. And so far as the C.N.R. management are concerned, we do not feel that we have any obligation in logic to recommend an increase in these so-called basic pensions by reason of the changed position arising out of the old age pension plan; because, again I emphasize that with a means test involved, if we were to increase the pension then it simply means that the C.N.R. would be paying the increase and not the provinces.

Mr. KNIGHT: I am still a little muddled about the matter of the existing pension—whether a man is 70 years of age or 65—to understand what that has to do with his services to the railroad. I used to be a school teacher. We have a service pension. As I understand it, it is, or it ought to be purely a service pension. It is given for services rendered and in no way should relate to receipt from the government of a $40 pension which the man receives as of right.

Mr. GORDON: If I may say so, that is an error because this basic pension to which you refer, the C.N.R. pension, was the foundation on which an opportunity was given to every man to provide for his old age. We have started off the pension plan by saying that any person who had the qualifications would automatically get their basic pension of $25 a month, and at the same time they were given an opportunity of making a contribution up to the extent of 5 per cent of their wages and if they did so the company would match that contribution dollar for dollar; but that was only if the man himself chose to do that; even if they did not choose to do that they could still get their basic pension. There were a lot of the men who came forward and paid in, and there were a lot who did not. And now, the object of that plan was to serve as an inducement to encourage that man to provide for his old age. When he became eligible for retirement at age 65; and a contribution which any particular man had made was matched by the company contributing to the cost and forming a part of the capital sum which was used to provide the annuity at that time. So that that was the opportunity extended to these men who during their service lifetime saw fit to contribute a small cash amount to build up their old age benefit.

Mr. KNIGHT: Well, they are suffering an extremely heavy penalty for it now.

Mr. MACDONNELL: By the way, Mr. Gordon, when was that fund set up?

Mr. GORDON: In 1935. May I point out this free basic pension is a privilege. I think that probably the Canadian National Railway basic pension is a far better privilege than many you will find in industries, and I know a lot about pension funds in industry. You do not get a free pension. But the fact of the matter is that most modern pension funds of which I am aware—and I have seen quite a number of them—are contributory funds; the essential idea being to encourage the men to help themselves. That is what it is for, it is not intended to be charity.

Mr. KNIGHT: I think that it would be fair to say in regard to the letter—I know a letter was quoted a few years ago; or, at least emphasis was given to it; I think it was from a Mr. Hutchinson. I know what his position was at that time and I think there has been a considerable change since then.

Mr. GORDON: No, I do not think so. I have his letter here.

The CHAIRMAN: Mr. Knight, are you not entirely forgetting about the thousands of employees who are taking advantage of this plan to help themselves? What about them? Do you make no provision for those chaps who have undertaken to make provision for themselves?

Mr. GORDON: This is an official resolution sent to Mr. Cooper. This is an official resolution by a group of men who were appointed by their labour organizations to discuss this pension fund provision. It is the General Chairmen's Association, representative of all branches of labour employed by the C.N.R.; and this was an official resolution quoted from a letter to Mr. Cooper who was chairman of this committee. It is dated, Winnipeg, March 22, 1952, and it reads as follows:

GENERAL CHAIRMEN'S ASSOCIATION

WINNIPEG, Man.
March 22nd, 1952.

Mr. T. H. COOPER,
Chairman,
Pension Fund Board,
Canadian National Railways,
Montreal, Que.

Dear Mr. Cooper:—At a meeting of our association held in Montreal on Thursday March 13th the following motion was made, after the members had had an opportunity to examine and discuss the revised pension rules which were made effective from January 1st, 1952:

Moved by Griffith and Bowlby:

That we go on record as expressing our appreciation of the action of the Canadian National Railways, and the officers directly concerned, in making revision of our pension rules.

That we express our gratification at the substantial improvements which have been effected, particularly the welcome additions, such as survivor benefits, liberalized benefits for the unfit, because of illness, and etc.

That we particularly record our approval of the application of the improved rules to the pensions of contributors who have already retired.

That a copy of this motion be forwarded to Mr. T. H. Cooper, Chairman of the Pension Fund Board of the Canadian National Railways.

The motion was put and carried unanimously and I have pleasure in submitting it to you as instructed.

Yours very truly,

(Sgd.) A. A. HUTCHINSON,
Chairman.

Mr. KNIGHT: I have, of course, expressed my appreciation for the improved pension plan that exists under this new scheme, but I plead simply for that one group of men. Perhaps it is not fair to quote a letter which is in my hands but which I think has an important bearing on this matter. I do not know what is in it, but I am going to read it. This is from Mr. A. A. Hutchinson, under date of March 31, 1952. As I said, it has just been handed to me and I do not know what is in it, but I am going to quote it, if it is all right for me to do so.

The CHAIRMAN: Who is it written by?

Mr. KNIGHT: It is written by Mr. A. A. Hutchinson, chairman of the General Chairmen's Association of the Canadian National Railway system. It is dated March 31, 1952 and it reads as follows:

GENERAL CHAIRMEN'S ASSOCIATION

March 31st, 1952.

Mr. Stanley H. Knowles, M.P.,
House of Parliament,
Ottawa, Ontario.

Dear Mr. Knowles:—At the meeting of our General Chairmen's Association held in Montreal on March 13th the meeting, after I had explained to them the support you had given us in our requests for revision of pensions by your action in keeping the matter before the government and the railway, instructed me, by motion, to write to you and express their thanks for your very able assistance.

The new rules appear to be very satisfactory as far as they go and have been very well received by the members.

They do not as you know, provide anything additional for the man who did not contribute nor for the man who does not contribute in future and who retires in health.

They do provide some help for the man who retires through disability.

In any case, we do sincerely appreciate your attitude and assistance and hope that we may call on you again when and if the need arises.

With very best regards and my own personal thanks for your assistance, I am

Yours very truly,

(Sgd.) A. A. HUTCHINSON,
Chairman.

Now then, the emphasis again has been on the fact that they could not provide anything additional to the amount that had been contributed. The plea I am making, as I said, is on behalf of those who are in receipt of this $25 a month pension. I want to emphasize the fact that he says that the new rules, while they appear to be very satisfactory, do not provide anything additional for the man who did not contribute; and that is the particular type of man on behalf of whom I make this plea.

Mr. GORDON: May I call your attention to the fact that in a letter to me of the same date he stated that meeting did not have any sympathy for that particular man.

Mr. KNIGHT: I did not question the men's attitude.

The CHAIRMAN: Are there any further questions on employee relations.

Mr. FULTON: I would like to clear up perhaps a misunderstanding, I think, because I gather the impression from the discussion that even in the case of a man already retired he can take advantage of this plan you mentioned by paying an increased amount of money into the fund and in that way getting an increased pension. I formed the impression that that privilege was not open to these people who contributed less than 5 per cent during their period of service.

Mr. GORDON: The answer to that is this: in the first place, in making the pension benefit retroactive to existing pensioners we were doing something quite unusual; as a matter of fact, we had considerable difficulty in arriving at a decision as to what would be a justifiable recommendation. What we have done for existing pensioners is this: we said that the money which that man paid in would provide for him a benefit of the same amount as though he had been under the revised pension fund plan; in other words, if he had paid in the full 5 per cent he would get the full amount of the pension that he would have got had he still been in the service—he went out under part 2 of the new fund. If, however, he had paid, for example, 3 per cent, he would get three-fifths of the amount he would otherwise have got in respect to pension. That would give him the same value in actual dollars as the amount he contributed during his period of service with the railway.

Mr. FULTON: So he does benefit by the amount of his contribution into the pension fund.

Mr. GORDON: He has the right to select the benefits in the revised plan. In some cases it would be to his advantage to do that, and in other cases it would not.

Mr. MUTCH: Would it be possible for a retired pensioner who wishes to increase the amount of his pension to augment his present pension by making payments out of money he has paid in over the years of his employment?

Mr. GORDON: No, it does not operate that way.

Mr. MUTCH: That means then that he must make a cash contribution.

Mr. GORDON: No. We simply say to him that the pension which he now has, the capital amount of that pension, may be used by him, if he wishes and so elects to procure a pension under plan 2. As I said, he has that opportunity and he can retire under the revised plan. In some cases that is a substantial benefit to these existing pensioners who have paid in to the fund the full 5 per cent.

Mr. KNIGHT: Mr. Chairman, might I ask one more question to Mr. Gordon? I think I asked you if you could give me the information with regard to the men under this plan?

Mr. GORDON: I think I have that here. The breakdown is right here. There are 52 pensioners in receipt of less than $25. There are 3,384 in receipt of $25 per month.

Mr. KNIGHT: That covers it. Have you any idea of what the average age of these pensioners?

Mr. GORDON: Yes, we have the age groups. You know that some of them are over 80.

The CHAIRMAN: Might I suggest that any further detailed questions of this kind be put in writing to the chair and the answers will appear as an appendix to our record of today's business.

Now, shall this section "employee relations" carry?

Carried.

Mr. FOLLWELL: Might I ask one question, a short one, to which Mr. Gordon may just say yes or no. It is just for information and perhaps publicity. I understand that on the new pension arrangement you are sending out a group of trained officials to divisional points to explain it to your people.

Mr. GORDON: We established regional committees for the specific purpose of helping individual employees to reach the right conclusion as to what is best for themselves.

AFTERNOON SESSION

The CHAIRMAN: Gentlemen we have a quorum.

We have concluded with the C.N.R. report subject to two reservations. Mr. Fulton required to be absent this morning and I indicated to the committee that I thought he should have an opportunity of asking questions with respect to paragraphs 14, signalling, 17, communications, and 27, terminal facilities; and on considering Mr. Gillis' remarks I think it would be fair to limit those questions to say ten minutes. When Mr. Fulton comes and when it is convenient to the committee we will break in.

Then, Mr. Macdonnell also required to be absent on other committee work and I don't know whether you wish to ask your questions now, Mr. Macdonnell or whether they would be covered by the budget items?

Mr. MACDONNELL: I think most of them would come up under the budget.

Mr. MCLURE: Did you pass paragraph 38?

The CHAIRMAN: Just a moment, Mr. McLure.

Mr. MACDONNELL: There was one outstanding point I asked about yesterday and that was operating ratio.

Mr. GORDON: I have that, Mr. Chairman, and I would be prepared to table the figures. I mention three significant figures for operating ratio—the C.N.R. system figure is 92·85 per cent and the C.P.R. figure is 88·93 per cent. The figure for United States class 1 roads is 77·39 per cent.

I follow with a half a dozen individual figures for the United States railways.

COMPARISON OF C.N.R. SYSTEM OPERATING RATIO WITH THAT OF THE C.P.R. AND UNITED STATES RAILROADS

	1951	1950
Canadian National Railway System	92·85%	89·20%
Canadian Pacific Railway	88·93	85·51
U.S. Class I Roads	77·39	74·52
New York Central	85·34	83·30
Baltimore & Ohio	81·18	80·63
Pennsylvania Railroad	85·50	84·35
Santa Fe	74·71	67·12
Southern Pacific	77·10	73·10
Union Pacific	74·32	70·28

Mr. MACDONNELL: May I ask just one other question? Your ratio has gone up roughly three points in the last year. What has been the effect on the other railways? What about the C.P.R.?

Mr. GORDON: I have shown the C.P.R. ratio in the figures for 1950. The C.P.R. ratio increased 3·42 per cent and the C.N.R. ratio increased 3·65 per cent. It is approximately the same.

The CHAIRMAN: Is there anything further?

Mr. MACDONNELL: I think that is sufficient.

Mr. MCLURE: I did not think you had passed employee relations?

The CHAIRMAN: Yes.

Mr. MCLURE: There was one question in connection with paragraph 39. Agreements were made with the trainmen's organization in May of 1951. What I refer to and what I was going to ask about was this. Regarding a threatened strike, or an actual strike such as took place on the railway a short time ago, has an agreement been made now so that the crews of our ferry boats will not be able to strike like they did and tie us up completely—shutting us off from the mainland. I understood that was something that was going to be corrected for the future and I would like to have a report on it today.

Mr. GORDON: The agreement referred to in the Report is an agreement covering our United States lines. The non-operating agreement to which you refer does not expire until September of this year and, subject to sixty days notice as was mentioned yesterday to Mr. Fulton, that agreement has not and cannot be renegotiated until sixty days before expiry in September of 1952.

Mr. MCLURE: Well, in the meantime supposing a strike arose again, would we be in the same situation as before—about the ferry?

Hon. Mr. CHEVRIER: The point you raise, Mr. McLure, and which you raised during the course of the strike is this. The employees of the ferry are also employees of the railway, and unless you take those employees out of the collective agreement made with the railway you cannot have redress for what you are seeking. How you are going to do that I do not know, but it is certainly a matter for collective bargaining.

Mr. MCLURE: Surely there must be some way to do it?

Hon. Mr. CHEVRIER: I would think there is but I would think the unions would not want to have them segregated. Certainly they did not want to have them segregated from the rest of the employees because, when representations were made by the premier of the province and others at the time through our offices to Mr. Hall his answer was no—except in one instance where there were perishables involved—and he let the ferry operate on that occasion.

Mr. MCLURE: The strike was started and they went back to work. If they could go back before it was settled why are they allowed to strike at all?

Hon. Mr. CHEVRIER: Well, they have certain rights under their collective agreement and certainly the government did all it could to settle the strike without interfering with the rights under the agreement.

Mr. McLURE: It is not a Canadian National Railway owned boat, the boat is a government owned boat.

Hon. Mr. CHEVRIER: Perhaps the fact that you have raised it here is sufficient for the railway authorities to take notice of it and when the collective agreement does come up for revision I do not know whether your point can be met but it certainly can be given consideration.

Mr. McLURE: Well, if we had an opportunity to debate it at that time I think it would be met.

The CHAIRMAN: Mr. Fulton, in your absence I suggested that the three paragraphs in which you were interested should stand but the committee preferred to carry them and I made the reservation that I would recall paragraph 14 on signalling and track equipment, paragraph 17 on communications, and paragraph 27 on terminal facilities on the understanding that you would have ten minutes to ask what questions you would like to ask.

Mr. FULTON: Thank you, Mr. Chairman, I apreciate that very much.

Mr. Gordon, I understand you were asked some questions this morning on paragraph 14. To start with, if the questions I ask will simply be a repetition or if your answer will be a repetition of information you have already given just indicate that to me and I will find the information in the record.

You make reference in your report to the amount of mileage on which you have installed block signal system in the area from Jasper, Alberta to Port Mann, B.C., 43 miles of line this year, bringing the total to 159 miles in service in this area at the end of the year.

What I want to ask is whether, although I appreciate the difficulty of the installation, you regard that as really satisfactory progress in the light of the urgent recommendation of the Board of Transport Commissioners incorporated in their report of their investigation into an accident out there a year and a half ago?

Mr. GORDON: By and large I feel the program we have in hand here is about all we can tackle having regard to the limitations of the supply of equipment and in particular the limitations of skilled personnel to install these signals. It is a highly technical operation and we are pushing it just as hard as we can having regard to those limitations.

Mr. FULTON: What is your main limitation?

Mr. GORDON: Skilled personnel.

Mr. FULTON: Not equipment?

Mr. GORDON: Equipment is bad but I would say the main limitation which handicaps us is the question of skilled personnel.

Mr. FULTON: I do not like you to enter a discussion which would raise jealousy within regions but I suggest on the surface it would appear to me the nature of that area justifies at least the suggestion that you should concentrate on it even to the exclusion of other areas which are not through mountainous regions. I would make that suggestion in the light of the recommendation of the Board that "the Canadian National Railways take necessary measures to install block signals in mountain territory and other dangerous parts of the C.N.R. system as speedily as possible."

Can you do anything to assign to that area a higher priority?

Mr. GORDON: I would say it has top priority right now. Would you agree with that, Mr. Dingle?

Mr. DINGLE: Yes, sir.

Mr. GORDON: We have given it top priority. While the actual mileage looks small nevertheless it is a substantial mileage in the nature of the installation and, with the limited staff available, we are pushing it as hard as we can. It certainly has top priority in our signalling projects now.

Mr. FULTON: I take it you will be carrying on installation of this type of equipment even when you have completed the immediate danger areas?

Mr. GORDON: Yes, that is true.

Mr. FULTON: Would it follow there that you are going to keep a crew on permanently, perhaps building up to greater strength?

Mr. GORDON: Oh, yes. We will certainly increase that more as soon as we can train men.

Mr. FULTON: I do not like to ask you to commit yourself but can you tell us whether about the same amount of mileage or greater mileage will be done in future years?

Mr. GORDON: Again I say it is contingent really on supply and labour conditions—and also in some respects the amount of money involved. We put in the budget an amount which we think is reasonable for the current year in the light of other essential or highly desirable operations. As I say we have strained ourselves to the limit with respect to our personnel availability.

Mr. FULTON: You do not feel that you can safely forecast?

Mr. GORDON: I do not see any acceleration in excess of the present position in the next say two years. We might pick up pace after that.

Mr. FULTON: Although I appreciate the difficulties I am disappointed. Last year you told us that for the time being at any rate you were discontinuing any further work on the slide detector fences and concentrating exclusively on this type of signal equipment—on the block signal system. I asked you then whether you would keep an open mind and not condemn the slide detector fences, keeping the position that when you have finished the block signal system you can go ahead with the slide detector fences. Have you reached ay conclusions on that?

Mr. GORDON: Yes, and the conclusion is that we are better advised to use available personnel and available material to push ahead as fast as we can with the automatic block signals rather than waste any more time on what we are satisfied ourselves is an unsatisfactory device—in the form of the slide detector.

In other words if we can get the automatic block system in that area we are satisfied that we will get a better measure of protection than we will get or could get from the slide detector. To the full extent that we take time to put in slide detector fences we are delaying other more important progress.

Mr. FULTON: I think I have to accept it that until you have finished with the block signals system you are not going to proceed any further with the slide detector fences; and that is your policy. What I am asking is whether you have advanced your conclusion any further from last year when I asked you about keeping your mind open regarding the advisability of putting in slide detector fences at specific danger points when you have finished with the block signal system?

Mr. GORDON: Subject to this. With the installation of the automatic block we will now have an experience period and if we find we get the margin of protection we expect to get we may very well conclude that we do not need slide detectors. I do not say we will rule out the slide detector but after we have had experience with the automatic block we may very well say that it is adequate and that we do not need the extra protection.

Mr. FULTON: I am satisfied at the moment unless, you want to make any additional comment, that you are still prepared to consider whether or not the slide detector fence at specific danger points would provide an additional safety factor at actual points after you have finished with the block system?

Mr. GORDON: In the light of the actual system—

Mr. FULTON: In respect to communications you mention in paragraph 19 that new operating methods and technique were examined with a view to achieving greater efficiency, etc. In the light of the difficulties which have arisen from imperfect understanding or reproduction of train orders in the past, would you consider the safety factor would be substantially increased if you could install a system—I am leaving out for the moment the financial aspect and I will come to that later—but if you could install a system of teletype at your various despatching points, and between various despatching points, so as to avoid as far as possible human error in the reproducing of orders?

Mr. GORDON: That is getting into a pretty technical operating matter and I think I will ask Mr. Dingle to refer to it.

Mr. DINGLE: We have found up to the moment, Mr. Fulton, that voice contact is much better than what you describe as teletype—in other words, I mean the message form. When the operator has to write the order, repeat it back to the dispatcher, we feel much safer.

Mr. FULTON: You think there is danger perhaps of mechanical breakdown or inaccuracy in reproduction on the teletype? What I have in mind is a machine which actually prints out the message in the point of reception as it is received over the wire. I think you know what I have in mind.

Mr. DINGLE: I do not know of any teletype machine that is set to handle a form; and train orders are on set forms. To transfer from a message form by teletype to a form in the office, without any check-back, such as we now have, I do not think would be as satisfactory. That is my opinion.

Hon. Mr. CHEVRIER: It certainly would not be. That is right.

Mr. GORDON: It would not be as fast or as flexible.

Hon. Mr. CHEVRIER: The other railways do it by phone.

Mr. DINGLE: Yes.

Mr. FULTON: I asked if the matter had been considered, and you say that it has. Very well. Thank you. On terminal facilities, paragraph 27, I expect that Mr. Gordon has received a pamphlet, as many members of parliament have, written by a man whose name I cannot pronounce, but it is spelled Rideout. I do not know the gentleman, but I got his pamphlet and I was interested in reading it. He does refer to the congestion in the terminal at Montreal and he suggests greater use could be made of the other national transcontinental line between Quebec and Armstrong; and in view of the remarks in your report on the expenditures necessary to increase your terminal facilities at Montreal and the congestion you are now experiencing there, I wonder if you would care to comment on that subject, Mr. Gordon?

Mr. GORDON: Our Montreal congestion has been one of our most worrisome problems in regard to terminals generally; and it is for that reason that we have acquired by expropriation proceedings a large tract of land just outside the city for a new hump-yard which will enable us to marshal our cars in a much more efficient way and which will relieve that congestion. But in the meantime until we get through there, we are suffering from bad congestion in our Turcot yards. But even there we have a substantial amount of money in our budget to improve the facilities at Turcot. Our officials have been studying every possible way to by-pass traffic including use of the line which you have in mind. We are getting a lot of advice from amateurs in regard to how to run terminals; but the functioning of a terminal is a highly technical and very difficult operation. Probably it is one of the most skilled operations of all; and all I can say by way of summary is that the best minds of the railway have been tackling the problem of terminal congestion and that Montreal in particular has been of special interest to the study that these men have made.

Mr. FULTON: I was not so much concerned in entering into discussion with you on how to run a terminal as into an examination of Mr. Rideout's basic contention that a better operation in Montreal might be arrived at by making greater use of this line to which he refers.

Mr. GORDON: That is generally the question of by-passing traffic from east to west instead of bringing it through Montreal itself. We have had that problem under examination and we have done as much as we can on it. But it is not quite as simple as it looks. There are situations in which you have to come into a terminal to be properly serviced and to re-marshal the cars. But to the extent that we can by-pass the city through the use of that northern line, we feel we are accomplishing that.

Mr. FULTON: Is the possibility one of by-passing traffic there which would be coming from pretty well west of the lake head?

Mr. GORDON: That is right.

Mr. FULTON: Traffic which would be going east?

Mr. GORDON: Right through to the coast.

Mr. FULTON: Is there sufficient traffic of that nature, or is there sufficient traffic originating on that branch of the line from the lake heads east to justify the spending of more money to make a major line out of your northern line?

Mr. GORDON: Our general feeling is that we will do a better job by pushing with all our might for a new hump yard and using it as a re-marshalling center. It is simple enough to think of by-passing a city, but in doing so you get into all sorts of technical difficulties in regard to servicing the motive power, re-arranging the cars, and as I said before, to the extent that we can simply by-pass, we can gain in speed of operation. We are carrying the traffic as best we can to get advantage of that operation; but as an over-all everyday job to say that we should use that northern line and by-pass everything that went through to the coast, I would say no, that it is neither a practical, nor an efficient operation.

Mr. GEORGE: Has consideration been given to the request made by the greater planning commission of the city of Moncton with a view to building new yards and by-passing the city of Moncton with through traffic?

Mr. GORDON: There has been a great deal of discussion with the city of Moncton in regard to that, but our difficulty has been that we have not been able to get agreed conclusions in regard to the city itself and some of the proposals which have been made would run into fantastic expenditures, on the assumption that they should be all expenditures made by the railways.

The CHAIRMAN: Will the members of the committee now refer to the annual report of the Canadian National (West Indies) Steamships Limited.

Mr. GORDON: This is the annual report of the Canadian National (West Indies) Steamships Limited, and it reads as follows:

MONTREAL, March 10, 1952.

THE HONOURABLE LIONEL CHEVRVER, Q.C., M.P.,
MINISTER OF TRANSPORT,
OTTAWA.

Sir:

The following report is submitted of the operation of the Canadian National (West Indies) Steamships, Limited, for the calendar year 1951.

The operating results for the year compare with those of the previous year as follows:

	1951	1950	Increase or *decrease*	
Operating revenues	$6,808,478	$5,124,200	$1,684,278	32·9%
Operating expenses	6,840,054	5,725,632	1,114,422	19·5%
Operating loss	*$ 31,576*	*$ 601,432*	*$ 569,856*	

Freight revenue amounted to $5,312,191, representing an increase of 39·3 per cent over the previous year, largely due to the relaxation of dollar import restrictions on certain commodities under the "Trade Liberalization Plan" effective January 1, 1951. The total tonnage carried in 1951 was 340,286 tons, as compared with 279,232 tons in the previous year, an increase of 21·9 per cent.

Southbound tonnage increased by 37,848 tons or 40 per cent, principally due to the increased movement of flour. Northbound tonnage showed a gain of 23,206 tons or 12·6 per cent, due to a substantial rise in sugar tonnage, partly offset by a reduction in other cargoes.

Passenger revenue decreased by $79,298 or 8·7 per cent, due to a decrease in round-trip cruise traffic and to sustained competition from airlines and other carriers.

Charter revenue, amounting to $521,443, was more than doubled because of the more favourable rates obtained and the chartering of non-refrigerated cargo vessels for longer periods in 1951.

The increase of $1,114,422, or 19·5 per cent in operating expenses reflects the greater volume of freight tonnage handled, an increase in the number of operating days in service, and one additional voyage completed in 1951, the number of voyages completed being 64. Increased port handling charges, higher wages, and the increased cost of vessel supplies all contributed to the increase in operating expenses.

After payment of interest on bonds held by the public and on Government advances there was an over-all deficit of $466,992 as compared with $1,028,767 in 1950. The Consolidated Income Account is shown on page 8.

There was no change in the fleet during the year, which at present comprises:

		Gross tonnage	Deadweight tonnage
"Lady Nelson"..........	Freight and Passenger.........	7,830	6,410
"Lady Rodney"..........	Freight and Passenger.........	8,252	4,665
"Canadian Challenger" ..	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Constructor" ..	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Cruiser"	Diesel-powered and refrigerated.	6,745	7,460
"Canadian Conqueror" ...	Non-refrigerated	2,930	4,532
"Canadian Highlander" ..	Non-refrigerated	2,966	4,532
"Canadian Leader"	Non-refrigerated	2,930	4,532
"Canadian Observer"	Non-refrigerated	2,967	4,532
"Canadian Victor"	Non-refrigerated	2,963	4,532
		51,073	56,115

The "Lady Nelson" and the "Lady Rodney", built in 1928 and 1929 respectively, are no longer suitable for operation in this service, and the Government has decided that they should be withdrawn after the summer season. It is the intention, however, to provide a regular and adequate freight service on a commercial basis to British West Indies, Bermuda and British Guiana. The diesel ships in operation in this service are equipped to provide comfortable accommodation generally adequate to take care of the business people wishing to travel by sea.

The balance in the Vessel Replacement Fund at the end of 1951 was $4,685,337 as compared with $4,313,638 at the year-end in 1950. The Insurance Fund balance was $2,046,654 against a balance of $1,772,458 at the end of 1950.

The loyal and effective services rendered to the Company by its officers and employees is acknowledged with appreciation.

For the Board of Directors,

D. GORDON,
President.

CONSOLIDATED BALANCE SHEET

At 31st. December, 1951

ASSETS

Investments			
Vessels		$9,844,445	
Less accrued depreciation		*5,579,782*	
		$4,264,663	
Vessel replacement fund		4,685,337	$ 8,950,000
Current Assets			
Cash in banks	$1,097,613		
Special deposits	5,750	$1,103,363	
Accounts receivable		86,702	
Freight, passenger and agency balances		191,580	
Government of Canada—Due on deficit account		46,537	
Inventories		25,281	
Advances to captains, crews, etc.		42,615	
Due from insurance and replacement funds		141,025	1,637,103
Insurance Fund			2,046,654
Discount on Capital Stock			40,000
			$12,673,757

LIABILITIES

Capital Stock		
Authorized and issued 400 shares of $100 each		$ 40,000
Funded Debt		
25 Year 5% Government of Canada Guaranteed Bonds, maturing March 1, 1955		9,400,000
Government of Canada Advances		
For deficits	$3,618,505	
For working capital	150,000	3,768,505
Current Liabilities		
Accounts payable	$ 724,445	
Interest matured unpaid	5,750	
Unmatured interest accrued	156,667	886,862
Unadjusted Credits		150,241
Insurance Reserve		2,046,654
Profit and Loss—*Deficit*		*3,618,505*
		$12,673,757

NOTE:—A reserve has been provided for pension contracts in force under the C.N.R. 1935 contractual plan, but not for pensions conditionally accruing.

T. H. COOPER,
Vice-President and Comptroller.

CERTIFICATE OF AUDITORS

We have examined the books and records of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the Steamships, and the consolidated balance sheet at the 31st December, 1951, and the relative consolidated income and profit and loss accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Steamships.

The above consolidated balance sheet and the relative consolidated income and profit and loss accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Steamships' affairs at the 31st December, 1951, and of the consolidated income and expense for the year.

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

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

CONSOLIDATED INCOME ACCOUNT

	1951	1950
Operating Revenues		
Freight	$5,312,191	$3,812,587
Passenger	832,054	911,352
Miscellaneous	48,141	45,684
Subsidies	94,649	103,031
Charter	521,443	251,546
Total	$6,808,478	$5,124,200
Operating Expenses		
Voyage accounts	$6,107,348	$4,985,802
Lay-up expenses	11,978	52,027
Depreciation on vessels	371,699	371,699
Management and office expenses	224,143	226,096
Pensions	1,567	25,116
Other expenses	123,319	64,892
Total	$6,840,054	$5,725,632
Operating loss	*$ 31,576*	*$ 601,432*
Vessel replacement fund earnings	*130,368*	*133,127*
Interest on bonds held by public	470,000	470,000
Interest on Government advances	95,784	90,462
Income deficit	*$ 466,992*	*$1,028,767*

CONSOLIDATED PROFIT AND LOSS ACCOUNT AT 31st DECEMBER, 1951

Balance at 31st December, 1950—*Deficit*	*$3,618,505*
The income deficit for the year was assumed by the Government of Canada	—
Balance at 31st December, 1951—*Deficit*	*$ 3,618,505*

The CHAIRMAN: Thank you, Mr. Gordon. Are there any questions on "Operating Revenue, and Operating Expenses"?

Mr. MOTT: How many passengers will these other boats carry?

Mr. GORDON: The diesel ships will carry 12 passengers.

Mr. POULIOT: What is the price of the trip?

Mr. GORDON: The price of the trip?

Mr. POULIOT: On the boat?

Mr. GORDON: I do not know; it depends on the class of the cabin. I will have to look it up; I have not got it in my mind; I will see that you get it.

Mr. FULTON: May I ask the minister whether the withdrawal of the two ships referred to presented any difficulty under the terms of the Commercial Treaty?

Hon. Mr. CHEVRIER: No, none whatever, because under the agreement there was provision for the payment of certain subsidies and most of the subsidies have been paid; in any event, it was felt that because of the service provided by TCA to most of those places, all we were doing there was to double at great cost the passenger service provided by the Lady boats.

Mr. FULTON: This will not affect their freight service to any appreciable extent, then?

Hon. Mr. CHEVRIER: We hope not. The government is studying a proposal made by the Canadian National to operate these freight cargo vessels, as outlined in the report. And I think that the recommendation of the Canadian National Railways will be adopted in that respect.

Mr. FULTON: Is their passing not to be noted with a pang of regret?

Hon. Mr. CHEVRIER: Yes. I am sure it should be; but I think Mr. Gordon could substantiate this and confirm it. Those Lady boats were pretty old and they got to the point where they needed substantial repairs at a considerable cost; and it was a question whether they should build new ships or repair the old ones. Against that the decision was taken to abandon them.

Mr. FRASER: Will they be sold?

Mr. GORDON: We are negotiating for their sale now. While we feel that these Lady boats are not suitable for operation in this particular way, nevertheless we do feel that they are still quite saleable vessels and we hope to get a good price for them for operation elsewhere. The major difficulty in regard to the freight service vis-à-vis the Lady boats was the fact that it was a cheduled service, by reason of the fact that they were passenger boats. They were supposed to be there at a given time for the convenience of passengers; but freight does not work that way. So we found ourselves badly handicapped when we proposed to run a freight service on a commercial basis; and we hope therefore to have a more effective service with the new freight vessels.

Mr. MACDONNELL: On the last page under "Consolidated Income Account"; the third last item, I see "vessel replacement fund earnings, $130,368". What would be the explanation for that?

Mr. GORDON: That is the interest on the investment fund, the vessel replacement fund. That is shown in the balance sheet. We now hold bonds and securities pending the use of that fund, and this is merely the income from that fund.

The CHAIRMAN: Are there any further questions on the balance sheet?

Mr. GORDON: It had regard to the sinking of the vessels during the war; it was the insurance payments on the vessels which were sunk during the war.

The CHAIRMAN: Are they any further questions on that part of the balance sheet?

Mr. GORDON: It was insurance payments on the vessels during the war.

Mr. FRASER: Is there any intention of making this list of five ships mentioned here that are non-refrigerated into refrigerated ships?

Mr. GORDON: That will have to have much more study, study as to the kind of service, the new competitive service we propose to offer. If the traffic is there, we will do so.

Mr. FRASER: They all travel south and I was wondering if refrigeration would not be an advantage?

Mr. GORDON: That will depend on the sort of traffic we will be able to drum up.

Mr. MACDONNELL: You speak of the benefit the steamships have had from the trade liberalization plan of January 1950. Has there been any tendency to change that?

Mr. GORDON: That was the matter arising out of the restrictions on foreign exchange, and by agreement with the dominion government; it is a currency difficulty only, yes.

Mr. GRACEY: The British government decided to give the West Indies a little more lenient treatment than other parts of the sterling area to help them in their trade.

Mr. MACDONNELL: And that is continuing?

Mr. GRACY: Yes.

The CHAIRMAN: If there are no more questions on that we will turn to the budget items.

Mr. FULTON: Before you do that, are you going to go back and formally adopt all these reports later on?

The CHAIRMAN: If you wish a formal motion, Mr. Fulton—Mr. Fulton moves that the annual report of the Canadian National Steamships Limited be adopted.

Carried.

Mr. FULTON: In the past it has been our custom to adopt the report first and then the consolidated balance sheet as a separate item. I am not going to raise any questions but I just want to know if we are going to adopt that formula.

The CHAIRMAN: I thought we would deal with the three budget items and one blanket motion would adopt the entire report.

Mr. MACDONNELL: Do I understand that there would be the possibility of recommendations being made in the report?

The CHAIRMAN: Yes. Now we come to the budget items. Item 485:

No. of Vote	Service	Details on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
			$	$	$	$
485	Prince Edward Island Car Ferry and Terminals— To provide for the payment during the fiscal year 1952-53 to the Canadian National Railway Company (hereinafter called the National Company) upon applications approved by the Minister of Transport made from time to time by the National Company to the Minister of Finance and to be applied by the National Company in payment of the deficit (certified by the auditors of the National Company) in the operation of the Prince Edward Island Car Ferry and Terminals arising in the calendar year 1952..................	533	1,485,000	1,280,000	205,000	

Mr. McLURE: Is that marked a service or a deficit?

Hon. Mr. CHEVRIER: We are still considering that point Mr. McLure.

The CHAIRMAN: Mr. McLure moves that vote 485 carry.

Carried.

Vote 486:

No. of Vote	Service	Details on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
			$	$	$	$
486	Canadian National (West Indies) Steamships, Limited— To provide for the payment from time to time to the Canadian National (West Indies) Steamships, Limited (hereinafter called "The Company") of the amount of the deficit occurring during the year ending December 31st, 1952 in the operations of the Company and the vessels under the control of the Company, as certified by the Auditors of the Company, and upon applications made by the Company to the Minister of Finance and approved by the Minister of Transport, not exceeding..............	533	734,000	845,000	....	111,000

Shall vote 486 carry?
Carried.

Now we come to vote 493:

No. of Vote	Service	Details on Page No.	1952-53	1951-52	Compared with Estimates of 1951-52	
					Increase	Decrease
			$	$	$	$
493	Maritime Freight Rates Act— For the payment to the Railway Companies operating in the select territory designated by the Act, during the fiscal year 1952-53, of the difference occurring on account of the application of the Act, between the tariff tolls and normal tolls under approved tariffs (estimated and certified to the Minister of Transport by the Canadian National Railway Company and approved by Auditors of the said Company respecting the Eastern Lines of the Canadian National Railways, and in the case of the Other Railways by the Board of Transport Commissioners for Canada) on all traffic moved during the Calendar Year 1952, (Chap. 79, Statutes of 1927, as amended)...........	535	9,910,000	9,125,000	785,000	
	Appropriations not required for 1952-53......................	536	....	130,000	....	130,000
			21,967,700	17,947,000	4,020,700	

Shall vote 493 carry?
Carried.

Shall we turn now to the budget?

Mr. MACDONNELL: I want to ask a question about that Maritime Freight Rates Act. Has that ever been affected by any of the freight rate revisions?

Hon. Mr. CHEVRIER: Not in the slightest. It was a special provision.

The CHAIRMAN: Mr. Macdonnell, you have been away quite a bit and I will give you the floor first on this budget.

CANADIAN NATIONAL RAILWAYS
SUMMARY FORECAST OF FINANCIAL REQUIREMENTS—YEAR 1952

—	1952 Estimated	1951 Actual	Page No.
	$	$	
Income Account—			
Operating Revenues	663,090,000	624,834,120	
Operating Expenses	613,828,000	580,150,221	
Net Operating Revenues	49,262,000	44,683,899	
Net Income Charges (excluding Interest)	17,248,000	12,900,780	
Available for Payment of Interest	32,014,000	31,783,119	
Interest on Funded Debt—Public	21,849,000	23,467,703	
Interest on Government Loans	28,190,000	23,347,412	
Income Deficiency	18,025,000	15,031,996	

CAPITAL BUDGET—1952
1952 CAPITAL EXPENDITURES, NOT HERETOFORE AUTHORIZED, WITH 1951 COMPARISON—

—	1952 Estimated	1951 Budget	Page No.
	$	$	
Additions and Betterments—			
General (excluding new equipment)	27,363,257	14,894,066	5
New Equipment—			
1952 Orders—$25,059,952, of which $2,413,092 will be delivered in 1952	2,413,092	56,722,177	8
Acquisition of Securities	516,900	3,712,000	9
Additional Working Capital	15,000,000	20,000,000	
1952 Budget Program	45,293,249	95,328,243	

SUMMARY OF 1952 FINANCIAL AUTHORIZATIONS REQUIRED WITH 1951 COMPARISON

—	1952 Estimated	1951 Budget	Page No.
	$	$	
Capital Expenditures—			
1952 Budget Program—as detailed hereinbefore	45,293,249	95,328,243	1
Sherridon-Lynn Lake Branch Line—authorized C.44 Statutes of Canada, 1951	7,800,000	....	10
Revotes, and to complete projects previously authorized	23,014,271	22,408,757	6
New Equipment authorized by C.N.R. Financing and Guarantee Acts (Nos. 1 and 2), 1951, cost of which will exceed the originally estimated cost by	8,325,822	....	7
New Equipment ordered pursuant to Canadian National Railways Financing and Guarantee Act (No. 1) 1951	20,389,043	....	7
	104,822,385	117,737,000	
Less amounts available from Depreciation Reserves and Debt Discount Amortization	17,350,000	16,522,000	
	87,472,385	101,215,000	6

The financial authorizations in respect of equipment, as contained in the Financing and Guarantee Acts (Nos. 1 and 2) 1951, will, to the extent of the unexpended balances ($12,577,003 under the No. 1 Act and $52,355,892 under the No. 2 Act) be utilized as the related equipment is delivered during 1952.

C.N.R. Financing and Guarantee Act 1951 authorized placing of orders for new equipment during 1951 (with consent of the Governor in Council) amounting to $111,512,920, including certain passenger equipment now estimated to cost $43,767,655. This passenger equipment was not ordered during 1951 and reinstatement of the expired authority is now desired. See page 7.

Authority is also desired to place orders for the new equipment estimated to cost $25,059,952, hereinbefore referred to, to the extent that it will not be delivered during 1952, being $22,646,860. See page 8.

Authority is also desired to place orders for new equipment to be included in the 1953 Budget program to the extent of $56,721,195. See page 8.

Authority is also desired, to the Minister of Finance, to make advances to the extent of $50,000,000 against new equipment to be delivered in the spring of 1953 under the above authorizations, which advances are to be reimbursed by the Railway subsequent to the enactment of the C.N.R. Financing and Guarantee Act 1953. See pages 7 and 8.

1951 FINANCIAL REQUIREMENTS COMPARED WITH THE BUDGET

—	1951 Actual Requirements	1951 Budget
	$	$
General Additions and Betterments	25,345,371	14,894,066
Revotes, and to complete projects authorized in previous years		22,408,757
Sherridon-Lynn Lake Branch Line	1,206,873	....
	26,552,244	37,302,823
New Equipment	44,145,175	56,722,177
Acquisition of Securities	*Cr. 7,846,083*	*3,712,000*
Additional Working Capital	15,000,000	20,000,000
	77,851,336	117,737,000
LESS: Amounts available from Depreciation Reserve and Debt Discount Amortization	16,517,396	16,522,000
	61,333,940	101,215,000

Under C.N.R. Financing and Guarantee Act (No. 2), 1951, authority was given to make expenditures for new equipment amounting to $55,581,816, also delivery is anticipated prior to July 1st, 1952.

Delivered in 1951	$ 3,225,924
Deliveries in 1952	55,605,508
	$58,831,432

Authority for the overexpenditure of $3,249,616 will be sought through the 1952 Capital Budget.

CANADIAN NATIONAL RAILWAYS

1951 Capital Expenditures Compared with 1951 Budget—by Regions, Departments, etc.

		1951 Capital Expenditures		1951 Budget
Additions and Betterments				
Atlantic Region, incl. Newfoundland Dist.....		$ 3,521,280		$ 4,580,868
Central Region, incl. Montreal Terminal Dev.		11,411,278		18,519,722
Western Region, incl. D.W. & P. Ry..........		5,892,011		11,779,205
Grand Trunk Western Railroad............		2,056,075		5,708,873
Central Vermont Railway..................		994,502		377,096
Subsidiary Companies......................	Cr.	5,395,483		285,149
Express, Communications and Other Departments		7,401,336		12,961,576
Additions and Betterments to Equipment—Canada		4,544,904		6,006,106
Equipment Retirements....................	Cr.	5,080,532	Cr.	5,515,772
		25,345,371		54,702,823
Less: Portion of projects included in above requirements not physically completed by the end of the year......................		....		17,400,000
Sherridon—Lynn Lake Branch Line.........		1,206,873		....
Total—Additions and Betterments—Net..		$26,552,244		$37,302,823
New Equipment		$44,145,175		$56,722,177
Total		$70,697,419		$94,025,000
New Equipment				
Financed through Equipment Trusts				
Series "U"		$ 305,827		
Series "V"		8,877,453		
		$ 9,183,280		
1952 Budget—Delivered in 1951.............		$ 3,225,924		
Total Expenditures in 1951.............		$83,106,623		

CANADIAN NATIONAL RAILWAYS

Additions and Betterments—General

(Excluding New Equipment)

	1952 $	1951 $	1952 $	1951 $
Road	41,769,231	40,965,764		
Less Revotes	15,068,736	12,153,357		
			26,700,495	28,812,407
Subsidiary Companies	373,163	285,149		
Less Revotes	Cr. 6,598	Cr. 93,680		
			379,761	378,829
Departments	23,241,856	12,961,576		
Less Revotes	5,743,647	7,845,074		
			17,498,209	5,116,502
Equipment Conversions	8,101,278	6,006,106		
Less Revotes	2,208,486	2,504,006		
			5,892,792	5,502,100
			50,471,257	37,809,838
Less:				
Equipment Retirements	8,108,000	5,515,772		
Projects Uncompleted	15,000,000	17,400,000		
			23,108,000	22,915,772
			27,363,257	14,894,066

Summary

	1952 $	1951 $	1952 $	1951 $
Gross			65,377,528	54,702,823
Less:				
Revotes	23,014,271	22,408,757		
Projects Uncompleted	15,000,000	17,400,000		
			38,014,271	39,808,757
Net Additions and Betterments—General			27,363,257	14,894,066

CANADIAN NATIONAL RAILWAYS

Financial Authorizations—1952 Requirements by Regions, Departments, Etc.

	Atlantic Region	Newfoundland District	Central Region	Western Region	Grand Trunk Western	Central Vermont Railway	Other	Total	Revotes
	$	$	$	$	$	$	$	$	$
ROAD									
New Lines	15,525	....	....	90,425	....	....	....	105,950	....
Rails and fastenings, tie plates and rail anchors	707,165	145,266	2,260,722	2,975,728	425,450	94,475	....	6,608,806	....
Ballast	422,761	77,009	54,525	....	270,000	48,904	....	873,199	....
Road-way Betterments	141,992	61,521	14,617	152,750	5,500	3,000	....	379,380	....
Large Terminals	....	....	1,125,000	....	1,200,000	....	....	2,325,000	....
Yard Tracks and Sidings	403,712	21,890	1,182,309	277,471	28,500	3,190	....	1,917,072	....
Roadway Machines	115,422	73,447	513,561	441,150	27,370	42,705	....	1,213,655	....
Bridges, Trestles and Culverts	121,680	43,853	709,310	525,380	55,000	18,711	....	1,473,934	....
Tunnels	....	....	....	50,000	....	....	....	50,000	....
Hughway and Crossing Protection	53,300	....	70,000	27,450	33,500	....	....	184,250	....
Stations and Station Facilities	318,551	186,379	567,838	454,654	239,475	4,200	....	1,771,097	....
Water Supplies	Cr 25,014	3,288	80,146	71,381	....	....	....	129,801	....
Fuel Stations	229,570	253,260	13,520	400,264	Cr 5,800	....	....	890,814	....
Shops, Enginehouses and Machinery	477,219	88,883	633,344	447,714	215,648	25,822	....	1,888,630	....
Docks and Wharves	....	....	65,453	5,000	93,300	....	....	163,753	....
Grain Elevators	....	....	....	215,500	....	....	....	215,500	....
Signals and Interlockers	24,535	....	1,278,007	1,019,783	84,000	....	....	2,406,325	....
Land	....	....	....	7,945	....	....	....	7,945	....
General Additions and Betterments and Contingencies	2,343,334	409,930	9,476,505	5,323,221	1,468,196	82,691	2,151,520	21,255,397	15,068,736
Communications—Railway	....	....	....	....	....	....	2,546,177	2,546,177	483,081
Communications—Commercial	....	....	....	....	....	....	14,358,173	14,358,173	2,248,363
Express and Miscellaneous Equipment	1,755	....	39,943	....	16,193	2,352	636,539	696,782	81,408
Subsidiary Companies	....	....	....	....	....	....	373,163	373,163	Cr 6,598
Hotels	....	....	....	....	....	....	3,549,447	3,549,447	2,930,795
Equipment									
Additions and Betterments	....	....	....	....	....	....	8,101,278	8,101,278	2,208,486
Retirements	....	....	....	....	....	....	Cr 8,108,000	Cr 8,108,000	....
	$5,351,507	$1,364,726	$18,084,800	$12,485,816	$4,156,332	$326,050	$23,608,297	65,377,528	23,014,271

Less portion of project not completed during year		15,000,000	
Net General		50,377,528	23,014,271
New Equipment		31,127,957	
Sherridon-Lynn Lake Branch Line		7,800,000	
Net Additions and Betterments		89,305,485	23,014,271
Additional Working Capital		15,000,000	
Acquisition of Securities		516,900	
		104,822,385	
Less:—Amounts available from Depreciation Reserves and Debt Discount Amortization		17,350,000	
TOTAL REQUIREMENTS		$87,472,385	

CANADIAN NATIONAL RAILWAYS

New Equipment

Estimated Cost

(A) Canadian National Railways Financing and Guarantee Act 1951, Statutes of Canada, Chapter 45, empowered the Governor-in-Council to authorize the National Railway System to incur commitments in 1951 in respect of the units of equipment in columns 1, 2, and 3 hereunder:

	Column (1)	Column (2)	Column (3)
800 HP Switchers	12		
660 HP Switchers	12		
1000 HP Switchers (C.V.R.)	1		
1500-1600 HP Road	24		
1000-1200 HP Switchers	20		
1000-1200 HP Switchers (G.T.W.)	5		
Sleepers			72
Sleepers—Buffet			10
Sleepers—Tourist			20
Parlor			5
Parlor—Buffet			5
Parlor—Cafe			15
Diner			20
Diner (Newfoundland)			1
Coach			47
Coach (G.T.W.)			5
Baggage		60	
Automobile Cars	1000		
Gondolas—Drop End—70 ton	1500		
Gondolas—70 ton	750		
Gondolas—70 ton (G.T.W.)	300		
Hoppers—Triple—70 ton	500		
Hoppers—Triple—70 ton	750		
Hoppers—70 ton (G.T.W.)		500	
Hoppers—Covered—70 ton (G.T.W.)	125		
Hoppers—Covered		125	
Box Cars—50 ton	500	1000	
Box Cars—50 ton (G.T.W.)		350	
Box Cars—50 ton	130	130	
Box Cars—30 ton (Newfoundland)	50		
Flat—Steel Underframe	300		
Flat—Steel Underframe	500		
Stock—Steel Underframe (Newfoundland)	10		

Canadian National Railways Financing and Guarantee Act (No. 2) 1951, Statutes of Canada 1951 (Second Session) Chapter 9, authorized in the manner therein set forth the financing of the new equipment tabulated in column (1) above to the extent of $55,581,816. This equipment has all been ordered and delivery is anticipated prior to July 1, 1952.

Authority is desired for the financing to the extent of $20,389,043 of the new equipment tabulated in column (2) above, all of which has been ordered and will be delivered in 1952 .... $20,389,043

Authority is also required for the financing of an additional amount of $8,325,822 by which the currently estimated cost of new equipment, the financing of which was authorized under the provisions of the above noted Statutes, exceeds the estimated cost of such equipment at the time said Statues were enacted 8,325,822

Equipment tabulated in column (3) was not ordered in 1951, but it is anticipated that orders can be placed during 1952 and that a portion of such equipment will be delivered in the spring of 1953. Therefore, reauthorization of the ordering of said equipment to the extent of $43,767,655 is now required.

CANADIAN NATIONAL RAILWAYS—Con.

NEW EQUIPMENT—Con.

Estimated Cost

(B) New Equipment (1952 additional orders), authority for the ordering and to the extent indicated, for the financing of which must be obtained through the 1952 Capital Budget:

5	600 HP Diesel Electric Switcher	
57	Coaches	
50	Gondola—Ore Type	
1000	Hopper—Ore Type	
50	Flat (Newfoundland)	
25	General Service (Newfoundland)	
25	Refrigerator (Newfoundland)	
12	Snow Plows (Newfoundland)	
3	Snow Plows (Canadian Lines)	
5	Snow Plows—Russell (Canadian Lines)	
3	Gordon Spreaders (Canadian Lines)	
100	Ballast Cars	
30	Air Dumps	
1	Diesel Industrial Hoist (G.T.W.)	
1	Burro Crane (G.T.W.)	
1	Locomotive Crane—25 ton	
	Spare Equipment—Diesel Locomotives (G.T.W.)	
5	Steel Tank Cars—Secondhand (G.T.W.)	
15	Traction Motors—Diesel Electric Locomotives	
4	Traction Motors—Diesel Electric Locomotives (Newfoundland)	
2	Traction Motors—Multiple Unit Cars	
11	Water Transports	(AFE 71/294)
4	Locomotive Cranes	(AFE 71/279)
5	Hopper Cars (Aluminum)	(AFE 71/283)
1	Wrecking Crane	(AFE 71/284)
2	Diesel Engines	(AFE 71/293)

Total cost $25,059,952, of which $2,413,092 will be required to cover estimated deliveries during 1952, and also, of which it is anticipated some additional portion will be required for deliveries prior to the enactment of the Canadian National Railways Financing and Guarantee Act of 1953.. $2,413,092

(C) New Equipment to be included in the 1953 Budget Program, authority for the current ordering of which, to secure 1953 delivery, must be obtained throug the 1952 Capital Budget:

22	600- 660 HP Road Switcher
1	1000 HP Road Switcher (C.V.R.)
3	1000-1200 HP Road Switcher (G.T.W.)
6	1200 HP Road Switcher (Newfoundland)
70	1500-1600 HP Road
57	Coaches
30	Baggage
1200	Box (Canadian Lines)
100	Box (Newfoundland)
500	Gondola (Canadian Lines)
100	Gondola (G.T.W.)
300	Hopper (Canadian Lines)
150	Hopper—Covered (Canadian Lines)
50	Hopper—Covered (G.T.W.)
100	Flat (Newfoundland)
5	Flat—Depressed (Canadian Lines)
50	General Service (Newfoundland)
200	Refrigerator (Canadian Lines)
25	Refrigerator (Newfoundland)

Total Cost $56,721,195

It is anticipated that some portion of this equipment will be delivered prior to the enactment of the Canadian National Railways Financing and Guarantee Act of 1953.

Total—New Equipment $31,127,957

CANADIAN NATIONAL RAILWAYS

Acquisition of Securities

	1951 Budget:	1951 Actual:	1952 Budget:
	$	$	$
Toronto Terminals Railway (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%	....	....	62,500
Northern Alberta Railways (Joint with Canadian Pacific Railway Co.) General Additions and Betterments—C.N.R. Proportion 50%	300,000	275,000	250,000
Trans-Canada Air Lines Temporary Deposits made with Canadian National Railways	....	Cr 11,000,000	....
Chicago and Western Indiana Railroad Advances under agreement of March 1/36	195,000	206,714	202,900
Atlantic and St. Lawrence Railroad Purchase of Capital Stock	2,000	....	1,500
New London Northern Railroad Company Purchase of Capital Stock and redemption of funded debt	3,215,000	2,672,203	....
	3,712,000	Cr 7,846,083	516,900

CANADIAN NATIONAL RAILWAYS

Construction of New Branch Line From Sherridon to Lynn Lake, Province of Manitoba

Authorized by Chapter 44, Statutes of Canada 1951

Total Estimated Mileage: 155

Total Estimated Expenditures: $ 14,725,000

A reconnaissance survey to establish the general route was completed on February 5, 1951, and preliminary ground surveys, with relative projected location, were completed on August 30, 1951.

Two parties are presently engaged in staking the location. One party has worked northerly from Sherridon for a distance of 90 miles, and the other party has completed 30 miles southerly from Lynn Lake. This work is well advanced, with only 27 miles remaining to be staked.

Contract for clearing, grading, installation of culverts, construction of timber bridges and concrete substructure for steel bridges over the Churchill River has been awarded to C. A. Pitts, General Contractor Limited, Toronto, the lowest bidder.

Clearing of the right of way has been started. Rock drilling was started at Sherridon on September 29, which is the initial operation for excavation of rock cuts in establishing the roadbed. Track ties, rails, and materials for culvert and bridge construction are being delivered and stock-piled at Sherridon.

It is estimated that the total expenditure on this project for the year 1952 will be $7,800,000.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

	1951 Budget:	1951 Actual:	1952 Budget:
	$	$	$
Income Account			
Operating Revenues	5,692,582	6,808,478	6,261,024
Operating Expenses	6,102,120	6,840,054	6,580,062
Net Operating Deficit	409,538	31,576	319,038
Vessel replacement fund earnings	125,000	130,368	145,500
Interest requirements on 5%—25-year Bonds due 1955, principal amount $9,400,000	470,000	470,000	470,000
Interest on Government Notes and Advances	90,462	95,785	90,462
Income Deficiency	845,000	466,993	734,000
Capital Budget			
General Betterments	....	....	58,000

Note:—Funds for Capital Expenditures to be provided from Vessel Replacement Fund.

Mr. GORDON: Perhaps you would like to have me make a few explanatory comments to direct your attention to where you will find particular material. On page No. 1 which is headed "Summary forecast of financial requirements—year 1952—members of the committee will see that we have again stated the figures for income against the same figures which you looked at in the annual report. The estimated figures for 1952 are set against the actual results of 1951, and you will observe we have estimated operating revenue at $663,090,000, and operating expenses at $613,828,000. Now, that is nothing better than an informed guess. We, of course, cannot do much better that that, when looking a year ahead, and the basis of our guess is that we are assuming very little change in the volume of freight and passenger traffic as nearly as we can work it out. It does recognize the increased freight rates that we got from the recent decision of the Board of Transport Commissioners, but it does not make any provision for a possible readjustment of wages this year. Reference has been made to the reopening of the contracts which expire in September and, of course, those discussions have yet to take place. We show the income deficiency of $18,025,000 as compared with $15,031,996 for the year 1951. That makes no allowance for the effect of any possible recapitalization that the government may be prepared to bring in this session.

Now, I do not think I need to take any more time on this table; it seems to me to be self-explanatory; but if members would like me to deal with each table for questions, I will do so as we go along.

The CHAIRMAN: I think that would be preferable.

Mr. MACDONNELL: What is the reason for the rise of $5 million in net income charges, excluding interest?

Mr. GORDON: That is covered in page 26 of the annual report. That is due to the fact that we had in the year 1951 certain non-recurring credit items, one representing $1.5 million book profit on the sale of the Rail and River Coal Company, one representing the figure we discussed on the Abitibi Pulp & Paper sale of land, which we took into account but which you pointed out could be considered a capital gain. Also, there was a final adjustment with the city of Montreal for taxes amounting to $1 million, representing a long standing case which we settled after about 15 years negotiation.

Mr. MACDONNELL: The increase in interest of $5 million on government loans, that is due to a change of interest rate and not an increased amount?

Mr. GORDON: Both. The rate charged us by government is based on the current market rates, but the major part of it is due to increased amount.

Mr. FULTON: Could you elaborate on that?

Mr. GORDON: We increased our government advances by $117 million, of which $73 million was new. In other words, we increased our borrowings from government and, therefore, the interest charge has increased with increased borrowings. That represents the higher interest costs shown in this estimate and, as I pointed out yesterday, the increased borrowings from government that was not capital expenditure.

Mr. FULTON: Yes.

Mr. GORDON: Then, on the second table there, the capital budget, I have headed it Capital Budget, 1952. This represents what might be called the new requests for 1952. The first item is additions and betterments, totalling $27,363,257, and if members of the committee will turn to page 5, which is in the same group of papers before you, you will see the breakdown there in respect to those figures. Now, you will see the comparison there. Our road account, that represents actual new expenditures charged to capital account in railway facilities, operating. For instance, rails and rail fastenings, tie plates, rail anchors, bridges, culverts, generally everything going into the operation of the road as such represents the capital portion which is not charged to maintenance in our ordinary operating expenses. The re-vote figure which you see there represents the carry-forward of projects which were previously authorized, generally speaking, but were not processed to completion at the end of the calendar year, and, therefore, they lapsed and had to be re-voted. I think that covers the major items there. You will notice the equipment, additions and betterments there, a figure of $8 million. That represents the amount that we ourselves spend in our own jobs for converting or for rebuilding existing rolling stock equipment. That is distinct from new equipment. That is rebuilt equipment prepared by the railway in its own shops.

Mr. FRASER: I was going to ask you a question. I understand that there is some agreement between the railway now and one of the oil companies to carry all their oil on the railway instead of in tank trucks. Would that cover tank cars?

Mr. GORDON: No, the tank cars are usually provided under arrangement where we rent them. They are usually rented to us on a mileage basis. Usually, the oil companies themselves have their own oil tank cars. We have some oil tank cars for our own service but, generally speaking, they provide their own.

Mr. FRASER: Under this agreement which I understand you have with an oil company to carry all their oil, I was wondering about that new equipment.

Mr. GORDON: If it is the same one I am thinking of, I am reasonably sure that part of the agreement is that they provide their own cars.

Mr. FRASER: They rent their own cars?

Mr. GORDON: They provide their own cars and we pay a rent for their use as against the freight rate we charge them.

Mr. FRASER: You charge them?

Mr. GORDON: Yes, for hauling them.

Mr. FRASER: For hauling, and you are charging a lower rate than before?

Mr. GORDON: No, you are mixing this up with the agreed charges.

Mr. FRASER: Yes.

Mr. GORDON: Well, the agreed charge was an agreed charge that we entered into with certain oil companies in the west for their undertaking to give us a fixed proportion of their traffic. They did get a better rate than was formerly quoted them. That rate has not yet been confirmed. It has been protested by the truckers and it is now before the Board of Transport Commissioners for adjudication. The interested parties on the other side have the right to appear before the Board and object to our agreed rate, and our case is pending. I would not, therefore, care to express any opinion on the points involved.

Mr. MACDONNELL: I am not sure I understand the figure on page 5, equipment retirements of $8 million odd. That work was done in your own shops, but what I am not sure about is the way it is treated financially.

Mr. GORDON: This equipment which has been retired from service was obsolete or worn out.

Mr. MACDONNELL: How, exactly, does that operate? You add that into a total figure of $23 million odd, which you take away from you total requirements of $50 million.

Mr. GORDON: Yes, but you will find it is put back again later on in another statement. This is only netting it out to show what the effect is for 1952. If you turn back to page 1, the next item of interest is the new equipment. That is, the 1952 orders. It is necessary here for me to give a word of explanation as to why this form of budget is changed from previous presentations. We have run into a situation now that under present day conditions, with the extreme demands on all suppliers and so forth, it is necessary for us to place orders far in advance of the day we may expect to get them. We may place orders this year and see no possibility of getting actual deliveries until 1953 or even into 1954. So you will find as we go on here, that the authority we are asking here, specifically covers what we expect actually to pay for in 1952; but then we are asking for commitment authority whereby parliament will authorize us when this budget goes before it to place orders only; it does not cover the authority for financing because we are actually not going to pay out money until the year in which the equipment is going to be delivered. That is why this year shows $25,059,952, only $2,413,000 of which is shown in this part of the budget, being our estimate of the actual amount of money we will be paying out in the year 1952. If you will turn to page 8 you will see a list of the equipment which we are asking for; for which we are now asking approval—on page 8, in the detail there, you will find at the top margin, at the top of page 8, the items which make up the value of $25,059,952. That makes the requisitions that we are making for the year 1952.

Mr. MACDONNELL: But you are only required to pay a small portion of that in 1952?

Mr. GORDON: We will only need $2,413,092 in cash this year. The orders will be placed and there will be a legal commitment for them; in other words, when we are able to get all the supplies to take on what we are offering.

The CHAIRMAN: And that will require a re-vote next year?

Mr. GORDON: Yes. It will come under the financing Act of 1953. That is the amount of commitments this year. You will find, a little later on, in your Financing Act that authority will be asked for a firm commitment, a commitment in respect to payment which will be held in reserve; otherwise, the railway would be in a very unsatisfactory position and so would the Minister of Finance. Since we would be placing orders for $25 million of equipment without having any legal authority to do so and without having the money to pay for such equipment. I have taken the question up with the government and they have agreed that this is the proper way to do it, to get authority in the

Financing Act to make the commitment, and then we will vote the money later on in the budget for 1953 or 1954 as the case may be. Perhaps it will make it a little more clear when you turn to the next page where I deal with the financial authority as distinct from the budget request. And now, you will see that the equipment there is set down in detail. I do not know if there are any particular questions about that. This represents our judgment of the amount of equipment that we really need to either replace or add to our inventory this year.

Mr. FRASER: Is there anything in there on account of signalling equipment?

Mr. GORDON: On account of what?

Mr. FRASER: On account of the signal blocks you put in there in your operations this year.

Mr. GORDON: I am not sure what you mean in that regard, Mr. Fraser.

The CHAIRMAN: Mr. Fraser, the reporter indicates that individual conversations cannot be heard and do not get on the record. If you want them on the record you will have to speak up so you can be heard.

Mr. FRASER: I will use my loud speaker.

Mr. FULTON: How much of a carry-over have you got this year with respect to equipment purchased but not delivered.

Mr. GORDON: I think that you will find that information on the next page. If you will just leave it until I come to the next page you will be shown there.

Mr. FULTON: All right.

Mr. GORDON: This operating, you will find this on page 8. If you will turn it over to the next page, page 9, you will see it deals with the acquisition of securities. Here again, it will help to explain this if you will turn to page 9, and there you will find the budget for 1952. It gives the figures which add up to a total of $516,900. You will see that this is considerably less than the 1951 budget because in 1951 we financed the New London Northern Railroad Company to the extent of $2,672,000, and the Chicago and Western Indiana Railroad to the extent of $206,714; and the Northern Alberta Railways to the extent of $275,000. There is nothing special in this year. Of that $250,000 represents our joint contribution with the Canadian Pacific Railway Company to the Northern Alberta Railways; and there is the item there of $62,500 for the Toronto Terminals Railway, another joint operation. Then there is the item of $202,900 of advances to the Chicago and Western Indiana Railroad. For the most part this item represents our share of funds required for joint facilities.

Mr. MACDONNELL: What about this acquisition of securities, is that actually the case.

Mr. GORDON: Well, in the case of the New London Northern Railroad Company we actually bought the capital stock.

Mr. MACDONNELL: Yes.

Mr. GORDON: In the case of some of the other items, for instance, the Atlantic and St. Lawrence Railroad, we bought the capital stock, a small amount which was in the hands of the public. Now that you asked the question, I don't know just what—did we get securities for that? I am informed that we actually, when we took our share, we actually took in bonds for the amount, which is the same as it being put into new capital. But we did acquire securities for it; in other words, this represents actually new capital. In the case of the Toronto Terminals Railway, that is an issue of bonds in this amount. The C.P.R. gets part and we get part. Technically speaking, we collect interest on these bonds if the operation earns any profit, on the bonds we hold in that terminal.

Mr. MACDONNELL: These all represent direct expenditures, invetment of new capital?

Mr. GORDON: Yes. Now, the item of 15 million for new working capital I think is reasonably self-explanatory. It just represents the fact that we need more dollars these days to handle the accumulation of larger credit account settlements in transit, etc., to finance payrolls in larger amounts; to cover rising inventories. As a matter of fact, and material and supply stocks are pretty close to a $100 million.

Mr. MACDONNELL: And that all comes under the heading of capital expenditures, but as a matter of fact you get that from the government.

Mr. GORDON: It is the same thing, borrowing from the government is just the same as borrowing from a private bank and putting it into the capital account. And now, turn to page 2, and this year you will find there that we require $104,822,000 for equipment and so on, and in comparison with the same things for 1951. Now, let us just run down these items.

Now that Mr. Fulton is here I would like to call his attention to the first item of the bottom he will find an explanation of the point in which he was interested; that to the extent of $12,577,000 in the number one Financing Act of 1951, and $52,355,000 under the number two Act. That has been authorized. We do not need any further authority for it, but the moneys will be expended this year covering the authorizations that will be given this year; but it is in there and it is not necessary to have it authorized again; it is there simply to remind the committee that the amounts authorized are due to be expended this year but have already been authorized in the Financing Act of last year.

Mr. MACDONNELL: There was no special reason why that figure was used there?

Mr. GORDON: Well, yes, there was. If you go back to the actual equipment requirements for 1951, that covers it. The main item there was that we bought 5,000 box cars because in 1951 we started to get acceleration of traffic which arose out of the defence effort and so on and so forth; and the 5,000 box cars are the major item in that program. To get the details of it you would have to go back to the 1951 budget already approved.

Mr. MACDONNELL: In other words we would have to ask for commitment authority for the whole thing regardless of what you expect you have to pay for in the current year; I mean, you would not have to expect to pay for all of it in the current year.

Mr. GORDON: Yes, that is right. The second item—I mentioned the first item of $45 million there. Now, the next item, $7,800,000, is for a portion of the line, the Sherridon-Lynn Lake branch line, which has been approved by statute in which the total cost is estimated at $14,750,000. We may exceed that by the time we get through; but the amount of $7,800,000 is what we are asking for this year, and next year we expect to be able to tell you how much the total cost will be.

Mr. FRASER: And is this Sherridon-Lynn Lake branch a conditional type of guarantee the same as the spur line to which you referred this morning?

Mr. GORDON: Yes, it is a similar type of agreement which provides that there will be a fixed sum each year over a period of 20 years and we in turn credit them back a certain drawback on their rail traffic if it exceeds a certain amount, the amount which is guaranteed.

Mr. MACDONNELL: And this is based on a guaranteed minimum amount of traffic and the estimate of other traffic available?

Mr. GORDON: We really divided it in three parts in the agreement we made. Sherritt-Gordon undertook to underwrite $5 million into this line on a 20 year basis, which with interest will give us, over a 20 year period, about $7,500,000, and we have undertaken, to credit them with the amount by which operating earnings exceed the amount which we put into the formula. The second $5 million was put up by the Canadian National Railways as a capital expenditure, representing our assessment of what we thought we were entitled to spend in putting in that particular line; and then the government has given a subsidy over and above the $10 million in view of the pressing urgency in getting this line into operation by October of 1953 by reason of the high priority needs of defence contracts. That amount over the $10 million, represents a bonus for delivery, for the cost of getting the line built within a stipulated time limit. We have had to put in some very extreme and costly methods in order to get it through in time. That is all covered.

Mr. MACDONNELL: There will be other traffic?

Mr. GORDON: There will be some fish and some mineral and so forth. It looks as though Sherritt-Gordon will produce most of the traffic, but there will probably be a certain amount of fish, and there may be other discoveries in the line of minerals.

Now, in the next item here is the figure you were talking about, Mr. Macdonnell; the $23 million figure for Revotes. The next item is an over-run in the cost of new equipment authorized in 1951. That is on page 2 there, the item of $8,325,822. In other words, Mr. Fulton, I explained it when you were out; the figures you are looking for you will find in the first item at the bottom of the page. You will find there $12,577,000, and the $52 million—I am just using round figures—representing equipment that has already been authorized but which has not been delivered, and we expect that to be delivered during this year, or the greatest part of it; so we do not need any further authority for it, it has been placed in last year's Act. That is the figure in suspense that you were looking for. Well now, that has been exceeded, that $8,325,000. Obviously, when we put these figures in we put them in on an estimate basis and we estimate as best we can the amounts we require, and that was the amount of the original estimate of the cost of equipment submitted to this commitee.

Most of these contracts for equipment have to be estimated on an escalation basis, the base price plus an escalation clause. We need authority for that and that is why this is put in separate, because it is not covered in a previous vote.

The next item for expenditure authority in 1951 is $20,389,043. You will find a footnote on that there. If you will look at the second footnote you will find that the C.N.R. Financing Guarantee Act of 1951 contains an authorization of orders for $111 million; and if you turn to page 7 you will find a breakdown of that very large figure; in round figures, $43,767,000, representing passenger equipment which was not actually placed on order. Well, the Financing and Guarantee Act of 1951 authorizes the expenditure of an item of $111,512,000. But we only used that authority to the extent of the difference between that figure and $43,767,000; and that figure is spelled out in page 7, representing passenger equipment tabulated in column 3, which has now been placed on order, and therefore we need to have a supplementary vote.

Mr. FRASER: That is on order now?

Mr. GORDON: That is not exactly on order. We have called for tenders and before going further we need authority and we are requesting it in this budget because technically it is an expenditure authorization which expired at the end of the present calendar year.

Mr. MACDONNELL: You said that you had a commitment for $111 million odd; is there a breakdown of that on page 7? Really, I think that is what it is.

Mr. GORDON: Yes.

Mr. MACDONNELL: I was just wondering if you could give us more information on these figures.

Mr. GORDON: Some typical unit costs are as follows—mind you these are subject to amendment and are only an indication—is it first class passenger coaches and that sort of thing you want?

Mr. MACDONNELL: Yes.

Mr. GORDON: Well, take these items: sleeping cars, $245,000; buffet and sleeping cars run about the same. Cafe parlour cars $242,000; dining cars $247,000—and these costs really mount up. First class coaches some of which are contained there run about $155,000.

Mr. MACDONNELL: Just one other question? What about box cars?

Mr. GORDON: A box car is now costing about $7,300—the last figure we had on box cars.

The total of column 1, if you will look at the table in front of you, comes to $55,581,000; the total of column 2 comes to $20,389,000; and the total of column 3 comes to $43,767,000.

Mr. FULTON: Well, Mr. Gordon, in the footnote on page 7, the bottom note on the page, and also in your annual reports in paragraph 25 you say you do not expect deliveries much before 1953?

Mr. GORDON: Yes.

Mr. FULTON: I am wondering therefore why you now include this $43 million, as I understand you are, in your budget?

Mr. GORDON: I explained that when you were out. The reason for it is this. We are not asking for a financing authority, we are asking for a commitment authority. I explained that we now need much of what is called lead time, that orders placed this year will not be delivered until 1953 or 1954. We would be in a very fortunate position, having placed $40 million or $50 million worth of equipment if we had no legal authority for payments. We are asking this committee and parliament to undertake that commitment—the commitment carries with it the obligation for payment but payment would not be formally authorized until the financing act for the year in which we expect delivery.

Mr. FULTON: That $43 million is not an actual figure in the budget?

Mr. GORDON: Not at the present time. It will probably appear in the budget of 1953 if we get delivery at that time.

Now, that covers the second note—the next commitment authority. I have really covered the three items there and if you turn to page 8 you will find for 1952—well, I have covered page 8 and the $2,400,000. I covered the top part in my previous comment. The bottom part on page 8 covers new equipment including the 1953 budget program authority for orders which we get through this arrangement. In other words that is again a commitment authority and we do not expect delivery until 1953.

Hon. Mr. CHEVRIER: $56 million?

Mr. GORDON: $56 million, yes.

The bottom note on page 2 is an innovation. This is to take care of the fact that despite our best guesses we cannot tell delivery dates and we might find ourselves in the position of getting deliveries of equipment in the early part of 1953—which is not covered in the budget formally and authority for which we could not get from the committee until we sit at this time next year. To take care of that contingency we ask for authority for the Minister of Finance to make advances if necessary up to an amount of $50 million against equipment to be delivered in the spring of 1953. Then, that would be formally authorized in the Financing and Guarantee Act of 1953. That is really a petty cash fund, if I may call it that.

Mr. FULTON: Just so call as you do not call it "sundries".

Mr. GORDON: Otherwise we are up against these legal technicalities. We want to be strictly regular in this thing and we are up against the legal technicality of at least having to have the legal power for the Minister of Finance to advance the money. This regularizes it if it is put through in this form.

Now, if there are no questions on the equipment I suggest that pages 7 and 8 are really the meat of the budget. Apart from that I think we have pretty well covered it—apart from road requirements.

Mr. FRASER: I notice on page 8 under (*b*) you have 30 air dumps. I imagine that means "pumps".

Mr. GORDON: What did you say?

Mr. FRASER: On page 8 you show "air dumps."

Some Hon. MEMBERS: Cars.

Mr. FRASER: Dump cars are they?

Mr. GORDON: Yes, they are not pumps.

Mr. FRASER: I wondered what it was. It says "air dumps"; it does not say "cars".

Mr. FULTON: Have you any means of knowing or do you know how your program for new equipment acquisition compares with that of the Canadian Pacific Railway, bearing in mind the larger system which you operate? Is it proportional?

Mr. GORDON: It is varied. I do not know if I have the figures but I was looking at them the other day. They have done better than we have in the earlier period but we are catching up now. Over a period of say six years the general relationship is about the same having regard to the size of the system and the amount of traffic handled.

Mr. MACDONNELL: You are speaking now of the acquisition of rolling stock?

Mr. GORDON: The acquisition of rolling stock yes. They started earlier than we did.

The CHAIRMAN: Are there any further questions in regard to the budget?

Some Hon. MEMBERS: Carried.

Mr. POULIOT: Before it carries, Mr. Chairman, did we look at page 6?

Mr. GORDON: Page 6 is the forecast for the actual additions and betterments and upkeep of the roadbed and the road itself and in addition various departments of the railway. It is spelled out there and various headings given you of amounts which are being spent on new lines in regions in which these amounts have been spent. There have been references thoughout the course of the report as to the amount of money, for instance which the railway spent on rails, fastenings and so on in the various regions.

If you will look at page 6 you will find that under rails, fastenings, tie plates, and rail anchors, across in tabular form we have shown the amounts spent in each region. Behind that again is a mass of detail breaking it down into thousands of individual items. For the purposes of the committee we have summarized it in this tabular form to give you the comparison.

Mr. MCLURE: I notice one item there, highway crossing protection?

Mr. GORDON: Which item?

Mr. MCLURE: Highway crossing protection for the Atlantic region, $53,000.

Mr. GORDON: That usually arises through the Board of Transport Commissioners orders. It usually arises through applications that are made by municipalities and other authorities and it represents our share of the cost as ruled by the Board of Transport Commissioners.

Mr. McLURE: The reason I mention it is we had a very serious accident on the C.N.R. at Traveller's Rest last year which took the lives of three people and left others in a rather precarious position. I was wondering whether there was anything going to be done for that crossing.

Mr. GORDON: Where did you say that was?

Mr. McLURE: Traveller's Rest.

Mr. GORDON: No. That $53,000 is represented by two items: one at Goose Pond, Nova Scotia, $13,300 for eliminating a crossing by a diversion of a public highway. The other one is in Thorburn subdivision replacing a highway crossing by an overhead crossing.

Mr. POULIOT: Mr. Gordon, there was some correspondence between the Department of Roads in Quebec, the railway management, and the Transport Board regarding a trestle at Trois Pistoles.

Mr. GORDON: Under this heading?

Mr. POULIOT: Yes.

Mr. GORDON: There are some cases, Mr. Pouliot, during a year where we charge an item of this kind to contingency fund—if it arises as a special matter—but in forecasting our budget, for the purpose of this committee, the only two items we have are the items I mentioned. I would be glad to take a note of it.

Mr. POULIOT: I know there was some correspondence between the Department of Roads in Quebec, the railway management, and the Transport Board. The difficulty was that at Trois Pistoles on the Gaspe highway the Department of Roads was ready to build a concrete trestle but the railway suggested a wooden trestle.

Mr. GORDON: I will look the file up.

Mr. POULIOT: There is another thing. I wonder if you will extend the railway yard at Riviere du Loup. There was a proposal I think to buy some property?

Mr. GORDON: We have one budget item in there for a 625 car capacity yard to be constructed in future years at Riviere du Loup. At the moment all we are doing is acquiring the land. We have not yet put anything in the budget for the construction of the yard.

Mr. POULIOT: You have an item for the purchase of the land?

Mr. GORDON: That is correct, and that item is $25,000.

Mr. FRASER: On page 6, under acquisition of securities, what is that, a new line that was taken over?

Mr. GORDON: Page 6? That is the item I mentioned before covering the three items—the Toronto terminal and so on.

Mr. FULTON: Mr. Gordon where are you going to put the tunnel in the western region?

Mr. GORDON: The tunnel in the western region?

Mr. FULTON: Yes, $50,000 for a tunnel?

Mr. GORDON: I will find that for you. That item is abbreviated. It is really relining of an existing tunnel in the Kamloops division, Yale subdivision—and I am quite sure you are aware of that place.

Mr. FULTON: You have got a lot of tunnels there and I had hoped it would be a survey for a new tunnel.

Mr. GORDON: The new item is only a 1952 expenditure of $60,000. The total cost will be $250,000 of which $60,000 will be spent this year and of which $50,000 will be a charge against capital. The estimated expenditure for 1953 will be $190,000.

Mr. FULTON: You said once that in your view the line in the Fraser canyon particularly was not yet completed and I think you even went further and said that you were always having trouble with slides. Have you any concrete program at the moment to re-locate that line, or to re-tunnel it?

Mr. GORDON: Yes and no. That line seems to be sliding away all the time and we are always re-locating it. It is a major operation. But in the sense of finding a new route through the mountains the answer is no. We are constantly whittling away on it and trying to improve the bad spots. But as you know, the worst spots are at places where there does not seem to be any alternative.

Mr. FULTON: Perhaps you might go back and tunnel through the mountains.

Mr. GORDON: We have a number of such projects under examination but that is not the whole answer at all. We have done things as I have said, such as put in steel pilings in particular spots, where the best engineering judgment was that that would cure the difficulty; but the next thing we knew, it blew out like that! It meant a cost there from $150,000 to $200,000.

Mr. MOTT: You have an item for a large terminus for the Grand Trunk Western in the amount of $1,200,000.

Mr. GORDON: Yes. That is for the construction of a new freight classification yard at Durand, Michigan; the project is spaced over two years, and the division of expenditures will be as follows: the estimated cost this year will be $1,200,000; and the estimated cost next year will be $2,304,000, making a total of $3,504,000. It is a major project and it arises out of the very large amount of automobile traffic that we handle over that particular line, mostly in conjunction with General Motors, I think. It is profitable traffic, and I might say that this is a project which has been under way for some considerable time.

Mr. FULTON: I notice that you are still going to spend more on signalling and interlocking equipment in the central region than you are in the western region.

Mr. GORDON: Yes and the major reason for that is that we have a project at Hornpayne, which has just about reached completion. I think it will be finished this year.

You must remember that the central region is a very much larger region than the western region, and the total cost of a great number of small projects run up pretty fast in a region of that size. The major item in it was one which was begun two years ago, that of installing centralized control in the Toronto terminals and on the Allandale division.

Mr. FULTON: What is your breakdown for that signal work this year? It is that $1,019,000 item.

Mr. GORDON: You mean in the western region?

Mr. FULTON: Yes.

Mr. GORDON: Well I will give you the whole thing. The larger items are, first of all, $250,000 for the Ashcroft subdivision; that covers the installation from Kamloops junction to Ashcroft; it covers the installation of 48·9 miles; and the total cost is estimated at $500,000; and we hope to complete $250,000 of the work this year.

Mr. FULTON: That is the block signal system?

Mr. GORDON: That is right; that is $500,000; and the next one is for the Kashabowie subdivision which is for centralized traffic control, with a single track main line at Atikokan, which is in the Steep Rock area.

Mr. FULTON: Is that in the western region?

Mr. GORDON: Yes. That is a large program and it is necessary, because it is an alternative to building a double track line. We handle a terrific amount of traffic out there, and that is the reason for this centralized traffic control whereby we will speed up the traffic.

Mr. FULTON: What was the first item you gave me?

Mr. GORDON: That was $500,000 for the Kamloops division, at Ashcroft.

Mr. FULTON: And that is the only mountain stretch that you are going to do this year?

Mr. GORDON: Yes, that is right.

The CHAIRMAN: Are there any further questions?

Mr. DUMAS: On page 6, under the heading "Stations and station facilities", I wonder if Mr. Gordon would tell us if the amount of $567,838 for the central region includes the cost of rebuilding the station at Senneterre, Quebec, on the transcontinental line?

The CHAIRMAN: That is one we will reserve for a written answer. Now, Mr. Macdonnell?

Mr. GORDON: I think I can give you the answer in just one second. No, I think I had better look into that.

The CHAIRMAN: He is reserving your question for a written answer, Mr. Dumas. Now, Mr. Macdonnell?

Mr. MACDONNELL: I wonder if you would be able to help me trace two figures from page 7 back into the budget. The first one said: "Under the statutes of 1951, the manner of financing the new equipment tabulated in column 1 above was authorized to the extent of $55,571,816. This equipment has all been ordered and delivery is anticipated prior to July 1, 1952." Where can we trace that back? I hope to find something corresponding to that in the 1951 authorization, but I did not find it.

Mr. GORDON: It is part of the $111 million I referred to.

Mr. MACDONNELL: Yes, but where do we find that in our 1951 authorization?

Mr. GORDON: If you will turn to page 2, you will find that the comment, the second note there, reads as follows: "C.N.R Financing and Guarantee Act 1951 authorized placing of orders for new equipment during 1951 (with consent of the Governor in Council) amounting to $111,512,920, including certain passenger equipment now estimated to cost $43,767,655. This passenger equipment was not ordered during 1951 and reinstatement of the expired authority is now desired."

Mr. MACDONNELL: Oh, it was allowed to expire?

Mr. GORDON: Yes; and now we are re-voting it, to all intents and purposes.

Mr. FRASER: On page 6, under "Hotels," there is an amount shown in the sum of $3,549,447; and there is also a re-vote on that. What is that amount for?

Mr. GORDON: Mostly for the Macdonald Hotel, and the Newfoundland Hotel. The Macdonald at Edmonton and the Newfoundland hotel in St. John's.

Mr. FRASER: For those two hotels?

Mr. GORDON: Yes.

The CHAIRMAN: Are there any further questions on the budget?

Mr. GILLIS: Is there any intention to extend or renovate the hotel in Halifax?

Mr. GORDON: We have nothing immediately before us. The question has been raised, and I received an examination report to show what was possible in the form of the construction of the hotel; but we are not at the moment considering a definite investment. It is merely in the first investigation stage. It could be expanded on its present location; but whether or not it would be a justifiable capital expenditure is something which needs more consideration.

Mr. GILLIS: The hotel is not adequate to take care of the present business.

Mr. FRASER: What is the total amount with respect to the Newfoundland hotel?

Mr. GORDON: You mean in this budget?

Mr. FRASER: Yes.

Mr. GORDON: I think the grand total for the Newfoundland hotel is about $1\frac{1}{4}$ million because of the modernization of the Newfoundland hotel but the amount which we re-voted this year is $838,000; but as I have said, the grand total, when the job is finished, will be about $1,235,000.

The CHAIRMAN: Are there any further questions on the budget? If not, is the budget carried?

Carried.

Mr. FULTON: On the steamship budget I see you are expecting a reduction on the Canadian National Steamships. Why is that?

Mr. GORDON: I am sorry, but I could not hear you.

Mr. FULTON: You anticipate a decline in revenue on the West Indies steamships, at page 11. Why?

Mr. GORDON: Just one moment until I find that. You are now talking about our forecast as compared with our actual?

Mr. FULTON: Yes.

Mr. GORDON: My report, which I received on this matter, reads this way:

> During the first three months of 1952 our tonnage and revenue exceeded the estimate, but for the balance of the year it is extremely difficult to forecast what the results may be, due to the uncertainty of the amount of dollars that will be available to West Indies merchants; furthermore, the entire shipment of flour to Jamaica for April (70,000 bags) has been purchased from United States mills for shipment through United States ports.
>
> Effective March 3rd southbound freight rates to Bermuda and the eastern group were increased 10 per cent with the exception of flour and fish. The flour rate to Jamaica, which was extremely low, was increased 18 per cent effective February 1st.

This is our best guess of what we expect to happen in terms of the prospects as we see them now, but I would not be too confident about them because they may change materially.

Mr. FULTON: Is the loss of the flour shipments a major blow to you?

Mr. GORDON: It seems to be, yes.

The CHAIRMAN: Are there any further questions on the budget?

Mr. FOLLWELL: I would think that along with an item for the requirements by regions there would be something with respect to the expected revenue by regions?

Mr. GORDON: No, we do not try to break it down that way. Our estimates for revenue are a sort of calculated figure and we do it by a sort of percentage guess.

Mr. MACDONNELL: You say that authority is required for financing to the extent of $30 million. I find that in the budget. Then you say later: "our authorization of the order to the extent of $43 million". Is it because it is a re-order that it does not appear? I refer to the second line on page 7.

Mr. GORDON: Let me put it this way: We had a financing guarantee which authorized us to buy $111 million of equipment; but in point of fact we did not place orders for passenger equipment, which would be a component of that $111 million. Therefore, because we did not place the orders, we have to start afresh, so far as our authority is concerned. But if we had placed orders, we would not have needed to come back for authority, because, under the Act, if we had placed orders, it would have been all right. But we did not place orders, so we have taken the $43 million portion of it and are asking the new authority.

Mr. MACDONNELL: That is not in your budget? Where is that?

Mr. GORDON: That will not be in the financing budget until we actually know what we will get deliveries of. That is why I have the $50 million contingency fund down here. We have asked for tenders on this passenger equipment which will cost us, roughly, $43 million, more or less, but I have not the faintest idea of the delivery dates, it may be one, two, or three years away. We are asking you to give us authority to order the equipment. That is a commitment authority, and then when we know when we have to pay for it, whenever it is, we will come back to the committee and ask you for financing authority.

Mr. MACDONNELL: Where does that leave you if you get it early next year?

Mr. GORDON: If we get it early next year we won't have any financing authority except that you are giving to us in this $50 million contingency fund, and if the Minister of Finance has to lend us the money, then in the Act of that year parliament will be asked to authorize that.

Mr. CARTER: Is there any provision for additional coastal boats in this?

Mr. GORDON: No, there is no provision in this budget, but the question of getting the specifications and the tenders of the coastal boats in Newfoundland is well in hand and we hope to have it in our budget for next year, certainly.

Mr. GILLIS: Would you take enough money out of that budget to establish a small diner on that night train from Halifax to Sydney?

Mr. GORDON: That is a matter under advisement, too.

The CHAIRMAN: Shall the budget carry?

Carried.

Gentlemen, you are working hard. There are just two other items, which I think we will have no trouble in clearning up by six o'clock and not have an evening sitting. If you will turn to the Canadian National Securities Trust statement.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

OTTAWA, 21st March, 1952.

The Honourable Lionel Chevrier, Q.C., M.P.,
Minister of Transport,
Ottawa.

Sir,

In conformity with Section 23 of The Canadian National Railways Capital Revision Act, 1937, the Trustees of The Canadian National Railways Securities Trust submit the following report for the calendar year 1951.

There were no transactions during the year affecting the book value of the capital stock of the Securities Trust; therefore the amount shown on the balance sheet at December 31, 1950, remains unchanged.

Application was made by the Canadian National Railways for the release, for cancellation and cremation, of the following Canadian Northern Pacific Railway Company securities which matured on April 2, 1950:

1.	£ 550,000	($2,676,666.66)	4% First Mortgage Guaranteed Debenture Stock (secured by mortgage dated April 2, 1910).
2.	£ 417,000	($2,029,400.00)	4½% First Mortgage Guaranteed Debenture Stock, Branch Lines (secured by mortgage dated March 6, 1914).
3.	£ 464,581	($2,260,960.87	4½% First Mortgage Guaranteed Debenture Stock, Branch Lines (secured by mortgage dated March 6, 1914).
4.	£ 1,027,397	($4,999,998.73)	4½% Second Charge Guaranteed Debenture Stock (secured by mortgage dated June 23, 1914).

The securities described under items 1, 3 and 4 were held by the Securities Trust as part collateral in respect of indebtedness of the Canadian Northern Railway Company to the Government of Canada refunded by the Government under Chapter 24 of the Statutes of 1917 and Chapter 11 of the Statutes of 1918, and the securities described in item 2 were held by the Securities Trust as part collateral for the 6% loan of $1,887,821.16 made by the Government of Canada under the War Measures Act of 1918 to the Canadian Northern Railway Company.

Under authority of Order in Council P.C. 509, dated February 1, 1951, the matured securities mentioned above were released and have been cancelled and cremated.

The Trustees present herewith the balance sheet as at December 31, 1951.

J. C. LESSARD,
For the Trustees.

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST

Balance Sheet at 31st December, 1951

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 1951	Total to Date	
Surplus Earnings	....	$112,502,061.64	
Capital Gains	....	19,105,651.38	
Capital *Losses*	....	*23,127,015.88*	108,480,697.14
Collateral Securities—			
As per Schedule A.1			....
			$ 1,327,122,892.41

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	108,480,697.14	
		$ 378,518,135 02
Amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value		948,604,757.39
		$ 1,327,122,892.41

T. J. GRACEY, *Comptroller.*

Certificate of Auditors

We have examined the books and records of The Canadian National Railways Securities Trust for the year ended the 31st December, 1951.

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, 1951, in accordance with the provisions of The Canadian National Railways Capital Revision Act, 1937.

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

9th February, 1952.

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	5,109,999 99
†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	10,783,564.86
†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 Government of Canada	8,704,662.65	Cremation Certificates, coupons destroyed	8,698,170.42
Interest guaranteed by Provinces of Alberta and Saskatchewan	2,898,536.98	Cremation Certicates, 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		
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

forward

THE CANADIAN NATIONAL RAILWAYS SECURITIES TRUST — SCHEDULE A.1—*Concluded*

SUMMARY OF INDEBTEDNESS TRANSFERRED FROM THE GOVERNMENT TO THE SECURITIES TRUST

Loans Outstanding		**Notes and Collateral Held*	
CANADIAN NATIONAL RAILWAY COMPANY—*Concluded*			
5¼% Loans, Chapter 6, 1932	$ 11,210,815.56	5¼% Canadian National Railway Company Demand Notes	$ 11,210,815.56
Temporary Loan, 1930, repaid	....	166.877.6376 shares of Capital Stock of Grand Trunk Western Railroad	4,171,940.94
		5% 1st and General Mortgage Temporary Gold Bonds of Central Vermont Railway, Inc.	8,609,000.00
Less: adjustment authorized by the Capital Revision Act, 1937	*Cr. 1,666,897.57*		
Total Canadian National Railway Company	$ 96,936,971.75		
Total Loans	$643,860,558.26		

* The Notes and Other Evidences of Indebtedness and the Collateral Securities are all held for safekeeping in the vaults of the Department of Finance, Ottawa, excepting Grand Trunk Pacific Railway 3% 1st Mortgage Bonds in the amount of £5,307,000 ($25,792,020) which are held for safekeeping by the Bank of Montreal, London, England, as evidenced by the certificate of that depositary.

The CHAIRMAN: There is no change from last year.

Mr. FULTON: I do not understand why there is no change because it says on page 5 that application was made by the railways for the release, cancellation and cremation of the following securities which matured on April 2, 1950, and then it lists them there all in sterling, and there are, roughly, £2,500,000 sterling worth of them. If they matured and were cremated, how is it there is no change in the balance sheet?

Mr. GORDON: The only man in Canada or in the world who can explain that is Mr. Cooper.

Mr. FULTON: Mr. Turville, the representative of the auditors of the company says that he objects.

Mr. COOPER (Vice-President, Canadian National Railways): The statement that there was no change refers to the balance sheet. There was no change in the balance sheet, but there was a release of certain of the collateral securities held by the trust. Certain securities matured and it was desired to discharge the mortgage and get release from the trustees. The securities had to be taken from under the trust and they were withdrawn and cremated. There is no change in the balance sheet position of the trust.

Mr. FULTON: Was something substituted for those securities which left the overall position the same?

Mr. COOPER: It did not affect the overall position. It is just collateral security.

The CHAIRMAN: Shall the Canadian National Securities Trust report carry?

Carried.

Now, we come to the auditor's report. The auditor is here. He will answer any questions, as usual.

Mr. MACDONNELL: Just before you come to that, is there any man in the world who can explain to us in two minutes just what function this sort of a buffer state is discharging?

The CHAIRMAN: While we are waiting for the auditor to get settled, I have answers by Mr. Dingle to five questions I would like to table. There were several other questions asked that required written answers which will be supplied direct to the member concerned.

The first answer is entitled Port Hope-Millbrook, and reads as follows:

PORT HOPE-MILLBROOK

Work of dismantling line between Port Hope and Millbrook was commenced June 4 and completed July 14, 1951, from Mileage 3·35 north of Port Hope to Mileage 17·97, which is at Millbrook.

No steps have as yet been taken towards disposal of right-of-way, although that is the intention, in order to get full benefit from abandonment of line, avoiding maintenance costs of drainage, fencing, etc., or the claims in connection therewith. It is definitely not the intention to retain the right-of-way between Mileages 3·35 and 17·97 for future use.

For two miles out of Port Hope there are industries and we will continue to serve same. From Mile 2·0 to 3·35 our line has been left intact temporarily to serve the Trans Northern Pipeline Company, who are presently bringing in construction materials. We plan on removing the last 1·35 miles of track approximately at the end of the current year, when it is expected the pipeline company will have finished the work of transporting equipment.

The second answer is entitled St. Malo Shops, and it reads as follows:

ST. MALO SHOPS

Mr. Pouliot asked yesterday as to what points cranes from St. Malo were transferred following the closing of that point as a locomotive shop. There was only one crane suitable for lifting locomotives; this was originally a 120-ton capacity crane, later, I believe, increased to 200-ton capacity. Consideration was given to the transfer of this crane to Riviere du Loup, Point St. Charles, or Moncton.

As to Riviere du Loup, the pits are longitudinal, whereas St. Malo Shop pits were transverse, and for this reason the crane was not suitable for Riviere du Loup. Besides this, columns and girders in said shop were only built to take 60 tons, and furthermore, the column centres of the shop could not be changed to take the crane length which measured 73′ 8¾″, as against centres of 66′ 0″.

For various reasons, this crane was not suitable for Point St. Charles, or Moncton either. Said crane, therefore, was not used in Railway service.

The third is a table showing the miles of 56# rails in the Atlantic and Central regions, and this statement will be incorporated in the record as an appendix to today's proceedings (See Appendix A).

The fourth answer is to a question by Mr. Carter on pensions, and reads as follows:

Mr. CARTER:

What pension benefits would an employee of the Newfoundland Railway be entitled to assuming he had 8 years service prior to the date of union and, say 9 years subsequent service?

Mr. COOPER:

(*a*) Under Canadian National rules he needs 20 years service to qualify for full pension benefits, and as the employee in this instance did not have the required amount of service he would not be entitled to benefits from Canadian National. This is in accordance with the agreement reached with the labour representatives.

(*b*) Under this same agreement the employee in question would be eligible for pension benefits in respect of his service prior to the date of union. This benefit would be computed under the rules and regulations in effect prior to the date of union which were the Civil Service pension rules applied to employees of the Newfoundland Railway. The pension would be the average compensation during the last 3 years of service prior to March 31, 1949 multiplied by 1¾ per cent for each year of service. This pension is paid in the first instance by Canadian National but is re-collected from the Provincial Government.

(*c*) We understand that the Federal and Provincial Governments have under consideration the contention which has been made on behalf of the men that in such a case the employee is entitled to pension benefits for his entire service.

(*d*) The above assumes the employee did not contribute to the Canadian National Pension Fund. An employee, however, could elect to make contributions. He could contribute to the C.N. Fund from the date of union but there would be no matching contributions during the first 2 years; thereafter his contributions would be matched by the Company and he would be entitled to an annuity in the amount which the joint contributions with interest would buy.

The fifth is in answer to a question asked by Mr. Dumas.

Mr. DUMAS asked. "Have there been any negotiations entered into with respect to acquiring a right of way through Range 7 in the township of Barraute, for the purpose of acquiring land required for the right of way?"

It is our understanding that the right of way required in Range 7 is owned by Barvue Mines Ltd. If however this request is in connection with land owned by Mr. Therrien, negotiations have been in hand with this man on several occasions, and while a previous settlement was made this had to be changed due to relocation of the line. We have now received a final option from this man which is presently being studied.

Hon. Mr. CHEVRIER: I have one in answer to Mr. James. It is in my own handwriting and perhaps I had better read it. On June 2, 1950 the city of Oshawa sent an application to the Board of Transport Commissioners for an order requiring the Canadian National Railways to remove certain tracks. On June 9, 1950, the Secretary of the Board of Transport Commissioners advised the city of Oshawa that the Board had no power to order the Canadian National Railways to remove their tracks.

Mr. MACDONNELL: I will state it briefly. Just explain to us why about this Canadian National Railways Securities Trusts; what useful function does it discharge? Is it a legal company?

Mr. TURVILLE (representing George A. Touche & Co., Auditors): It is a legal company to preserve the rights of the Canadian National Railways in the securities that they hold, and as you know—

Mr. MACDONNELL: Who owns the stock of the Canadian National Railways Securities Trusts?

Mr. TURVILLE: It is owned by the Government of Canada. There is a recommendation in that regard by the royal commission that it should be acquired by the Canadian National Railways itself.

The CHAIRMAN: Could we have order, please?

Mr. MACDONNELL: One other question. I notice the balance sheet here states you have a balancing figure of $948,000,000, which is titled, amount by which the book value of claims and interest thereon—per contra—exceeded the initial stated value. Would you explain that. How is that figure arrived at? Is that just a balancing figure?

Mr. TURVILLE: Yes, it really shows the equity and is correctly described on the balance sheet.

Mr. FULTON: In other words, the claims against this exceed by that amount the value of the securities?

Mr. TURVILLE: That is correct.

The CHAIRMAN: Any further questions, Mr. Macdonnell?

Now we come to the auditors' report.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
LEWIS BUILDING
465 ST. JOHN STREET
MONTREAL 1

17th March, 1952.

CANADIAN NATIONAL RAILWAY SYSTEM

THE HONOURABLE THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

Sir, We have audited the accounts of the Canadian National Railway System for the year ended the 31st December, 1951 under authority of The Canadian National-Canadian Pacific Act, 1936, and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers at Headquarters having as a common objective the securing of maximum internal protection to the System in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The System is further protected by fidelity bond insurance with outside underwriters. The audit tests were carried out in the offices of System Headquarters, Regions and Separately Operated Properties in Canada, the United States, London (England) and Paris (France).

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income Account and certification thereof.

Apart from those pertaining to the Trans-Canada Air Lines and the non-operating Canadian Government Merchant Marine, Limited, the holdings in the capital stocks of the Affiliated Companies are insufficient to give voting control and accordingly the Companies are not treated as units of the System nor have their accounts been audited by us. In the majority of instances they are audited by joint committees composed of System accountants and representatives of outside interests.

REPORT OF ROYAL COMMISSION ON TRANSPORTATION

In previous reports, we have called attention, among other matters, to the disproportionate ratio of Fixed Charges in comparison with other railways in North America, and also to the desirability of a uniform system of accounting for Canadian railroads.

Under date, the 9th February, 1951, the report of the Royal Commission on Transportation pursuant to Order in Council P.C. 6033 of the 29th December, 1948, was published. Among other matters, the Commissioners were required:

(i) To review the capital structure of the Canadian National Railway Company, and report on the advisability (or otherwise), of establishing and maintaining the fixed charges on a basis comparable to other major railways in North America.

In this regard the Royal Commission recommended a very substantial downward revision of the fixed charges of the Canadian National Railway Company.

(ii) To review the present day accounting methods and statistical procedure of railways in Canada, and report upon the advisability of adopting (or otherwise), measures conducive to uniformity in such matters, and upon other related problems such as depreciation accounting, the segregation of assets, revenues and other incomes, etc., as between railway and non-railway items.

In this regard, the Royal Commission recommended that the Board of Transport Commissioners be empowered and directed to prescribe as soon as practicable:

(*a*) A uniform classification and system of accounts and reports for all rail items for the Canadian National and Canadian Pacific Railways and a simplified classification of such accounts and reports for other railways, and

(*b*) The classes of property for which depreciation may properly be charged in the rail accounts for all railways subject to its jurisdiction, and the rate or rates to be charged in respect to each class.

These recommendations which were embodied in the amendments to the Railway Act dated the 30th November 1951, have not yet been implemented.

CONSOLIDATED INCOME ACCOUNT

Depreciation and Maintenance

In respect of "depreciable" fixed properties—defined in the 1943 Order of the Interstate Commerce Commission as including bridges, buildings, stations, shops, etc., but excluding track structure—provision for depreciation, at rates resulting in a composite rate of approximately $1\frac{2}{5}$ per cent, has been made during the year for the United States Lines of the System through the appropriate maintenance accounts in accordance with the above mentioned Order whereas the Canadian Lines have taken up through the maintenance accounts provided therefor the loss of service value at the time of replacement or retirement.

Track structure composed of ties, rails, track material and ballast is not classified by the Interstate Commerce Commission as an asset for which provision for depreciation should be made; accordingly the loss of service value was taken up through Maintenance of Way and Structures accounts at the time of replacement or retirement on both the Canadian and United States Lines of the System.

Provision for depreciation has been made for the equipment of both the Canadian and United States Lines of the System. The $3\frac{1}{3}$ per cent annual depreciation rate used for rail equipment of the Canadian Lines was approximately the same as the latest available composite of the rates used by Class I Railroads in the United States.

In addition to charges for depreciation and those for loss of service value taken up at the time of replacement or retirement, the maintenance account as a whole included the cost of day-to-day repairs and partial renewals on both the Canadian and United States Lines. These repairs and partial renewals are recognized costs of maintenance whether or not depreciation accounting is in effect.

We have received certificates from the responsible operating and executive officers to the effect that the fixed properties and equipment have been maintained in a proper state of repair and in an efficient operating condition during the year; that insofar as traffic demands would permit such physical retirements which should have been made during the year as a result of wear and tear and obsolescence, have been made and that notification of all such retirements has been given to the Accounting department.

Insurance Fund Operations

The operations for the year resulted in a profit of $455,000 which was credited to railway income. During the year the Railway contributed $600,000 to the fund, which was charged to railway operating expenses.

Consolidated Balance Sheet

Assets

Against the Corporate portion of the property investments brought into the National System accounts at the 1st January, 1923, there have been properly applied reductions authorized by The Canadian National Railways Capital Revision Act, 1937, but no similar reductions were authorized at that time covering the Crown property investments in the Canadian Government Railways. Since the 1st January, 1923, the additions and betterments less retirements of the System have been shown on the general basis of cost. It should be pointed out, however, that, with the exception of two vessels paid for by the Government of Canada, no value has been placed on the property investments taken over from the Newfoundland Railway as at the 1st April, 1949.

The several special funds including Capital and Other Reserve Funds, Insurance Fund and Pension Contract Fund, amounting in total to $81,621,000 are represented by investments in the securities of the Government of Canada, the National System and securities of or guaranteed by the provinces, together with cash and sundry current assets. At the year end, System securities included in these special funds aggregated $15,492,000 of which par value $11,529,000 is covered by the guarantee of the Government of Canada. These securities were valued at par. Securities of the Federal Government and those of or guaranteed by the Provincial Governments amounting to $61,049,000 were based on cost which exceeded the market value by 7·48 per cent.

Investments in Affiliated Companies are represented by the capital stocks, bonds and obligations for advances of companies affiliated with but not forming a part of the National System. Apart from the Trans-Canada Air Lines, these investments have been made, in association with other railways, primarily to secure the benefits of traffic interchange and terminal facilities. The basis of the balance sheet figure is cost or, in respect of certain United States securities, less than the special valuations approved by the Interstate Commerce Commission. The amount appearing on the Balance Sheet under this heading is after deduction of deposits during the year with the Railway by the Trans-Canada Air Lines totalling $11,000,000. The 1951 Financial Statements issued by the companies representing the largest investments other than the Trans-Canada Air Lines indicated that profits aggregated some $1,542,000 and losses some $4,000 for the year 1951.

Other Investments are comprised partly of unlisted investments of a miscellaneous nature including those in hotel and grain elevator companies held primarily for purposes of traffic benefit and are valued at or below cost. The balance is represented by securities of the Government of Canada, the Government of the United States, and the National System (Government Guaranteed), the book figure of which is based on cost for Government bonds and par for securities of the National System. The cost of the securities of the Government of Canada included therein exceeded the market value by 4·47 per cent. The market value of United States Government securities was slightly in excess of cost.

Temporary Cash Investments are represented by Government of Canada securities. At the year end the book figure, based on cost, exceeded the market value by 5·40 per cent.

Accounts Receivable and Payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such Accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of Material and Supplies was taken by the Railway as at the 30th September, 1951 and in connection therewith we have received certificates from the responsible officers to the effect:

(a) That the quantities were determined by actual count, weight or measurement or by conservative estimate where such actual basis was impracticable, and

(b) That the inventory pricing was laid down cost based on weighted average cost for ties, rails and fuel and on latest invoice prices for new materials in General Stores, and on estimated utility or sales value for usable second-hand, obsolete and scrap materials after making reasonable pricing allowances for condition thereof.

Ledger values as of the 30th September were brought into agreement with the physical inventory through a credit to railway operating expenses of $18,000.

Other Deferred Assets consist principally of Contracts Receivable in connection with land sales and sundry deferred accounts collectible.

Other Unadjusted Debits consist of the unamortized cost of opening ballast pits which will be written off on the basis of yardage used; the estimated salvage value of non-perishable material in ballast pits and other temporary tracks; accepted inter-line freight claims paid in advance of investigation with other carriers, and miscellaneous debit items not otherwise provided for or which cannot be disposed of until additional information is received.

Deferred Liabilities

In addition to the Pension contract reserve these liabilities consist principally of the outstanding capital value of workmen's compensation awards by the Provinces of Ontario and Quebec, together with pension provisions covering employees who have reached retirement age and have been either retained in service or recalled from retirement.

Reserves and Unadjusted Credits

Accrued depreciation of Canadian Lines equipment amounts to $157,535,000. During the year the full ledger value of equipment retired, less salvage, was charged to this reserve.

Unadjusted Credits include the estimated proportion of prepaid revenues on freight in transit; excess of actual revenues over year-end estimates carried in suspense; estimated liability for injuries to persons; estimated liability for overcharge claims, and miscellaneous credit items not otherwise provided for or which cannot be disposed of until additional information is received.

Where foreign currencies are involved, the balance sheet accounts of the System are converted generally as follows—

(a) United States Currency

—at the dollar par of exchange.

(b) Sterling Currency

—at the former par of $4.86⅔ to the pound.

(c) French Currency

—at approximately 15 francs to the dollar for the original investment in Hotel Scribe and 300 francs to the dollar for working capital accounts.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,

GEORGE A. TOUCHE & CO.

GEORGE A. TOUCHE & CO.
CHARTERED ACCOUNTANTS
LEWIS BUILDING
465 ST. JOHN STREET
MONTREAL 1

17th March, 1952.

CANADIAN NATIONAL (WEST INDIES) STEAMSHIPS, LIMITED

THE HONOURABLE THE MINISTER OF TRANSPORT,

OTTAWA, CANADA.

Sir,—We have audited the accounts of the Canadian National (West Indies) Steamships, Limited and Subsidiary Companies for the year ended the 31st December, 1951, and we now report, through you to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the steamships in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Company is further protected by fidelity bond insurance carried with outside underwriters.

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Consolidated Income and Profit and Loss Accounts and certification thereof.

CONSOLIDATED INCOME ACCOUNT

Provision for depreciation on vessels was made during the year on the following bases:

(a) The three diesel powered and refrigerated vessels—5 per cent;

(b) The two "Lady" vessels and the five non-refrigerated vessels—3 per cent.

We have received a certificate from the responsible officers that all equipment has been maintained in a proper state of repair and in an efficient operating condition during the year; that such physical retirements as should have been made during the year, as a result of wear and tear and obsolescence, have been made, and that notification of all such retirements has been given to the accounting department.

CONSOLIDATED BALANCE SHEET

Assets

Investment in vessels is carried on the general basis of cost less accured depreciation.

The Replacement and Insurance Funds are composed of investments in the securities of the Government of Canada, the Canadian National Railways (Guaranteed by the Government of Canada), the Province of Ontario and securities guaranteed by the Province of Ontario together with cash and sundry current assets. The year-end market value of these securities was 8·18 per cent less than cost.

The Replacement Fund increased $372,000 during the year as a result of depreciation accruals charged to Income Account and paid into the fund.

The Insurance Fund increased during the year by $274,000. The insurance risks on all ships are carried in the Fund.

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

Discount on capital stock represents the amount set up at the time of incorporation equal to the par value of the shares issued in consideration of the guarantee by the Government of Canada of the steamships' bonds.

Unadjusted Credits

This account includes freight and passage money paid in advance at 31st December, 1951; the corresponding item at 31st December, 1950, was shown separately on the Balance Sheet at that date.

Where foreign currencies are involved the Balance Sheet accounts of the steamships are converted generally as follows:—

(*a*) U.S. Currency—at the dollar par of exchange;

(*b*) Other Foreign Currencies—at the current rates.

Dollar amounts stated in this report are to the nearest thousand.

Yours faithfully,
GEORGE A. TOUCHE & CO.

I notice that there are no special recommendations in this report. You find everything in order?

Mr. TURVILLE: Yes, in the course of our audit we found everything in order. We made reference to the report of the royal commission because we thought that was the proper place to bring it to the attention of the committee, since something has happened since our last report, something vitally important to the Canadian National Railways.

Mr. McLURE: I see you carry the pound sterling at $4.86\frac{2}{3}$.

Mr. TURVILLE: That is so, and I know what you are going to say, Mr. McLure, that it is very unrealistic.

The CHAIRMAN: Shall the auditors' report carry?

Mr. FULTON: Give us a little bit of time to look it over.

Hon. Mr. CHEVRIER: You have had it for three weeks now, Mr. Fulton!

Mr. FULTON: I only had time to read one of them, and that was this big one.

Mr. FOLLWELL: Is there any proposal for re-financing the capital structure of the Canadian National Railways?

Hon. Mr. CHEVRIER: Perhaps I had better answer that by saying it is still under study.

Mr. FULTON: I would like to ask a question which seems amateurish. There is an item of $300,000,000 in real worth of securities in the securities trust. Why cannot those be sold and used for the purpose of repaying some of this capital debt that worries Mr. Gordon so much?

Mr. TURVILLE: I think you would find it rather difficult to sell or realize the claims listed on the Balance Sheet as the nature of the collateral security held indicates.

Mr. GORDON: It would merely be acquiring another interest liability. It would be the same as borrowing money from the public. If we raised $300 million in capital by selling securities to the public, it would mean somebody would have to pay interest on that obligation. It would be the same as if the Canadian National Railways went into the market and borrowed $300 million.

Mr. FULTON: I suppose it would, but I do not quite see that. If I sell, or somebody holds for my benefit a bond or security worth $1,000 and I need $1,000, so my trustee sells that bond and gives me the thousand which I use to pay off the mortgage on my house, surely my position has improved.

Mr. GORDON: Yes, but the essential point you have missed is, it is the obligant of the bond who is going to pay the interest on that bond.

Mr. FULTON: Say what you mean.

The CHAIRMAN: Gentlemen, I think we have concluded our inquiry. When would it be convenient—

Mr. FULTON: I am not through.

The CHAIRMAN: You are not serious, Mr. Fulton. You understand that, do you not? I do.

Mr. PICARD: Do you mind explaining it?

The CHAIRMAN: If I am going to authorize somebody to sell a promissory note that I have signed, I am certainly going to have to pay that some time.

What time would be convenient to the committee tomorrow to consider any special recommendations which the committee want to make in regard to our work, if any? It being caucus day, how about four o'clock tomorrow afternoon?

Agreed.

Before we leave, I do want to express my appreciation to members of the committee. I do not serve on any other committee in the House with more enjoyment than this one, and that is because the members co-operate so well and it is because we have such an able witness in Mr. Gordon. He does make a wonderful presentation. On behalf of the committee, Mr. Gordon, I would like to convey the appreciation of the committee to you, your staff and all employees for the tremendous job which you are doing so well.

Mr. GORDON: Mr. Chairman, I do want to express my appreciation of the courtesy and consideration we have received at the hands of yourself and all the members of the committee. Both in the pages of the annual report and in replying to the questions raised in discussion we have tried in a spirit of frankness to explain our activities over the past year and to set before you our plans and policies as affecting the future. I think that this stage in the affairs of the Canadian National can be characterized as one of transition. We have entered upon a period of fairly concentrated change in which the railway must make adjustments—not always easy—not always pleasant—in recognition of the steady advance in technology within the railway industry and in the field of transportation generally. It will be our endeavour to keep the Canadian National abreast of these changes, and in so doing keep pace with the growth in the Canadian economy.

Now, Mr. Chairman, there is another matter to which I would like to direct the attention of yourself and of the committee before I sit down, and that is the unfortunate fact that Mr. Cooper brings to an end his association with this committee that extends over the past 28 years. Mr. Cooper, who has been the guiding genius behind the Canadian National accounting systems and methods since 1923, has attended proceedings of this parliamentary committee every year since 1923; and, on September 30 of this year, having reached the age of 65, he will begin a well earned retirement. I would like, if I may, to take this occasion to pay tribute to the outstanding services that have been rendered by Mr. Cooper to the Canadian transportation industry since he first began his 40 years of railroad service with the Grand Trunk in 1912.

Mr. COOPER: Mr. Gordon, I thank you from the bottom of my heart for the kind expressions you have made on my account. As usual, you are more than generous in allocating credit and merit, and while it is perhaps over-stated sometimes, it is certainly nice to be on the receiving end once in a while. I too would like to thank the committee. Over the years they have always been so considerate to the officers, including myself. I have always enjoyed coming up here. It is a bit of a test in a way. We are under pressure. We feel that there are so many hundreds of questions that you may ask and rather to our disappointment you always seem not to ask the questions which we would like to answer. I would like to say one thing too, that I do not remember the time in the affairs of the committee, where the accounts of the Canadian National are subjected to very close scrutiny, that there was ever an occasion found where the accounts had been mis-stated either intentionally or accidentally. I would like to add that the committee can place the most complete confidence in the integrity of the accounts of the Canadian National Railway.

The committee adjourned.

APPENDIX A

MILES OF 56♯ RAIL

ATLANTIC REGION

Division	Subdivision	Between Mileages	Miles 56♯ Rail
New Glasgow	Inverness	54·14– 58·30	4·05
Halifax	Sunnybrae	6·85– 11·90	3·55
	Lunenburg	3·18– 6·96	2·66
	Middleton	2·99– 43·84	
		49·83– 66·87	57·09
Moncton	Caledonia	0·80– 21·92	21·12
	Buctouche	5·90– 6·17	
		20·36– 22·40	
		27·06– 29·95	2·49
	Albert	28·36– 44·56	14·48
Campbellton	Richibucto	10·75– 26·49	15·54
Edmundston	Temiscouata	0·02– 0·38	
	Temiscouata	0·38– 78·42	
		80·57– 81·81	79·64
Island	Connors	0·02– 18·92	18·90
	Elmira	0·00– 9·85	9·61
	Montague	6·00– 6·34	0·34
	Murray Harbour	1·49– 47·66	44·11
	Vernon	0·00– 4·43	4·11
	TOTAL		277·69

MILES OF 56♯ RAIL

CENTRAL REGION

Division	Subdivision	Between Mileages	Miles 56♯ Rail
Levis	Deschaillons	0·77– 13·12	12·35
Laurentian	Lac St. Joseph Branch	0·21– 0·62	0·41
	Montmorency	0·00– 0·09	0·09
St. Lawrence	St. Jude	0·49– 28·89	20·40
	Hemmingford	2·16– 19·50	15·57
	Beauharnois	5·57– 5·90	0·33
Belleville	Haliburton	55·50– 55·52	0·02
	Westport	0·94– 6·66	
		9·12– 39·98	29·19
	Picton	0·00– 7·00	6·33
	Maynooth	103·30–107·80	
		109·09–117·57	12·98
	Coe Hill	0·00– 7·02	7·02
	Marmora Branch	0·00– 2·75	2·75
	Bessemer Branch	0·00– 7·34	7·34
	Irondale	0·00– 5·15	
		9·37– 41·90	30·52
London	Simcoe	0·50– 0·81	0·31
Stratford	Exeter	31·60– 45·05	12·89
	Kincardine	23·15– 28·25	
		30·48– 33·96	
		41·28– 41·49	7·04
Allandale	Alliston	0·35– 13·37	
		17·17– 27·87	
		33·17– 37·71	26·50
	TOTAL		192·04

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SPECIAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

MONDAY, MAY 5, 1952

TRANS-CANADA AIR LINES—ANNUAL REPORT (1951)
AUDITORS' REPORT TO PARLIAMENT

SECOND AND THIRD REPORTS TO THE HOUSE

WITNESS:

Mr. G. R. McGregor, President, Trans-Canada Air Lines.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

REPORTS TO THE HOUSE

MONDAY, May 5, 1952.

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

SECOND REPORT

Your Committee has considered the following items of the Estimates for the year ending March 31, 1953, referred to it on April 24, 1952, and recommends their approval, namely:

Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit

Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit

Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

TUESDAY, May 6, 1952.

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

THIRD REPORT

Pursuant to the Orders of Reference of the House of April 24, 1952, this Committee had before it for consideration the following:

1. The Annual Reports for 1951 of the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited, and the Auditors' Report to Parliament in respect of the Canadian National Railways System, and the Canadian National (West Indies) Steamships, Limited.

2. The Annual Report of the Trans-Canada Air Lines for the calendar year 1951, and the Auditors' Report to Parliament for the calendar year 1951, in respect of Trans-Canada Air Lines.

3. The Annual Report of the Canadian National Railways Securities Trust for 1951.

4. The Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines for the calendar year 1952.

5. Vote 485—Prince Edward Island Car Ferry and Terminals—Deficit.

6. Vote 486—Canadian National (West Indies) Steamships, Limited—Deficit.

7. Vote 493—Maritime Freight Rates Act—payment of 20% reduction in tariff of tolls to Canadian National Railway and other Railways operating in territory fixed by the Act.

57210—1½

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

The Annual Report of the Canadian National Railways for 1951 discloses a net income of $31,783,119.00. However, interest on the Funded Debt to the public amounted to $23,467,703.00, and interest on Government loans amounted to $23,347,412.00, bringing about a deficit of $15,031,996.00. The said Annual Report was adopted.

The Annual Report of the Canadian National (West Indies) Steamships, Limited for 1951 discloses a net operating deficit of $31,576.00 as compared with a net operating deficit of $601,432.00 in 1950, and after payment of interest on bonds held by the public and on Government advances there was an overall deficit of $466,992.00 as compared with $1,028,767.00 in 1950. The balance in the Vessel Replacement Fund at the end of 1951 was $4,685,337.00 as compared with $4,313,638.00 at the year end in 1950. The Insurance Fund balance was $2,046,654.00 against a balance of $1,772,458.00 at the end of 1950. The said Annual Report was adopted.

The Annual Report of Trans-Canada Air Lines for 1951 shows a surplus of $3,843,726.00 for the North American Services as compared with a surplus of $201,206.00 in 1950, and a surplus of $47,231.00 for Trans-Canada Air Lines (Atlantic) Limited as compared with a deficit of $1,526,412.00 for the year 1950. The said Annual Report was adopted.

The Auditors' Report to Parliament with respect to the Canadian National Railways System, the Canadian National (West Indies) Steamships, Limited and the Trans-Canada Air Lines, also the Annual Report of the Canadian National Railways Securities Trust for the calendar year 1951, were severally considered and adopted.

The Financial Budgets of the Canadian National Railways, the Canadian National (West Indies) Steamships, Limited, and the Trans-Canada Air Lines for the calendar year 1952 were examined and adopted.

The items of the Estimates for the year ending March 31, 1952, being votes 485, 486 and 493 were considered and approved, and reported to the House by the Second Report of your Committee presented to the House on May 5, 1952.

The task of your Committee was greatly facilitated by the valuable assistance of Mr. Donald Gordon, C.M.G., LL.D., Chairman of the Board of Directors and President of the Canadian National Railways; Mr. S. F. Dingle, Vice-President, Mr. T. H. Cooper, Vice-President and Mr. T. V. Gracey, Comptroller, all of the Canadian National Railways; and Mr. G. R. McGregor, President of Trans-Canada Air Lines.

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

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 30, 1952.

The Sessional Committee on Railways and Shipping owned, operated and controlled by the Government met at 4.00 o'clock p.m. this day in Camera. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Carter, Cavers, Dumas, Healy, Helme, James, Macdonald (*Edmonton East*), McCulloch, McLure, Mott, Mutch, Picard, Pouliot.

The Chairman presented to the Committee a draft report to the House on the following:

C.N.R. Annual Report (1951) and Budget (1952);
C.N. Steamships, Limited (1951) and Budget (1952);
C.N.R. Securities Trust (1951);
Auditors' Report to Parliament;
Estimates—Items 485, 486 and 493.

It was agreed that consideration of the draft report be deferred until the Committee had completed its study of all matters referred.

The Committee adjourned at 4.10 o'clock p.m. to meet again at 11.00 o'clock a.m., Monday, May 5, 1952.

R. J. GRATRIX,
Clerk of the Committee.

MONDAY, May 5, 1952.

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

Members present: Messrs. Carter, Cavers, Churchill, Dumas, Fulton, George, Gillis, Helme, James, Knight, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott, Mutch.

In attendance: The Right Honourable C. D. Howe, Minister of Defence Production and Trade and Commerce. Messrs. G. R. McGregor, President, Trans-Canada Air Lines; W. S. Harvey, General Auditor; S. W. Sadler, Auditor; R. C. McInnis, Director, Public Relations and Mr. F. P. Turville of George A. Touche & Company, Accountants.

Mr. G. R. McGregor was called. He read the Annual Report of Trans-Canada Air Lines and was questioned thereon. The said Annual Report was adopted.

The Committee then considered and adopted the Auditors' Report to Parliament (1951) on Trans-Canada Air Lines.

Mr. F. P. Turville of George A. Touche & Co., was called, assisted Mr. McGregor and retired.

The Operating Budget and Capital Budget of the Trans-Canada Air Lines for the calendar year 1952 were considered and adopted.

The Chairman, on behalf of the Committee, congratulated Mr. McGregor on his entire staff on the extremely successful performance of Trans-Canada Air Lines in 1951.

At 12.50 o'clock p.m. the Committee adjourned to meet again at 4.00 o'clock p.m. this day.

AFTERNOON SITTING

The Committee resumed at 4.00 o'clock p.m. in Camera. Mr. Cleaver, Chairman, presided.

Members present: Messrs. Benidickson, Dumas, George, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McCulloch, McLure, Mott.

The Chairman submitted a draft report on all matters referred to the Committee. The said report was considered and adopted.

At 4.15 o'clock p.m. the Committee adjourned sine die.

R. J. GRATRIX,
Clerk of the Committee.

NOTE: The answer to a question asked by Mr. Fulton concerning the North Atlantic Passengers through the Montreal gateway for the year 1951 was filed with the Clerk of the Committee and is printed as Appendix "A".

EVIDENCE

House of Commons,
May 5, 1952.

The Chairman: Gentlemen, we have a quorum. We are to take up this morning the report of Trans-Canada Air Lines, the audit report, and the budget. In addition to the minister, Mr. Howe, we have in attendance Mr. G. R. McGregor, the president; Mr. W. S. Harvey, general auditor; Mr. S. W. Sadler, auditor, and Mr. R. C. McInnis, director of public relations, Trans-Canada Air Lines.

I now call on Mr. McGregor.

Mr. McGregor:

TRANS-CANADA AIR LINES

Montreal, February 29, 1952.

To the Right Honourable,
the Minister of Trade and Commerce, Ottawa.

Sir:

The Board of Directors submit the consolidated Reports of the Trans-Canada Air Lines domestic and overseas services for the calendar year 1951.

Financially, this was by far the most successful year the company has yet had; but perhaps even more gratifying was the contribution it was able to make to the transportation needs of Canada.

Volume of business exceeded that of 1950 in all categories with system passenger transportation increasing by 20 per cent, aircargo and air express loads by 13 per cent and mail by 11 per cent. Although the traffic trend has been steadily upwards since the Company's inception, in no other year has the extent of the advance been so pronounced.

General expansion of the Canadian economy, immigration and the ever-widening public patronage of air transportation brought about a marked increase in gross revenues. On the other hand, the increase in expenses was on a very much smaller scale. The logical outcome of these two relatively satisfactory trends was a system surplus of $3,890,957.

TRANS-CANADA AIR LINES—NORTH AMERICAN SERVICES

FINANCIAL REVIEW

There follows a tabulation of the 1951 operating results compared with those of 1950:

	1951	1950	Increase or (Decrease)
Operating Revenues	$37,043,289	$31,810,684	$ 5,232,605
Operating Expenses	32,670,655	31,318,613	1,352,042
Operating Profit	$ 4,372,634	$ 492,071	3,880,563
Non-Operating Income—Net	28,681	202,233	(230,914)
Profit	$ 4,343,953	$ 694,304	3,649,649
Interest on Capital Invested	500,227	493,098	7,129
Surplus	$ 3,843,726	$ 201,206	3,642,520

These figures reflect a 16 per cent increase in operating revenues.

Passenger traffic accounted for the greater part of gross earnings and continued the rapid growth that has characterized recent years. There was also a substantial increase in revenue derived from express and cargo transportation.

Operating expenses were higher by 4 per cent, due principally to the cost of flying 2,061,577 additional aircraft miles and to the upward trend of wages and material costs. Operating payroll charges constituted the largest single factor, increasing by $1,703,330.

At the same time, there was a very definite increase in the efficiency of the organization and this, combined with a higher business volume, produced a lowering of the unit cost. The industry's accepted unit of measurement of the work load of an airline is the "ton mile of air transportation made available for sale." The cost per ton mile in 1951 was reduced from 40·48 cents to 37·22 cents, an improvement of 8 per cent.

While it is hoped that this trend can be maintained, it cannot be overlooked that the steadily mounting price of labour and materials leaves no room for complacency with respect to this aspect of the future.

OPERATIONS AND TRAFFIC REVIEW

The growth of Canadian air transportation on the North American continent is reflected in the following statistics:

	1951	1950	Per Cent Increase
Total Aircraft Miles Flown	21,165,010	19,103,433	11
Passengers Carried	930,691	790,808	18
Passenger Miles Flown	450,840,623	379,605,810	19
Passenger Miles Available	605,438,361	548,850,808	10
Mail Ton Miles	3,969,371	3,644,752	9
Aircargo Ton Miles	2,391,297	2,319,712	3
Air Express Ton Miles	1,174,096	998,479	18
Revenue Ton Miles Flown	51,827,990	44,258,785	17
Ton Miles Available	87,779,863	77,369,710	13

EXPANSION OF SERVICE

The increase in service took place within the established route framework. North American summer schedules called for the greatest amount of flying in TCA's history. A fourth daily trans-continental flight began on April 1 and additional operations were provided on the majority of the other routes, including the trans-border services. By mid-summer, for example, fourteen daily scheduled flights were operating between Toronto and Montreal. Approximately 500 more airline seats were made available daily than at the height of the 1950 travel season and 10 per cent more scheduled flying took place.

PASSENGER TRAFFIC

Volume of passenger traffic on North American services reached unprecedented proportions in 1951. Indeed, there were periods when the airline found itself with insufficient capacity to meet demand, except in the case of cargo traffic for which there was ample accommodation. Traffic demand will, however, be adequately met in 1952 by additions both to the aircraft fleet and to trained flight personnel made in the fourth quarter of 1951.

It is gratifying to report that the Company's efforts to lessen the amount of autumn and winter decline in loads continued to meet with success. Because, in the past, heavy seasonal fluctuation in passenger traffic has been the strongest single adverse influence on net earnings, the Company's merchandising policy in 1951 was aimed at a further familiarization of the public with the high degree of regularity of scheduled service being provided by the airline throughout all seasons of the year. This regularity, to which much credit must be given for the pronounced strengthening of winter loads, was again a feature of the year's operations. On North American services, the Company operated 19,710,013 of its 20,515,454 scheduled aircraft miles to achieve a flight performance figure of 96 per cent.

As a direct result, the Company found it necessary at the approach of winter to make a seasonal reduction of services amounting to only 4 per cent, as compared with 20 per cent in 1950.

Another salutary influence upon passenger traffic volume was the continued stability of the cost of air transportation to the public. In the face of generally rising prices for other services and commodities, the price of air travel in Canada remained unchanged in 1951.

MAIL TRAFFIC

Under a revised agreement with the Post Office Department, effective January 1, 1951, there was a marked increase in the volume of first-class mail carried. The Company's domestic mail traffic rose by 9 per cent and mail revenues also increased, but not proportionately to the additional amount of mail transportation provided. In fact, there was a further decrease in the unit mail payment. In 1951 TCA received $1.45 per mail ton mile as compared with $1.48 in 1950 and $2.98 in 1947.

It is interesting to note the steady reduction over the years in the percentage of mail revenue of total revenue. The chart on page 8 shows that while mail represented 48 per cent of the system revenues in 1942, it now accounts for only 15 per cent.

COMMODITY TRAFFIC

The airline continued its active development of commodity traffic and domestic air express and aircargo loads increased appreciably. There were no tariff increases and, indeed, the introduction of a number of new commodity rates reduced shipping costs for specific types of traffic. This fact, coupled with increased surface transport rates within Canada, provided a decided stimulus to shipment by air. The growth of commodity traffic on Canada-U.S. trans-border routes was particularly marked.

AIRPORT AND AIRWAY FACILITIES

The airline and the Department of Transport worked co-operatively for the development of Canada's airports and airways. Extensions and improvements to runways were undertaken by the Department at Vancouver, Regina, Saskatoon, Ottawa and North Bay. A new airport was built near Saint John, N.B., enabling the airline at the end of the year to improve its service to that city. TCA was, however, increasingly hampered in the expeditious movement of passengers, baggage and cargo by the serious and growing inadequacy of traffic-handling facilities at the majority of Canadian airports.

In July, operations were transferred from Seattle's Boeing Airport to the newer Seattle-Tacoma Airport, due to increasing use of the former field by the United States military services.

TRANS-CANADA AIR LINES (ATLANTIC) LIMITED
FINANCIAL REVIEW

This section deals with the Atlantic section separately.

The following statistics for 1951 include the North Atlantic, Bermuda, and Caribbean services.

	1951	1950	INCREASE or (DECREASE)
Operating Revenues	$10,967,012	$8,344,815	$2,622,197
Operating Expenses	10,665,465	9,586,388	1,079,077
Operating Profit or *Loss*	$ 301,547	*$1,241,573*	1,543,120
Non-Operating Income—Net	*4,543*	*27,937*	23,394
Profit or *Loss*	$ 297,004	*$1,269,510*	1,566,514
Interest on Capital Invested	249,773	256,902	(7,129)
Surplus or *Deficit*	$ 47,231	*$1,526,412*	1,573,643

The Atlantic services' surplus, while small, represented an improvement of $1,573,643 in net income from 1950.

This encouraging result was the joint product of a considerable volume of North Atlantic immigrant travel, a decided upswing in traffic between Canada, Bermuda and the West Indies, and an effective program of cost control.

The 31% increase in overseas operating revenues was one of the features of the financial year, particularly when combined with the relatively small rise of 11% in operating expenses.

At the same time, the Atlantic services shared the general impact of increasing labour and material costs, and continuation of this trend cannot help but be apparent in future results. Operating payroll charges were $701,413 higher than in 1950.

Competition was again keen on the North Atlantic route, with T.C.A.'s greatest strength lying in a record of reliable flight performance matched by no other airline. Of the 644 flights scheduled, 100% were completed.

OPERATIONS AND TRAFFIC REVIEW

The extent of the airline's increased overseas business is illustrated by the following statistics:

	1951	1950	PER CENT INCREASE
Total Aircraft Miles Flown	3,925,058	3,410,484	15
Passengers Carried	42,646	32,701	30
Passenger Miles Flown	94,319,673	74,472,299	27
Passenger Miles Available	139,841,217	115,999,064	21
Mail Ton Miles	498,722	394,339	26
Aircargo Ton Miles	1,846,583	1,488,805	24
Revenue Ton Miles Flown	13,345,858	10,575,483	26
Ton Miles Available	20,925,934	17,225,760	21

EXPANSION OF SERVICE

The only route extension of the year took place on April 1 when service was inaugurated to Paris. This called for a minor lengthening of the existing North Atlantic route, but was significant as the first air link between Canada and continental Europe to be provided by a scheduled Canadian carrier. Initially, one service per week was operated, this frequency later being doubled. A new and well-located office was opened in Paris. Traffic has proven very satisfactory with the service obviously having a special appeal to French-speaking Canadians.

North Atlantic flight frequency rose to a daily round-trip by mid-summer and so heavy were continuing loads that this schedule was maintained throughout the balance of the year.

There was a small fluctuation in Bermuda and Carribean schedules to conform with the busy winter holiday months and the relatively light summer season.

PASSENGER TRAFFIC

With record passenger traffic moving on both the North Atlantic and southern routes, the overseas services more than kept pace with the domestic operations in growth of business. In 1951, 22% more persons were transported on North Atlantic flights than in 1950, while Bermuda and Caribbean passenger traffic increased by 41%.

During the year 7,611 immigrants were carried to Canada from the United Kingdom and Europe under an agreement with the Canadian Government. The immigrant movement was, of course, confined to westbound trans-Atlantic flights and therefore tended to produce a lack of directional load balance. This, however, did not seriously affect the economics of the overseas operations.

Some minor adjustments were made to the price of overseas air travel. Dollar fares between Canada and all points beyond its boundaries, with the exception of the United States, were increased on July 1 to reflect changes in the rate of exchange. On October 1, the North Atlantic airlines jointly announced a $20 increase in the one-way fare, as a result of increased cost of operations.

Encouragement was given North Atlantic business travel by TCA's organization in London of an Industrial Advisory Service for the purpose of providing Canadian information on request to potential air passengers in the United Kingdom and Europe.

MAIL TRAFFIC

There was a substantial rise in the volume of mail carried on the overseas services, the great majority of this being eastbound on the North Atlantic route where mail load was up 25%. Mail entrusted to TCA on its southern services continued to be of meagre proportions.

COMMODITY TRAFFIC

In 1951 the Company carried more aircargo through the North Atlantic gateway point of Montreal than all its competitors combined. Westbound loads were close to aircraft capacity throughout the year, and aggregate traffic over this route increased by 24% from 1950.

The volume of aircargo carried by the Bermuda and Caribbean flights also showed a gratifying improvement of 24% and, with trade restrictions between Canada and these southern areas being relaxed, future prospects appear bright.

Domestic and international services, interlocking with the world air network, continued to offer a means of rapid and efficient shipment both at home and abroad.

AIRPORT AND AIRWAY FACILITIES

The hurricane that struck Jamaica in August severely damaged Kingston Airport. Fortunately, however, operations were not seriously affected.

The North Atlantic aeronautical radio communications stations which had been operated on behalf of all North Atlantic operators were returned to the administration of the Department of Transport.

Arrangements were made for the airline's Bermuda and Caribbean communications to be handled by the Canadian Overseas Telecommunications Corporation. The Company's circuits to those areas were discontinued to avoid unnecessary duplication of facilities.

ROUTES

At December 31, 1951, Trans-Canada Air Lines was providing service for passenger, mail and commodity traffic over 8,641 miles of North American routes and 8,688 miles of overseas routes. This was an aggregate increase of 490 miles or 3 per cent over 1950. Over this system, encompassing 45 communities, were scheduled a daily average of 65,320 aircraft miles and 2,039,157 available passenger miles. The route map on pages 12 and 13 illustrates the comprehensive nature of the Company's present services.

PERSONNEL

On December 31, total staff numbered 5,512, as compared with 4,904 a year before, the increase being due to greater operational and traffic-handling requirements and to a shortening of the work week from 44 to 40 hours. This enlargement of the Company's working force reflected in no way on the performance of staff, without whose concentrated efforts the year's record production would not have been possible. Indeed, the 12 per cent employee increase, when compared with the 15 per cent growth of available ton miles and the 20 per cent increase in passenger traffic, indicates a further advance in personnel efficiency.

A general increase in employee remuneration became effective on October 1.

In September, Mr. W. G. Wood was appointed Vice-President, Traffic, succeeding Mr. A. C. McKim, resigned.

PROPERTY AND EQUIPMENT

The enlarged scale of 1951 operations was achieved with the existing fleet of 20 North Stars and 27 DC-3 aircraft. By mid-summer, the North Stars were performing efficiently at a utilization rate in excess of 9¾ hours a day on domestic services, a figure which has not been exceeded by any other carrier with so diversified a route pattern. The DC-3's also operated in an entirely satisfactory manner on the many inter-city routes where they were employed.

It became apparent, however, that further transport demands upon the airline could only be met by an enlargement of the fleet capacity. Accordingly, the Company purchased three more North Stars to be put into service early in 1952. These will enable the airline to make 20 per cent more seat miles available to the travelling public on transcontinental and inter-city services.

At the same time, orders were placed for five Lockheed Super Constellations to be delivered in 1953. This decision was made after a long and thorough engineering investigation of the types of aircraft then on the market. The Super Constellations were selected because they incorporate both proven performance and a major advance in commercial power plant design. It is planned to use them on the overseas services. The new aircraft will be powered with Wright 3350 "Compound" engines developing over 3,000 horsepower apiece.

Company engineers continued to make detailed technical economic examinations of all current developments of turbo-propeller and turbo-jet power plants and both current and planned types of aircraft in which the newer engine forms may be used.

In June, TCA began the maintenance of military training aircraft from the Manitoba and eastern Saskatchewan areas. Under an agreement with the Department of Defence Production, the Company undertook this work at its Winnipeg Overhaul Base for the purpose of relieving trained Air Force ground staffs for operational duties. By year end, over 215 aircraft had been reconditioned.

Traffic office additions and renovations were made where required, among them a new off-line office at Quebec City. Particular stress was placed on the improvement and expansion of both telephone answering service and reservation facilities.

Full responsibility was assumed by the airline for its Purchasing function, this being joined with Stores in a new Department. Mr. H. C. Cotterell was appointed General Manager, Purchases and Stores.

BALANCE SHEET

It is felt that the picture presented by the Company's 1951 balance sheet merits interpretation in some detail.

The average original book value of each of TCA's 27 DC-3 aircraft was $156,000. Therefore the capital available for the purchase of replacement aircraft obtained from the full depreciation of each DC-3 will be approximately that amount. On the other hand, aircraft in current production which could reasonably be regarded as successors to the DC-3 are for sale in a price range of from $600,000 to $750,000.

Similarly, capital derived from the depreciation of each of the Company's North Star aircraft will approximate the original book value of $675,000, whereas prices quoted for four-engined aircraft in current production which could be considered as eligible replacements range in price from $1,400,000 to $1,800,000. It will be obvious from these figures that the aggregate of depreciation accruals on the present aircraft fleet will not provide sufficient capital with which to purchase replacement aircraft when the time comes.

The 1951 surplus has therefore been reserved as a first contribution to the very large amount of money which will be represented by the difference between the cost of replacement equipment and the amount of money realized from the complete depreciation of the present equipment. This has been done with the concurrence of the Canadian National Railways which holds all TCA issued stock.

It will also be noted that the balance sheet records an item of $1,952,000 representing the amount paid to the manufacturer concurrent with the confirmation of the order for five Super Consellation aircraft. The balance of payment will be made upon delivery, expected to take place in 1953. This, together with the purchase of associated spares and ground equipment, constitutes a committed additional expenditure of approximately $9,000,000. The Company is also committed to pay to Canadian Pacific Air Lines, Limited in 1952 the sum of $1,000,000 representing the balance of the purchase price of three North Star aircraft and associated parts.

Since none of the CPA aircraft were in TCA service in 1951, the size of the Company's fleet is correctly reported as unchanged from 1950. However, the increase in the property and equipment account as shown in the 1951 balance sheet represents the payments made on CPA aircraft and parts delivered but not placed in service in 1951.

THE AIR TRANSPORT PROSPECT

There is every reason to view with confidence the future of Canadian Air transportation, speed of travel and shipment being essential to a healthy nationhood in a county of such dimensions. Speed is no longer a luxury and, when wedded to dependability and comfort, becomes extremely marketable. It is the policy of the Company to carefully plan its growth so as to adequately meet the country's future requirements.

With the additional four-engined aircraft in use, 1952 will see a very substantial increase in the amount of airline service made available to the public, while at the same time no effort will be spared to further improve the quality of that service. By 1953 there will be an even larger expansion of capacity.

Fredericton will in 1952 be added to the route pattern and North Star domestic service will be extended east of Montreal.

In May, 1952, the Company will introduce much lower fares on the North Atlantic and thereby bring overseas air transportation within the financial reach of a new and larger market.

System revenues are expected to continue their upward trend and the greatest possible economy will be practised consistent with maintenance of the airline's standards.

APPRECIATION

In closing this Report, it is the wish of the Board of Directors to pay tribute to the loyalty, skill and efficiency of the airline's personnel. To them belongs the credit, not only for a year of successful endeavour, but for the position and reputation enjoyed by Trans-Canada Air Lines in the air transport industry.

For the Directors:

G. R. McGREGOR,
President.

REVENUE COMPARISONS

1951-1950

NORTH AMERICAN SERVICES

	Increase $	Increase %
Passenger	4,483,004	19
Mail	341,000	6
Express and Cargo ..	215,727	15
Incidental Services ...	207,906	47
Other	15,032*	5*
Total	$5,232,605	16%

ATLANTIC SERVICES

	Increase $	Increase %
Passenger	2,218,374	37
Mail	306,721	26
Cargo	131,897	16
Incidental Services	39,693	22
Other	74,488*	53*
Total	$2,622,197	31%

*Decrease

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER, 1951

ASSETS

Current Assets:		
Cash		$ 2,585,994
Working fund advances		11,852
Special deposits		11,452
Accounts receivable		
Government of Canada	$ 2,336,883	
Traffic balances from other carriers	1,032,900	
Agents	568,871	
Other	1,157,921	
		5,096,575
Materials and supplies		2,099,620
Other current assets		41,754
		$ 9,847,247
Investments and Special Funds:		
Deposits with Canadian National Railways	$11,000,000	
Insurance fund	4,571,976	
Advance payment on purchase of aircraft	1,952,344	
Joint associations	27,049	
		17,551,369
Capital Assets:		
Property and equipment	$31,029,783	
Less: Accrued depreciation	16,777,206	
		14,252,577
		$41,651,193

LIABILITIES

Current Liabilities:		
Accounts payable		
General	$ 2,962,440	
Traffic balances to other carriers..	1,343,970	
		$ 4,306,410
Air travel plan deposits		839,375
Salaries and wages		812,400
Prepaid transportation		1,324,702
Other current liabilities		44,609
		$ 7,327,496
Reserves:		
Insurance	$ 4,571,976	
Overhaul	860,764	
		5,432,740
Capital Stock:		
Common stock—fully paid		25,000,000
Profit and Loss:		
North American Services—surplus year 1951	$ 3,843,726	
Atlantic Services—surplus year 1951.	47,231	
Surplus year 1951	$ 3,890,957	
Reserved for replacement of capital assets		3,890,957
		$41,651,193

L. C. COOPER, *Comptroller.*

CERTIFICATE OF AUDITORS

We have examined the books and records of the Trans-Canada Air Lines and its Subsidiary Company for the year ended the 31st December, 1951.

In our opinion, proper books of account have been kept by the Air Lines, and the Consolidated Balance Sheet at the 31st December, 1951 and the Income Accounts for the year ended that date have been prepared on a basis consistent with that of the preceding year and are in agreement with the books of the Air Lines.

29th February, 1952.

The above Consolidated Balance Sheet and the relative Income Accounts are, in our opinion, properly drawn up so as to give a true and fair view of the state of the Air Lines' affairs at the 31st December, 1951 and of the income and expense for the year.

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

GEORGE A. TOUCHE & CO.,
Chartered Accountants.

North American Services Year 1951	North American Services Year 1950		Atlantic Services Year 1951	Atlantic Services Year 1950
		Operating Revenues:		
$ 28,666,505	$ 24,183,501	Passenger	$ 8,245,384	$ 6,027,010
5,741,000	5,400,000	Mail	1,484,149	1,177,428
1,688,982	1,473,254	Express and Cargo	954,228	822,331
224,771	194,573	Excess Baggage	47,942	41,463
73,690	118,921	Charter and Other	17,389	98,356
648,341	440,435	Incidental Services—Net	217,920	178,227
$ 37,043,289	$ 31,810,684	Total	$ 10,967,012	$ 8,344,815
		Operating Expenses		
$ 7,637,455	$ 6,846,269	Flight Operations	$ 2,387,265	$ 2,161,773
5,214,768	4,443,180	Ground Operations	1,634,876	1,503,933
8,389,675	9,764,127	Maintenance	2,855,455	2,794,930
2,604,774	2,751,109	Depreciation	1,135,786	1,023,828
2,106,237	1,620,624	Passenger Service	569,979	432,383
4,004,745	3,324,217	Sales and Reservation Service	1,229,531	907,765
870,326	929,195	Advertising and Publicity	267,206	253,743
1,842,675	1,639,892	General and Administrative	585,367	508,033
$ 32,670,655	$ 31,318,613	Total	$ 10,665,456	$ 9,586,388
$ 4,372,634	$ 492,071	Operating Profit or *Loss*	$ 301,547	$ *1,241,573*
28,681	2 202,233	Non-Operating Income—Net	*4,543*	*27,937*
$ 4,343,953	$ 694,304		$ 297,004	$ *1,269,510*
500,227	493,098	Interest on Capital Invested	249,773	256,902
$ 3,843,726	$ 201,206	Surplus or *Deficit*	$ 47,231	$ *1,526,412*

The CHAIRMAN: Thank you, Mr. McGregor.

Will the members of the committee now turn to page 5 of the report, the Financial Review. Are there any questions on operating revenues?

Mr. FULTON: What was the deficit in non-operating income caused by?

Mr. MCGREGOR: It was caused largely by fluctuations in international exchange on currency.

The CHAIRMAN: Are there any further questions on Financial Review? Carried.

Mr. KNIGHT: Mr. Chairman, at this point I think there would be no harm in an expression of appreciation of the very successful report of Trans-Canada Air Lines for the past year; and while Mr. McGregor mentioned in his last paragraph a note of appreciation of the personnel of the air lines, he might very well include himself and the officers who are under him.

The CHAIRMAN: Thank you, Mr. Knight. I think that is very appropriate.

Mr. KNIGHT: They are to be commended for coming to this very successful conclusion. I would just like to say that.

Mr. MCGREGOR: Thank you very much.

The CHAIRMAN: Page 6, Expansion of Service. Are there any questions?

Mr. MACDONNELL: The table shows "Passenger miles flown, in 1951, 450,840,623; and Passenger miles available, 1951, 605,438,361." Does that mean that if the aircraft had been filled every time the figures would be equal?

Mr. MCGREGOR: Yes. Perhaps a better expression would have been "seat miles available."

Mr. FULTON: That differential is what? Is it average or lower than the average for air lines?

Mr. McGREGOR: No, I would say it is higher than North American air lines in general.

Mr. FULTON: I mean the difference between available and actual.

Mr. McGREGOR: Yes, the load factor you are referring to, yes. Our load factor was considerably higher than the average.

Mr. FULTON: You had a bigger percentage of available seat miles taken than comparable air lines?

Mr. McGREGOR: Yes.

Mr. FULTON: That's what I was wondering, whether it was that or the other.

Mr. MACDONNELL: On page 6, you say:

> "Indeed, there were periods when the air line found itself with insufficient capacity to meet demand, except in the case of cargo traffic for which there was ample accommodation."

Does this situation cause you to change your plans in any way in regard to cargo traffic? Does that mean that you confine yourself mainly to the passenger traffic, the extension, I mean?

Mr. McGREGOR: What is meant by that reference is the fact that there is in each passenger aircraft a considerable amount of available cargo space, that is there automatically and it is still not filled.

The CHAIRMAN: You do have planes other than passenger planes which are carrying cargo?

Mr. McGREGOR: We have one aircraft equipped for the carriage of cargo exclusively.

Mr. McLURE: Was there any exchange of services in the maritime provinces with the Maritime Central Airways and the T.C.A. from Moncton, Fredericton and Halifax?

Mr. McGREGOR: Yes, there is interline connecting arrangements at all the points where the two companies join, and Moncton is a good example.

Mr. McLURE: Moncton is a point?

Mr. McGREGOR: Yes.

The CHAIRMAN: Any further questions on expansion of service?

Passenger traffic.

Mr. KNIGHT: Mr. Chairman, on top of page 7, first column, there is a comment which says:

> "...efforts to lessen the amount of autumn and winter decline in loads continue to meet with success."

The situation is smoothing itself out, it is? Then there is a comment on page 15 in regard to the immigrants carried to Canada from the United Kingdom.

The CHAIRMAN: I think we should not confuse the North Atlantic services with the Atlantic services, Mr. Knight. I think it would be better if we confined ourselves entirely, for the moment, to the North American services.

Any further questions on passenger traffic?

Mail traffic.

Mr. GILLIS: I would like to ask Mr. McGregor if he had any representations from the Board of Trade of Sydney with regard to improving the mail delivery in Sydney by plane. There is one delivery a day there, I understand, both by plane and by train, which means it gets in there when it is impossible to sort it and deliver it that day, and so it has to remain in the post office 24 hours. There is only one delivery a day in Sydney and that is a pretty bad mail service for that city.

Mr. McGregor: I have not had any representations, but I think the condition you describe has been eliminated by the commencement of the North Star service through Sydney, which began on April 27 last.

Mr. Gillis: Could be.

Mr. George: Who decides, if a flight leaving Halifax, say, or Moncton, is cancelled, whether the mail will wait till the weather clears or whether it will be sent by rail.

Mr. McGregor: The Post Office Department. I think the general rule is that if the mail is at the airport it probably waits for the next flight.

Mr. George: It appears to be that way. There are occasions when the mail is held too long.

The Chairman: That is the Post Office responsibility.

Mr. Fulton: When we discussed this mail revenue before, you told us it was difficult to figure out what it actually cost you, and I think you said you were continuing your studies into that. I wonder if you are now able to say you receive from this $1.45 per mail ton mile the actual cost to T.C.A.?

Mr. McGregor: I would say so, yes, taking the system as a whole. It varies a great deal on different routes, which was one of the reasons we have always said it was very nearly impossible to say what the dollar cost was for mail carriage.

Mr. Fulton: But you feel now you can tell the committee that the return received at least covers whatever cost factor you have been able to attribute to mail?

Mr. McGregor: Yes, I think that is a fair statement.

Mr. Macdonnell: I had a small experience, which is very trivial, but perhaps I could get some idea as to how mail is routed. I had a letter mailed here one night, which should have gotten into Toronto next morning. It was put in the post office in time, with special delivery stamps on it, but it did not arrive in Toronto the next day at all. Apparently what happened was that it was decided to send that by air. The weather was bad and the plane did not leave. Of course that happens, understandably, but what I am interested in now is, if that letter had gone by train it would have gotten there the next day. Is there any rule for sending out mail? Is it always sent by air? It seems to me a case where a new tool was being used with such enthusiasm that it did not seem very sensible. Actually, that letter did not catch the night train and it came by the day train the next day.

Mr. McGregor: I think it is unusual for mail to be sent between here and Toronto by air, particularly evening collection mail. Perhaps the stamps were interpreted as being air mail, in which case it might go by air regardless.

The Chairman: Commodity traffic.

Airport and airway facilities.

Mr. Knight: I see my own city of Saskatoon is mentioned here, so I could perhaps use that, I was going to say, excuse, but I do not need one for raising a small matter. Due to the increase of traffic to that city, a good many people, I think, would find it very convenient if some small lunch facility of some sort was provided. I think it would be an excellent thing. You have such facilities at other places, but at that particular airport people come off trains and rush out to the airport to board a plane and find at the airport there are no facilities for refreshments. This has been brought to my attention a time or two by people, such as the Board of Trade and some private individuals. I thought this might be a good place to mention it. I do not know whether the business through there is sufficient to justify that sort of thing and I am not pleading for anything on any elaborate scale, but a place for a quick bite, I think, would be a useful improvement at that particular point. Have you any comment to make on that?

Mr. McGregor: The facilities at airports are not administered or determined by the air line in the case of the airports administered by the Department of Transport. That department does its best to make its space available to concession companies for such facilities as you describe. As you know, the airport building situation at Saskatoon is rather critical and temporary. I imagine when civil operation is begun in permanent quarters that something like that will be provided.

Right Hon. Mr. Howe: As a matter of fact, we are very much behind in airport facilities and airport buildings at Saskatoon. The reason is the difficulty of building under present conditions and, another thing, the rapid growth of the traffic has been such that it costs a great deal of money to bring the facilities in step. We hope that Saskatoon will be straightened out, but it will be some time before we can get a better airport building there which will make it attractive enough to increase the lunch facilities. I imagine if there were enough people at the airport, either travelling or sightseeing, we could get a local concessionaire.

Mr. Knight: I quite agree with the minister on those two main points, that the facilities with regard to buildings are certainly bad, and it is a bad time to secure material, but will we have to wait for all these changes before we can get any improvement like that?

Right Hon. Mr. Howe: If you could get some local person to accept a concession there and provide the facilities, I do not think there would be much trouble. The difficulty is unless you make it attractive enough to attract people who are not air line passengers, as we did at many airports, it is not very attractive to a concessionaire, because it is difficult for him to make a living out of it.

Mr. Gillis: I would like to ask this question. Your domestic flights in the Atlantic region originate in Newfoundland?

The Chairman: We are just starting the Atlantic operations.

Mr. Gillis: You are on airport and airway facilities.

The Chairman: I thought you were referring to flights.

Mr. Gillis: What I had in mind was this, that domestic flight west originates in Newfoundland and there are many days when flying conditions in Newfoundland are such that the planes have to be grounded, with the result that there is no service from Sydney to Montreal. This happens so often that an additional flight should be put on originating in Sydney. There is also the same demand for an additional flight originating in Montreal to Sydney, two planes a day rather than one. During the time I was home when the House was out of session, I learned that there is plenty of business there for an additional flight, because unless you have made reservations well ahead it is pretty nearly impossible to get a seat on that plane, and, in addition, there are many people who will strike an emergency, for example, they want to get to Montreal or Toronto and have to get there quickly, and unless they have their reservation in they will maybe have to wait a week or so. If a good look was taken at that situation, I am sure that an additional flight from Sydney to Montreal, and an additional one back from Montreal to Sydney, would be put on, because there is plenty of traffic there for it.

Mr. McGregor: In the first place, I should say that Sydney is not entirely blameless in the matter of having weather conditions that suspend operations.

Mr. Gillis: Newfoundland, you mean?

Mr. McGregor: No, Sydney I mean. I think that situation has been cleared up by the new North Star service. One of the troubles with the Sydney service in the past, arose from tying it in with the Newfoundland service, in that the range of the DC-3 aircraft has not permitted them to go into doubtful weather areas, find the weather unsatisfactory, and have the fuel capacity to come back. That situation is improved by the North Star aircraft on that particular route. The North Star can go beyond Sydney, go into Newfoundland and either land or not, and come back and resume its regular schedule. Furthermore, it can take off at Torbay under conditions which would be impossible for the DC-3, and therefore provide a more regular Sydney service. So I think you will find that the North Star services through Sydney to Torbay will go a long way to correct that situation you mention.

The CHAIRMAN: Atlantic services. Financial review. Any questions?

Mr. MACDONNELL: What is the increase of revenue here as compared with the North Atlantic services?

Mr. McGREGOR: This is greater.

Mr. MACDONNELL: Your percentage of vacancy is about the same?

Mr. FULTON: Your load factor has decreased slightly?

Mr. McGREGOR: Yes.

Right Hon. Mr. HOWE: The difficulty is, as you know, we have to take care of a minimum summer service. We know there is little traffic, yet we have to run down to the Caribbean once a week.

Mr. FULTON: I appreciate that, but I thought your load factor had decreased slightly, yet your over-all operating picture shows considerable improvement, financially speaking. What caused the decrease in the load factor, are you very much concerned about it, and will it be adjusted?

Mr. McGREGOR: The load factor is a function of the frequency. Normally it has been our practice to cut the trans-Atlantic frequency down to five flights a week in the winter, but that was not done in the winter of 1951, it was maintained on a daily flight basis. That has a tendency to decrease the load factor slightly, but costs do not go up in proportion. Only direct operating costs are saved when there is a reduction in frequency.

The CHAIRMAN: And your net result shows it was a wise move?

Mr. McGREGOR: Yes, the decision was influenced, too, by the immigrant traffic.

Mr. FULTON: A lot of your eastbound flights would have been empty?

Mr. McGREGOR: That is right, to a degree.

Mr. FULTON: I think you actually increased your flight frequency somewhat over the previous year; you must have had a fair number of comparatively empty flights, and yet your financial result has improved. I was wondering—

Mr. McGREGOR: In increasing the frequency the costs do not go up proportionately.

Mr. FULTON: I see. That is the answer.

The CHAIRMAN: Any further questions on financial review?

Expansion of service.

Mr. CHURCHILL: I think we should not overlook that concluding paragraph at the bottom of page 9; speaking of the record of reliable flight performance matched by no other air line. I think that is most commendable and I think the confidence the people are showing in TCA is dependent upon that. Is the same true with regard to the North Atlantic services? Have you a comparable figure?

Mr. McGREGOR: Yes, as a matter of fact that statement does refer to the Atlantic service.

Mr. CHURCHILL: I mean to the North American service.

Mr. McGREGOR: Yes, the flight performance is covered in what I read before. I believe 96·1 per cent of all flights were completed.

Mr. MACDONNELL: Isn't that rather astounding? On page 9, every single flight was completed. You were never compelled to turn back.

Mr. McGREGOR: That means that every flight was completed. It might have been postponed or turned back, but it was flown, it was never cancelled.

Mr. MUTCH: And they all got through eventually?

Mr. MACDONNELL: As distinct from the home service, where a certain number were cancelled?

Mr. McGREGOR: Yes.

Mr. MACDONNELL: Of course that has to do with the length of the trip, has it not?

The CHAIRMAN: A great deal to do with the frequency of the service.

Mr. McGREGOR: If there is another flight scheduled in two or three hours, a particular flight, which has been delayed may, occasionally be cancelled.

The CHAIRMAN: Page 10.

Mr. KNIGHT: Mr. Chairman, I thought we were on page 6 yet. I would like to ask a question on passenger traffic. We will come to it on page 15.

Any questions on expansion of service, page 10?
Passenger services, page 15.

Mr. KNIGHT: In the second paragraph, and might I refer once again to page 7—about the equalizing of these winter loads:

> It is gratifying to report that the company's efforts to lessen the amount of autumn and winter decline in loads continue to meet with success.

Then, turning to page 15, the question about the immigrants, it would appear from page 15 that this business of transporting immigrants rather upsets the balance. Is it not true that your lighter loads are coming westward?

Mr. McGREGOR: No.

Mr. KNIGHT: They are not?

Mr. McGREGOR: On the Atlantic?

Mr. KNIGHT: Yes?

Mr. McGREGOR: No, but the unbalance referred to is not a seasonal unbalance, it is a directional unbalance. The eastbound loads were lighter, and if it were not for the heavy westbound loads the flights would not be justified at that high frequency.

Mr. FULTON: Referring to the opening of an industrial advisory service in London, I am wondering whether you are not doing there some of the work that would be done by the Canadian National Railways' office in London, and also, I think, by our Canadian immigration service. Have you a separate office to perform that service?

Mr. McGREGOR: We have not a separate office, it is a bureau within our own offices and it is to assist people who come in for the purpose of buying air transportation and who ask us a number of questions. We found it was uneconomical and not satisfactory to have ordinary air line personnel who were engaged in the selling of tickets trying to provide that kind of information or to attempt to answer all the questions that a probable first visitor to Canada would ask, so we have a separate desk at which that type of information is available.

Mr. FULTON: Is that information given by separate people in your employ, or people who are put there by the immigration service?

Mr. McGREGOR: No, it is given by separate people in our employ.

Mr. FULTON: It seems to me on the face of it, and I would be glad of your comment on the question, that it would be more logical to suggest that the one office in London do that service for all three, the Canadian National Railways, the immigration service and yourself, because, as I understand the location, the offices are not very far apart, and so it would not involve any great hardship to suggest to somebody that he go down the street to Canada House and he would get this complete information.

Mr. McGREGOR: I think the reference in the report sounds more imposing than it actually is. It is simply a method of taking the load off the counter personnel that normally develops as people make inquiries with their purchase of tickets. People coming into the ticket office begin to ask questions and they hold up the work of the people who should be selling tickets, and it is just a matter of referring them across the office to a desk, which is manned by only one individual at a time to supply all this information and replies to questions as to where they can go, what they can sell, and so on. We do not attempt to encroach on the normal trade development work, and if the information requested, is of that type passengers are referred to the usual sources.

Mr. FULTON: I think perhaps I gave it an emphasis in reading the report which you did not intend.

Mr. GILLIS: I would like to ask you at this point if you have anything in your budget or in the plans for the improvement or building of a new airport at Halifax. There has been considerable talk about it for some time and I was wondering if you had anything in mind.

Right Hon. Mr. HOWE: That item would be in the Department of Transport estimates—T.C.A. does not build airports.

Mr. GILLIS: I thought they might mention the fact that they were improving the facilities.

Right Hon. Mr. HOWE: I dare say T.C.A. would be very pleased if the facilities were improved.

Mr. GILLIS: You cannot give us anything on it?

Mr. McGREGOR: We have nothing to do with it. There have been reports in the press that it is being considered.

The CHAIRMAN: Are there any further questions on passenger traffic?

Mr. KNIGHT: In regard to service to passengers on these routes, there was a discussion in the House the other day regarding meals and refreshments—a discussion which is perhaps not satisfactory because it was incomplete. I want to say before I start that I have no prejudices in this particular matter but I think in view of the disturbing rumours of one sort and another in certain sections of the public, perhaps this is the place to get the facts regarding the particular matter so that people can know upon what to base their prejudices—if there is anything involved.

I think Mr. Howe made a statement in the House in which he said that as of May 1 the system of free meals and liquid refreshments to accompany them is being discontinued. Is that correct?

Right Hon. Mr. HOWE: On the north Atlantic run.

Mr. McGREGOR: I would be delighted to have an opportunity to speak on that point because Mr. Howe made the statement absolutely correctly. He specified the North Atlantic but he was widely quoted in the press as saying there were to be no more free meals on T.C.A. That is not the case. The only route that is affected is the north Atlantic.

By Mr. Knight:

Q. That is exactly why I want to bring the matter out. I take it meals and such will be served on the north Atlantic route provided they are asked and paid for?—A. That is quite right.

Q. Then what is the situation regarding the Bermuda and Caribbean routes on the same matter?—A. It will remain exactly the same as in the past—free meals.

Q. When you say free you mean that passengers pay for them in the price of the ticket rather than specially ordering and paying for them?

Mr. GILLIS: You never get anything free. It is worked in somewhere.

Mr. KNIGHT: I will pursue the liquor question a little further. In the case of liquor being served on either routes—I take it that it is served in glasses and that there is no mention of the manufacturer's name or anything of that sort?

Mr. McGREGOR: May I answer that?

The CHAIRMAN: Yes.

Mr. McGREGOR: Apparently there is a suspicion on the part of an organization that T.C.A. was in some manner acting as an advertising agent for a brand. That is not the truth.

We did serve, in the case of the overseas routes, liquor from regular bottles and the accounting associated with that was quite fantastic. We approached several distilling companies and asked if they could give us individual bottles so the checking would be merely a bottle count and not a calculation of the amounts used out of large bottles. One organization and only one offered to do that for us. Incidentally we pay a little more for the liquor in the individual bottles than in the regular 26 ounce bottles.

Right Hon. Mr. HOWE: Incidentally the amount of drink contained in a bottle would not be considered to be a drink in Saskatoon.

Mr. KNIGHT: May I say I have seen larger drinks served in Ottawa than I have seen in Regina.

By Mr. Knight:

Q. Just for the record, and I think these things should be clear on the record so that people will know what they are talking about, there is no indication on any drink served in any plane of the name of the manufacturer?—A. Yes, the manufacturer's name is on the bottle and it says "bottled especially for T.C.A."

Q. Does the passenger see the bottle?—A. Not normally and I think in the case in question the passenger must have asked for a souvenir bottle.

Q. Well then, perhaps this may be ridiculous, but are there any sample bottles distributed among the passengers?—A. Not as such, no.

Q. The air line is not being used in any way for liquor promotion?—A. That is absolutely correct.

Q. Well, that is very satisfactory to me.

The CHAIRMAN: Mail traffic.

By Mr. Macdonnell:

Q. These 7,600 immigrants brought out by air, are they brought out that way because of the inadequacy of ocean transport, because they are in a hurry, or because you made the arrangements to get them?—A. It is a combination of the first two but it is over now; it has stopped.

Q. Do you mean temporarily?—A. No, permanently, as far as I know.

Right Hon. Mr. HOWE: The reason is that boat traffic is greater now. There is more boat traffic and there has not been the need to make special arrangements for bringing immigrants by plane. A year ago there was. We could not get enough space on the boat.

Mr. MACDONNELL: You mean that the shipping available is greater?

Right Hon. Mr. HOWE: Very much.

By Mr. Knight:

Q. Might I add to my series of questions so there will be no misunderstanding. Does any manufacturer supply to the air line, or has it ever supplied to the air line, liquor for which the air line has not paid?—A. Not to T.C.A.

Q. It is T.C.A. we are talking about.

Mr. MACDONNELL: What about this reference to dollar fares. You say: "Some minor adjustments were made to the price of overseas air travel. Dollar fares . . . were increased on July 1 to reflect changes in the rate of exchange."

Mr. MCGREGOR: Oddly enough we are speaking about the second and third quarters of 1951 and the rate of exchange at that time went to 7 per cent—therefore international fares in Canadian dollars increased since all international fares are based on the United States dollar. The position has since reversed itself.

The CHAIRMAN: Mail traffic? Commodity traffic?

By Mr. Mutch:

Q. On commodity traffic, is the question being considered of putting on freight flights between Montreal and Vancouver—non-passenger flights carrying freight only or air freight?—A. Mr. Mutch, that will be done if the condition that the report refers to, ceases to apply. If what I may call "ancillary cargo capacity" provided by passenger aircraft flights is overtaxed. That has not occurred yet, but should it, cargo aircraft will go into service, quickly.

Q. Only if it does?—A. There would be no point in flying a separate aircraft to take care of freight if there was still space available for it in the cargo compartments of passenger planes which were flying the route for passenger traffic reasons.

Q. Are you not getting more air cargo than you can handle?—A. Nothing like it.

Q. Well, the last time I flew west I was surrounded by eight seats containing cut flowers?—A. That heavy flower traffic is of very short seasonal situation.

Q. None of the flowers were on me and I know that you are getting more passenger traffic at certain times than you can carry, but I was concerned to know whether you were getting more cargo traffic.

By Mr. Macdonnell:

Q. Mr. McGregor, you say "In 1951 the company carried more air cargo through the north Atlantic gateway point of Montreal than all its competitors combined." Does that mean it was all trans-ocean traffic?—A. Yes.

Q. Could we just have figures to make that specific—who are the competitors?—A. B.O.A.C., K.L.M. and Air-France.

Q. When you say they are competitors— —A. B.O.A.C. operates to London, Air-France to Paris, and K.L.M. to the Netherlands. They are all competitors.

Q. What about facilities? I suppose their facilities are more or less the same?—A. Yes.

Mr. KNIGHT: Do you know if that situation is true on the mail? In the special paragraph up above it says that the load given to T.C.A. is still meagre. Does that mean that very few people write to that particular part of the world, or is T.C.A. not getting its share of the business?

Mr. MCGREGOR: "Meagre" refers to the Caribbean and it is fair to say we are not getting our share of the business. There are several technical factors to account for that, coupled with the fact that the colonial governments in the Caribbean have not seen fit to give us any mail.

By Mr. Fulton:

Q. What is the comparable situation with respect to passengers? Have you any figures to show how we compare with the other competing air lines?—A. We have figures and can get them. Due to our frequency I would say it is very probable that the same statement as for commodity traffic is true.

Q. Because we operate the most frequent service?—A. Yes.

Q. As a matter of interest you might file that information with the committee?—A. I will be glad to do so.

(*See* Appendix "A".)

Q. The other question I had was with respect to the commodity shipment of flowers and you will remember there was some controversy as to whether you should continue shipping those by air. As you say, it is a very perishable and highly seasonable commodity. Did your experience this year work out satisfactorily with the growers concerned and have you decided to continue it—so that it will go on from year to year?—A. It was reasonably satisfactory from the air line point of view. The growers asked for several extra sections for the specific purpose of shipping cut flowers. Only about two-thirds of the accommodation requested was used. Easter this year coincided with the coming into bloom of a large amount of western flowers, but apparently the market demand was not quite as big as they had thought it would be. That was apparently the limiting factor; but certainly the air space was available in greater quantity than was actually used.

Q. Their thought was that they would have to ask for air space in excess of normal. Would you have been able to take care of the actual amount shipped without providing extra space?—A. Not without extra sections.

Q. I appreciate that you cannot make any firm commitment of this sort but on the basis of other factors being equal is it reasonable to assume that you will provide some extra space next year?—A. Yes.

Mr. MACDONNELL: Referring to what you say about your air cargo being greater than competitors, do I gather that is attributable mainly because you have more flights, or is there some other reason? Is it special cargo that T.C.A. can have designated to it by reason of the government?

Mr. MCGREGOR: No, there are no special concessions of that nature. I think it is a combination of both frequency and the fact that T.C.A. probably has stimulated ocean transport more than other companies have so far.

The CHAIRMAN: Airport and airway facilities.

By Mr. Fulton:

Q. There is a paragraph about the north Atlantic aeronautical radio stations. What significance is there to that section of the report?—A. That signifies that the air line and other organizations were operating a communication channel independently, now they have been consolidated under one agency and we lease the facilities or rather we pay a message rate on those facilities now. It comes under one jurisdiction now and is somewhat tidier.

Q. Do you think it will represent an over-all saving?—A. I think the cost to the air line is about the same or perhaps even higher at the present time. As traffic grows, presuming it will, the cost should go down.

Mr. MACDONNELL: Speaking of the paragraph Mr. Fulton inquired about you said "One agency" but I was not quite sure what you meant. You say here: "They were . . . retained through the administration of the Department of Transport." When you said "agency" did you mean the Department of Transport?

Mr. McGREGOR: No, I meant the Canadian Overseas Telecommunications Corporation. There are two different things referred to in that paragraph.

Mr. GILLIS: Mr. McGregor, did you have any complaint from the personnel on making that switch? How did it affect their wages and conditions?

Mr. McGREGOR: Wages I think were comparable. There were some questions asked about the relative desirability or otherwise of the pension arrangements as between T.C.A. and the department.

By Mr. Macdonnell:

Q. Going back to my question, I see the third paragraph answers completely the situation regarding Bermuda and the Caribbean but I am still not quite sure about the second paragraph.—A. The situation in the case of the Department of Transport was again that the air line was operating one or two stations—Gander, and Montreal—I am talking about trans-Atlantic of course—and one other; whereas, the Department of Transport was operating all other facilities and it was decided a year or more ago that the department should take on the whole of the Atlantic air to ground communications responsibility.

Q. There again do I understand that in a certain area the Department of Transport functions and in another area—the Caribbean and Bermuda—Canadian Overseas Telecommunications operates?

What is the difference in the relationship of the Department of Transport—A. We have none—

Right Hon. Mr. HOWE: A Crown company was established two years ago to take over the facilities of Marconi. The Marconi service was nationalized and Canadian Overseas Telecommunications was a Crown company established by parliament to take over that part of the Marconi service which falls within Canada and within Canadian responsibility.

Mr. MACDONNELL: Would it be correct to say it operates on behalf of the Department of Transport—or who does it report to?

Right Hon. Mr. HOWE: It reports to the government through the Minister of Transport. It is a Crown company; it is not a direct Department of Transport operation. It is a Crown company with its own board of directors.

Mr. MACDONNELL: What is the reason it operates in the area that it does?

Right Hon. Mr. HOWE: That was the area formerly operated in by Marconi.

Mr. MACDONNELL: But was there any natural division—any administrative convenience in that?

Right Hon. Mr. HOWE: No, I think it more or less happened that way. Certain new facilities had been established directly by the Department of Transport, certain others by Marconi. A particular company took over the Marconi service which extends around the world—the Commonwealth Communications Service.

Mr. McGREGOR: I think the answer is that there are two different types of service. The Department of Transport operates radio facilities for the handling of air traffic, etc., with respect to the trans-Atlantic. On the other hand, the Canadian Telecommunications Corporation's services referred to, serve the Caribbean routes.

Right Hon. Mr. HOWE: Generally speaking the Crown company operates the cable and wireless service formerly operated by Marconi.

By Mr. Fulton:

Q. Who does that service that you referred to a moment ago for the north Atlantic—reporting from Gander to London that an aircraft has left and so on?—A. There is a circuit leased jointly by the trans-Atlantic operators. We pay that cost directly.

Q. Whose system is that?—A. I do not know the name of the operating company.

Q. You operate yourself or at the least the north Atlantic operators——A. We do not operate it; we pay for the right to use that circuit.

Q. It is operated by the owners.

Mr. MACDONNELL: The whole of that service is divided into three bits?

Mr. MCGREGOR: There are two different types of service—air to ground and ground to ground, and also two different geographical areas involved.

Mr. MACDONNELL: There are three involved—the Department of Transport, this special agency, and Canadian Overseas Telecommunications.

By Mr. McLure:

Q. How many feeder lines have T.C.A. in Canada?—A. You mean—

Q. Those would be independent lines co-operating with T.C.A. across Canada. For instance, take Maritime Central Airways. That is a different line altogether. They co-operate with T.C.A. and become a feeder line for them. How many of those have you across Canada?—A. There are four or five comparatively large ones: Canadian Pacific Airlines, Maritime Central Airlines, Queen Charlotte Airlines, Central Northern Airlines—there are also a number of smaller ones that connect with us in the same way.

Right Hon. Mr. HOWE: You have a traffic arrangement with a great number of them?

Mr. MCGREGOR: Yes.

Right Hon. Mr. HOWE: Almost any line will sell a ticket for travel via T.C.A. and to almost any destination.

Mr. MCLURE: Some of our passengers complain in Prince Edward Island that they cannot get reservations held long enough for them in Moncton, we will say. Maritime Central Airways will take them over that far and it used to be understood that T.C.A. would hold a couple of reservations until a short time before their flight from Moncton.

Mr. MCGREGOR: We hold reservations up until three hours before flight departure and they are only relinquished then if there is a waiting list of passengers desiring those seats.

By Mr. Dumas:

Q. Under the item "routes," I wonder if Mr. McGregor would tell us whether the route from Montreal through Ottawa, North Bay and Sudbury to Toronto has been abandoned?—A. No; a route Montreal, Ottawa, North Bay, Sudbury, Sault St. Marie has been applied for by T.C.A.

Q. Did T.C.A. apply for a route from Rouyn to Toronto?—A. No.

Mr. MACDONNELL: Under routes, may I ask this. "This was an aggregate increase of 490 miles or 3 per cent over 1950. Over this system, encompassing 45 communities . . ." what do you mean by "communities"?

Mr. MCGREGOR: Cities at which we stop.

The CHAIRMAN: Personnel? Property and Equipment?

Mr. FULTON: Mr. Chairman, I do not want to get into a technical discussion but you refer to this: "The new aircraft will be powered with Wright 3350 'compound' engines . . .". Briefly, what is that type of engine?

Mr. MCGREGOR: It is an interesting question, Mr. Fulton. The term "compound" refers to the fact that this is a piston type engine basically which, instead of being left at that does the following: The exhaust coming from the 18 cylinders, is conducted through three turbines, and the velocity of that gas is used to drive those turbines which in turn produce about 400 additional horsepower, which is transferred through gears to crank-shaft of the piston engine. "Compound" refers to the fact that they are using two different sources of power in the one engine.

Right Hon. Mr. HOWE: In other words it is just a combination with another form of jet.

The CHAIRMAN: What speed do you get?

Mr. MCGREGOR: These aircraft have a cruising speed of about 325 miles an hour.

By Mr. Mutch:

Q. I want to ask you a question with regard to the North Stars—that is the ones travelling east and west. I think that last year you mentioned something about new mufflers that are going to eliminate noise?—A. Yes.

Q. How far has that advanced?—A. It has advanced quite satisfactorily. In fact one aircraft is now equipped and is operating between Montreal and New York—and has been for the past four weeks. Deliveries of the production models of the cross over exhaust manifolding and the associated cowling are scheduled to commence in June of this year and to be completed by November.

Q. In other words all your North Stars will be complete before the end of the year?—A. Yes.

Q. Is that your own development?—A. Yes, T.C.A.'s development.

Q. You told us a year ago that you were proceeding independently of the manufacturer, and this is a product of your own engineers?—A. Yes, that is correct; I really should say it is a product of Winnipeg.

Q. I was too modest to say that but I hoped that you would. However, you will not be surprised that I knew the answer.

By Mr. Fulton:

Q. Last year the committee asked you through its report, and I am reading from page 241 of last year's minutes of proceedings:

> Your committee noted that progress has been made in research to reduce exhaust noise in North Stars, and hopes that responsibilities of Canadair in connection with the installation of any successful device will be further investigated.

I know that I and one or two other committee members expressed it as an offhand opinion at any event that the responsibility of Canadair under that agreement should be pressed very vigorously. I wonder if you can tell us what if any results came of that recommendation?—A. Yes, I can. In fact I think that the remark you have just quoted arose from a certain amount of ambiguity that existed in the Canadair-T.C.A. contract which was read at that time.

Q. Yes.—A. The matter was investigated very carefully by the legal department and the opinion was given the contract provided that if Canadair developed a cure for the exhaust noise in the North Star aircraft then T.C.A. and Canadair would share the expenses.

The interpretation was, and I think correctly, that there was no provision for Canadair to share any of the expenses if, as was the case, Canadair abandoned the development, and a form of muffler was developed by T.C.A.

Mr. FULTON: Was any investigation made by your legal department on the question of the responsibility of Canadair working hard to produce something? Because, if that was so provided for in the contract, then all Canadair would have to say was "we have made some token investigation to produce something but we cannot produce anything, therefore the cost and the responsibility will rest on you." What were the terms of the contract in regard to the Canadair obligation to work in order to try to get something?

Mr. McGREGOR: It was the responsibility of Canadair to do such to the exhaust of the North Star as would make the aircraft competitive. We could not say that the aircraft was not competitive because it was doing very well. Also the development efforts made by Canadair could not be described as token. They worked for well over a year on that problem and they developed a cross-over exhaust which produced a considerably quieter engine, but it did have a heating problem.

Mr. MUTCH: Perhaps they should open a plant in Winnipeg too.

Mr. FULTON: Was it your feeling, or did you take advice of counsel or from lawyers on the question of whether or not Canadair had discharged its obligation for research under the contract?

Mr. McGREGOR: Not phrased in that way, Mr. Fulton. As a matter of fact, we and our legal people are very much en rapport with the work done by Canadair, and are satisfied that they put a very legitimate effort into the problem.

Mr. McCULLOCH: Might I ask if any efforts have been made to provide arrangements for pipe smokers?

Mr. McGREGOR: No, Mr. McCulloch, the policy of the greatest good for the greatest number, still seems to rule out pipe smoking.

Mr. FULTON: Why are all the Constellations being placed initially in the overseas service rather than in the domestic service?

Mr. McGREGOR: I did not hear your question, Mr. Fulton.

Mr. FULTON: Why are all the Constellations being assigned exclusively to the overseas service initially rather than being placed in the domestic service?

Mr. McGREGOR: It is very desirable that aircraft be segregated by routes; and the foreseeable need of the total system for additional aircraft corresponds to number of aircraft needed in the Atlantic fleet. Furthermore, these aircraft are of a very long range type and will fly the Atlantic non-stop. They are therefore best suited to that service.

The CHAIRMAN: Are there any further questions on "Property and Equipment"?

Mr. MACDONNELL: Am I correct in understanding that counsel advised you that you have got no claim against Canadair?

Mr. McGREGOR: That is correct.

Mr. MACDONNELL: Without getting you involved in the details of engine manufacture, I understand you are proceeding with a sort of combined type, and that you are not going into pure jets?

Mr. McGREGOR: At this time, yes.

Mr. MACDONNELL: How serious to you would be the problem, supposing jets become manifestly superior to others? Would you have a great problem in changing over?

Mr. McGREGOR: With the super Constellations, there would not be a great problem, but it would be an expensive one. Technically it would not be difficult, but it would not be economically or reasonably feasible to make the change with respect to the North Star aircraft.

Mr. GEORGE: Have you any plans for jets?

Mr. McGREGOR: No, no definite plans. We are keeping very much abreast of current developments; but our feeling is that we are desirous of seeing sufficient experience with either jets or turbo-prop aircraft to be able to make good estimates as to their operating costs. How expensive are they going to be to maintain? What will the jet fuel picture be in the years to come? Those are all points which we do not feel have yet been answered in sufficient detail to provide for definite planning for that type of aircraft at this juncture.

The CHAIRMAN: The "balance sheet," page 18.

Mr. MACDONNELL: I noted with interest what was said about replacements, and the figures which you have given us. But can anything be said on this point: you are setting aside a certain amount of money for replacements this year, in addition to depreciation?

Mr. McGREGOR: That is correct. It is a difficult question to answer because there are two or three variable factors in it. If the price of replacement aircraft remains stationary—which it shows no tendency to do so far—it would take, roughly, three times as much investment in aircraft equipment to replace the aircraft which we now have.

Mr. MACDONNELL: I can agree with you there; I cannot ask you to predict the future.

Mr. McGREGOR: On the basis that there is about $15 million invested in aircraft equipment now, we would then need to obtain from earnings, something like $30 million, if we are not to take on new capital.

Right Hon. Mr. HOWE: We sort of creep up on this thing. We are getting the five four-engined aircraft for the North Atlantic, and immediately depreciation will start to accrue on the basis of their cost; and by spreading out our purchases, it is not as bad as though you replaced the equipment all at once. It does not mean $30 million additional, so to speak.

Mr. MACDONNELL: Have you had enough experience yet to say what the life of an aircraft is?

Mr. McGREGOR: The life of an aircraft could be called infinity because an aircraft is not allowed to grow physically old. By life we mean the competitive life of the aircraft, and its acceptability to the travelling public. Their productive life will depend on how well the existing aircraft meet those requirements. We estimate the useful life of the North Star as being 7 years.

Mr. MACDONNELL: Did you say that the total cost of your aircraft was $15 million?

Mr. McGREGOR: Yes.

The CHAIRMAN: That is the amount after depreciation?

Mr. McGREGOR: Yes.

Mr. MACDONNELL: I read an article the other day to the effect that you should make us all sit backwards, because it would make us safer. Are you going to do that?

Mr. McGREGOR: That is a question which has been the cause of a great deal of controversy in air line operation.

Right Hon. Mr. HOWE: It has been a wide open question for 10 years.

The CHAIRMAN: Shall the report carry?

Carried.

Shall we now turn to the "Auditors' Report"?

GEORGE A. TOUCHE & CO.

CHARTERED ACCOUNTANTS

LEWIS BUILDING

465 St. John Street, Montreal 1

MONTREAL, TORONTO, WINNIPEG, REGINA, EDMONTON, CALGARY, CRANBROOK,

VANCOUVER, VICTORIA

REPRESENTED IN THE UNITED STATES OF AMERICA AND GREAT BRITAIN

6th March, 1952.

TRANS-CANADA AIR LINES

THE RIGHT HONOURABLE THE MINISTER OF TRADE AND COMMERCE,

OTTAWA, CANADA.

Sir,

We have audited the accounts of the Trans-Canada Air Lines and its Subsidiary Company for the year ended 31st December, 1951, under authority of the Trans-Canada Air Lines Act, 1937 as amended and we now report, through you, to Parliament.

Our examination of the accounts was made in accordance with generally accepted auditing standards, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In this connection we worked in collaboration with the executive accounting officers having as a common objective the securing of maximum internal protection to the Air Lines in the control of cash receipts and expenditures, securities held, material stores and accounts receivable of all types. The Air Lines are further protected by fidelity bond insurance with outside underwriters.

Our audit of the accounts included the verification of the Consolidated Balance Sheet and the Income Accounts and certification thereof.

INCOME ACCOUNTS

Depreciation

Provision for depreciation on capital assets was made during the year on the following bases:

(*a*) Flight equipment in service—

North Star M2—7 year estimated life from date of being put into service.

DC3—4 year estimated life from date of being put into service.

(*b*) Ground facilities—estimated life, the period depending upon the type of asset.

In view of the uncertainties of the market for second-hand aircraft four years hence, it has been deemed advisable to adjust the residual value of North Star M2 aircraft from the previous estimate of $67,000 to $30,000 per aircraft. This action is in line with the policy adopted by Airlines in the United States. The estimated life from the date of installation of permanent and temporary buildings has been reduced from thirty-three and a third years to twenty and ten years respectively.

Two used North Star M2 aircraft were purchased during the year and the net book value of these aircraft was brought into line with the depreciated value of similar aircraft already owned by the Airlines by charges to Flight Equipment Depreciation Accounts.

During the year the remaining five of the twenty-seven DC3 aircraft became fully depreciated with a residual value of $5,000 each.

Interest on Capital Invested

Interest at the rate of 3 per cent was paid to the Canadian National Railway Company on its investment in the capital stock of the company.

Non-Operating Income—Net

Temporary cash investments consisting of Canadian National Railway $2\frac{7}{8}$ per cent guaranteed bonds and 3 per cent bonds and debentures guaranteed by the Provinces of Ontario and Quebec carried at cost in the Balance Sheet at 31st December 1950, were sold during the year and the resultant loss has been charged against Non-Operating Income. Credits to this account comprise interest earned on temporary cash investments, interest on deposits with the Canadian National Railways and discounts earned on purchases. In the case of the Atlantic Services the expense arose through the sale of foreign currencies.

CONSOLIDATED BALANCE SHEET

Assets and Liabilities

Accounts receivable and payable of all classifications have been tested by us with the subsidiary and controlling records, cash and other transactions subsequent to the year end, departmental files and general supporting information but such accounts have not been verified by direct communication with the individual debtors and creditors.

A physical inventory of material and supplies was taken late in 1951. We have received a certificate from the responsible officers to the effect:—

(*a*) That the quantities were determined by actual count, weight of measurement or by a conservative estimate where such actual basis was impracticable, and

(*b*) That the inventory pricing was based on latest invoice price for new materials, and that proper allowance for condition has been made in pricing usable second-hand, obsolete and scrap materials.

Ledger values were brought into agreement with the physical inventory by a charge to operating expenses of $8,000.

During the year surplus funds of $11,000,000 made available through accumulated depreciation accruals, were deposited with the Canadian National Railways. Interest at the rate of 3 per cent was paid to the Airlines on these deposits.

The Insurance Fund investments consist of securities of the Government of Canada, Canadian National Railways (Guaranteed by the Government of Canada), Provinces of Ontario and Quebec and securities guaranteed by the Province of Ontario, together with cash and sundry current assets. The year-end market value of these securities was 11·08 per cent less than cost.

Advance payment on purchase of Aircraft represents an advance of 25 per cent on the purchase of five Lockheed Super Constellations due for delivery in late 1953.

Capital assets are carried on the basis of cost, less accrued depreciation.

Insurance Reserve

The Insurance Reserve amounts to $4,572,000 of which $3,010,000 is applicable to the North American Services and $1,562,000 to the Atlantic

Services. The Reserve in respect of the North American Services reached the maximum considered necessary in 1949. The Reserve applicable to the Atlantic Services increased by $514,000.

Profit and Loss

The profit for the year, amounting to $3,891,000, has been reserved as a contribution towards increased cost of future purchases of capital assets.

Where foreign currencies are involved, the Balance Sheet accounts of the Air Lines are converted generally as follows:

(*a*) United States Currency—at the dollar par of exchange.

(*b*) Sterling Currency—at the rate of $2.95 to the pound.

Dollar amounts stated in this report are to the nearest thousand.

GEORGE A. TOUCHE & CO.

Mr. KNIGHT: I would like to ask Mr. McGregor to enlarge upon the paragraph entitled "The Air Transport Prospect" on page 18 of the report, where he says:

> In May, 1952, the company will introduce much lower fares on the North Atlantic and thereby bring overseas air transportation within the financial reach of a new and larger market.

Just what will that involve? It must involve a decreased service or a cheaper type of service?

Mr. MUTCH: Buy your own liquor!

Mr. MCGREGOR: Part of your question has been answered by Mr. Howe and part by Mr. Mutch. In the first place, the minimum free passenger baggage is cut from 66 to 44 pounds. In the second place, meals are not provided free; and in the third place, there will be no liquor of any kind on board the aircraft.

The CHAIRMAN: Are there any questions on the auditors' report, before we go into the estimates?

Mr. FULTON: My question might perhaps be more properly directed to the auditor than to Mr. McGregor, or they may both answer it jointly. Is there any way which anyone can see at the present moment of meeting this problem of the inadequacy of your depreciation?

The CHAIRMAN: I wonder if the auditor would mind coming around here to the head table. Now, Mr. Fulton, Mr. McGregor will have the help of the auditor.

Mr. FULTON: Is there any way which would be in accordance with proper bookkeeping and accounting practice which has yet been worked out to meet this problem of the inadequacy of depreciation reserves on account of the appreciation in price? Do you know if there is anything which can be done about that?

Right Hon. Mr. HOWE: We would be glad, if we could, but we are subject to income tax, and we are bound by the same depreciation laws which apply to all industry; it is a write-off of the value of the assets.

Mr. FULTON: It is something you just cannot do anything about, and nobody has yet thought of a way of doing anything about it?

Mr. MACDONNELL: They are doing it here to the extent they are recognizing the problem and setting aside $3 million. I do not suppose we could find a company that does not recognize it by setting aside a part of its surplus.

The CHAIRMAN: Increasing its capital by surplus.

Right Hon. Mr. HOWE: There is no other way of doing it.

Mr. MACDONNELL: The income tax laws will not let you.

The CHAIRMAN: Are there any other questions on the auditor's report? If not, does the report carry?

Carried.

Now we shall turn to the budget.

TRANS-CANADA AIR LINES
Operating Budget—1952

	All Services	North American Services	Atlantic Services
Operating Revenues	$53,750,000	$42,565,000	$11,185,000
Operating Expenses	52,430,000	40,250,000	12,180,000
Operating Profit or (Loss)	$ 1,320,000	$ 2,315,000	($ 995,000)
Miscellaneous Income	80,000	150,000	Dr. 70,000
Interest on CNR Investment—Net	400,000	140,000	260,000
Net Profit or (Loss) before Income Tax	$ 1,000,000	$ 2,325,000	($ 1,325,000)

TRANS-CANADA AIR LINES
Capital Budget—1952

	Revotes	New Items	Total
Airplanes	$ 155,000	$ 739,000	$ 894,000
Propeller Equipment—Lockheed		60,000	60,000
Radio Equipment	82,000		82,000
Miscellaneous Flying Equipment	11,000		11,000
Spare Units and Assemblies	182,000	30,000	212,000
Ground Communications Equipment.	14,000	2,000	16,000
Hanger and Shop Equipment	104,000	83,000	187,000
Ramp Equipment	19,000	77,000	96,000
Motorized Vehicle Equipment	79,000	122,000	201,000
Waiting Room and Office Equipment.	74,000	83,000	157,000
Engineering Equipment.............	1,000	5,000	6,000
Food Service Equipment		1,000	1,000
Storage and Distribution Equipment.		7,000	7,000
Miscellaneous Equipment	1,000	14,000	15,000
Buildings and Improvements	88,000	1,350,000	1,438,000
Contingency Fund		300,000	300,000
	$ 810,000	$2,873,000	$3,683,000

The CHAIRMAN: "Operating Revenues"? Are there any questions on "Operating Revenues"?

Mr. MACDONNELL: You have been paying income tax this year, too?

Mr. McGREGOR: Yes, beginning January 1st 1952.

Right Hon. Mr. HOWE: We carry self insurance, and the income tax will not recognize as a cost self insurance unless you have an accident and use it up. Therefore we get taxed on the annual allocation to our self insurance fund.

Mr. McGREGOR: The main risk is carried in the self insurance fund and the accruals to that fund are on the basis of premium charges, and are not chargeable as operating expenses.

Mr. FULTON: In what respect do you anticipate the main increase in your operating revenue on the North American service? Would that be air cargo?

Mr. McGREGOR: No. It would be a contributing factor to the increase, but the passenger revenue increase will be the greater, as has been confirmed by the first 3 months of this year in which passenger revenues are in the order of 16 per cent higher than last year.

Mr. FULTON: It will be an increase in the actual use of the available seat miles, and you are not going to place more aircraft in service?

Mr. McGREGOR: On the contrary; we have placed more aircraft in service.

Right Hon. Mr. HOWE: We bought three more North Stars.

Mr. McGREGOR: The fifth transcontinental flight went into service 4 or 5 days ago. That is only one of many service additions.

Mr. KNIGHT: Do you think that your operating profit will be affected favourably, shall we say, by the new system when it be established, I mean the new tourist system as opposed to the standard?

Mr. McGREGOR: On the Atlantic?

Mr. KNIGHT: Yes, on the Atlantic. What would be the financial picture there? You will get more passengers, of course.

Mr. McGREGOR: We are not sure but inasmuch as the seating capacity of our aircraft is not going up this year on the Atlantic, we doubt if the net will be as good under the low fares; the reduction in fares is from $395 to $265 one way.

Mr. KNIGHT: There would be some long view development in making people air conscious, or air minded, in inducing them to travel by a cheaper route?

Mr. McGREGOR: That is right. Eventually it will probably be the case with respect to T.C.A. as it is already true with some other companies, that high density seating will be used on our aircraft.

Mr. FULTON: Did you say the reduction would be from $395 to $265?

Mr. McGREGOR: Yes.

Mr. FULTON: For one way?

Mr. McGREGOR: Yes.

Mr. FULTON: That is a reduction of 30 per cent.

Mr. KNIGHT: If the improvement is due to the fact that no liquor is being consumed, then there must be a lot being consumed at present.

Mr. McGREGOR: The most expensive thing about the liquor is to carry it, not to provide it.

Mr. KNIGHT: I am not too serious about that question.

Mr. MACDONNELL: In this year, 1951, the operating revenues on the North American service they were $37,043,289, whereas the operating expenses forecast for 1952 will be $40,250,000 on the North American; and on the Trans Atlantic the operating profit in 1951 was $301,547, and there was a total of $4 million and six. Am I correct, or have I missed something?

Mr. McGREGOR: You are talking about the $1,400,000 odd?

Mr. MACDONNELL: That is the operating profit.

Mr. McGREGOR: That is right.

Mr. MACDONNELL: And what accounts for the tremendous drop?

Mr. McGREGOR: A good deal of it is caused by the very substantial rise in expenses brought about by wages. The wage bill will increase in the order of 15 per cent, which represents about $4 million.

Mr. MACDONNELL: And part of that has been in effect for a portion of this year you are reporting, or is it all new?

Mr. McGregor: Some of wage increases became effective in October of last year, and some at the beginning of this year.

Mr. Macdonnell: Does that mean you are deducting the full amount of that as added expenditures, or are you giving yourself credit for additional operating revenue?

Mr. McGregor: Yes; a revenue increase from $37 million to $42 million.

Mr. Macdonnell: Yes; but that is nothing like the probability.

Mr. McGregor: That is the estimate.

Right Hon. Mr. Howe: This is only a forecast. You have got to guess on the travel habits of people, on the weather, and on a lot of other things. But we hope the basis is conservative.

Mr. Fulton: Is this reduction of North Atlantic fares by agreement with other companies or just a move on your own?

Mr. McGregor: No, very much not. This was a decision or an agreement reached in IATA, largely at the instigation of one of the large American carriers.

Mr. Fulton: And are they also making corresponding reductions?

Mr. McGregor: Yes.

Mr. Gillis: Is that not price fixing?

The Chairman: We will now turn to the capital budget.

Mr. McLure: When will the T.C.A. service across the Atlantic begin taking reservations for the coronation in June, 1953?

Mr. McGregor: In the first six hours after the date was announced, we booked 400 seats for next year.

Mr. McLure: Already all sold out!

Mr. Macdonnell: Interest on C.N.R. investments. What is the C.N.R. investment represented by? Bonds?

Mr. McGregor: No, by capital stock certificates.

Mr. Macdonnell: Would you say how this amount is arrived at?

Mr. McGregor: It is an interest rate and it is paid in the form of interest, and the determination of the rate, which is three per cent, was based on the cost to the C.N.R. of financing that $25 million of capital advances to T.C.A.

Right Hon. Mr. Howe: It is inherent in the Act that parliament passed to increase the capital of T.C.A. The capital was to be provided by the C.N.R. and the return would be three per cent. It reads in the balance sheet as a common stock, but if you read it in conjunction with the financing Act it is really a debenture.

Mr. Macdonnell: When you begin to make bigger earnings will that get up to more than $400,000?

Right Hon. Mr. Howe: No, they will only get a fixed interest on the capital they put up, which is presently $25 million. The balance under the Act is supposed to go to the government.

The Chairman: Do you get an interest credit on the amount which you deposit with the Canadian National Railways?

Right Hon. Mr. Howe: Yes, an arrangement has been made that we can now deposit our depreciation accounts with the Canadian National Railways and they will allow us three per cent on the amount of the deposits.

Mr. Macdonnell: It must be almost a unique capital stock.

Right Hon. Mr. Howe: It is. We hope it does not upset the income tax people.

The Chairman: Capital budget. Any questions on capital budget?

Mr. Macdonnell: This means that we are supplying, that public funds are supplying $3,600,000, does it not?

The CHAIRMAN: That will come out of surplus, will it not?

Mr. MCGREGOR: It means we are asking for no capital. Our capital expenditures will come out of depreciation accruals currently developed during the year.

Mr. FULTON: What does the revote mean? Is that a term in your own budget? It is not a revote by parliament?

Right Hon. Mr. HOWE: It is a revote of the Trans-Canada Airlines internal budget. We are not asking parliament for any money at all.

The CHAIRMAN: Gentlemen before adjourning, I should report to the House today the votes 485, 486 and 493 of the Canadian National Railways. Would tomorrow afternoon be convenient for members of the committee to prepare the general report, the Canadian National Railways and the Trans-Canada Air Lines, and to discuss any suggested recommendations or anything of that kind?

Mr. MACDONNELL: There is one thing I would like to ask. I notice in reading the minutes of last year that the suggestion to appoint additional directors was made and that Mr. Howe spoke sympathetically about it.

Right Hon. Mr. HOWE: I may say that it is quite a job, as you know, to open up these Acts. I thought the next time we opened the Canadian National Railways Act we would add two directors, but I would not like to open the Act for that purpose only. The clamour for new directors seems to have died down. I do not see how we can add more directors without opening up the Act. However, there will be an occasion before long to open this Act.

The CHAIRMAN: My attention has been called to the fact that the Banking and Commerce Committee may have a meeting tomorrow afternoon as well as tomorrow morning. Would this afternoon at four be convenient for members to consider our report?

Agreed.

Before we adjourn, on behalf of the committee, Mr. McGregor, I do want to congratulate you and your entire staff on the extremely successful performance in 1951.

Mr. MCGREGOR: Thank you very much.

The meeting adjourned.

APPENDIX "A"

The North Atlantic passengers through the Montreal gateway for the year 1951:

Royal Dutch Air Lines (K.L.M.)	819
Air France	1,028
British Overseas Airways Corporation	6,038
	7,885
Trans-Canada Air Lines	7,133

HOUSE OF COMMONS

Sixth Session—Twenty-first Parliament, 1952

SESSIONAL COMMITTEE

ON

RAILWAYS AND SHIPPING

Owned, Operated and Controlled by the Government

Chairman: HUGHES CLEAVER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, JUNE 10, 1952

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

WITNESS:

Donald Gordon, C.M.G., LL.D., Chairman and President, Canadian National Railways.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1952

ORDER OF REFERENCE

MONDAY, June 9, 1952.

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

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

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

Attest.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

WEDNESDAY, June 11, 1952.

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

FOURTH REPORT

In conformity with an order of reference dated Monday, June 9, 1952, your Committee has considered the following Bill and has agreed to report the said Bill with amendments:

Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters.

A copy of the evidence taken in respect thereto is appended.

All of which is respectfully submitted.

HUGHES CLEAVER,
Chairman.

57299—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 10, 1952.

The Sessional Committee on Railways and Shipping, owned, operated and controlled by the Government met this day, at 4.00 o'clock p.m. Mr. Hughes Cleaver, the Chairman, presided.

Members present: Messrs. Cavers, Chevrier, Cleaver, Fraser, George, Gillis, Healy, Helme, James, Macdonald (*Edmonton East*), Macdonnell (*Greenwood*), McLure, Pouliot. (13).

In attendance: The Hon. Lionel Chevrier, Minister; Mr. J. C. Lessard, Deputy-Minister; Mr. W. J. Matthews, Q.C., Director, Legal Services, Department of Transport; Mr. Donald Gordon, Chairman and President, Mr. T. H. Cooper, Vice-President (Accounting), Mr. S. W. Fairweather, Vice-President (Research and Development), Mr. A. Clarke, Auditor of Revenues, Canadian National Railways; Mr. John L. O'Brien, Q.C. and Mr. John J. Connolly, Q.C., Counsel for the Canadian Pacific Railways.

The Committee considered Bill No. 308, An Act to revise the capital structure of the Canadian National Railway Company and to provide for certain other financial matters, as referred by the House on Monday, June 9.

The Minister of Transport made a brief statement on the purpose of the Bill.

Mr. Donald Gordon, Chairman and President of Canadian National Railways, also made an introductory statement.

The Committee agreed to consider the Bill clause by clause.

Mr. Donald Gordon was examined. He was assisted by Messrs. Cooper, Fairweather and Clarke.

Clauses 1 to 5 inclusive were considered and adopted.

Clause 6, sub-clause (1):

> Mr. Chevrier moved that after the word "value" in line 7, the following words be inserted *"when added to the par value of shares of such stock purchased under sub-section (2)."*

Said amendment was agreed to and clause 6 as amended was adopted.

Clauses 7, 8 and 9 inclusive were considered and adopted.

Clause 10, sub-clause (3):

> Mr. Chevrier moved that the word *"are"* be inserted after the word "railways" in line 9.

Said amendment was agreed to and clause 10 as amended was adopted.

Clauses 11 to 18 inclusive were considered and adopted.

Clause 19, sub-paragraph (c):

> Mr. Chevrier moved that the words *"value of"* be deleted in line 42.

Said amendment was agreed to and the clause 19 as amended was adopted.

Clause 20 was adopted. Schedules A and B and the title of the Bill were adopted.

The Bill as amended was adopted.

It was agreed that the Bill be reported as amended as a Fourth Report to the House.

At 6.05 o'clock p.m., the Committee adjourned to the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

EVIDENCE

JUNE 10, 1952.
4:00 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

As to the present reference, bill number 308, I will call the preamble of the bill and the minister will make a short statement, as will Mr. Gordon; then I think it will be helpful if we had general questions before going into the bill a clause at a time. Mr. Chevrier?

Hon. Mr. CHEVRIER: For the information of the committee, I submit a brief outline of the provisions of bill number 308.

The government has been, for some considerable time, considering the matter of relieving the Canadian National Railways of a portion of its present heavy fixed interest charges. The present fixed interest charges of the railway are generally recognized as being out of proportion to the earning power of the railway system.

The government, in December 1948, set up a royal commission to enquire into transportation matters coming under the jurisdiction of parliament, and one of the terms of reference to this commission was to review and report upon the capital structure of the Canadian National Railway Company. The report of this commission was made available to the government in February, 1951. I am sure all the honourable members of this committee have read this report, and will have noted that it contained certain recommendations regarding a revision in the capital structure of the Canadian National Railway Company.

Following the receipt of the report of the royal commission, the government arranged for an interdepartmental committee, comprised of representatives of the departments concerned, to review and report upon the recommendations regarding the recapitalization of the railway. This committee was free to make recommendations as to alternative methods of recapitalization which might appear to be preferable to the specific methods suggested by the royal commission. The bill we are now considering is the result of the recommendations of this committee. The main provisions of the bill are:

1. The exchange of interest-bearing government loans outstanding at December 31, 1951 against the company in the amount of $736,385,405 for 4 per cent preferred stock of the company, having the same par value. This would convert the amount from a fixed interest-bearing debt, to equity capital, and the amount represents 50 per cent of the total fixed interest-bearing debt of the company at December 31, 1951, which will result in an annual interest saving to the railway of $22,154,926.

2. In order to relieve the railway of its obligation to pay interest for a period of 10 years after December 31, 1951 on further interest-bearing government loans totalling one hundred million dollars outstanding at December 31, 1951, government loans aggregating this amount will be exchanged for a security of the national company falling due for payment on January 1, 1972. The interest rate on the security to be issued by the company will be determined by the Governor in Council, with the company relieved of the payment of interest thereon for a period of 10 years after December 31, 1951. Annual interest on the government loan totalling one hundred million dollars would amount to $3,549,908 which the railway will be relieved of paying for a period of ten years.

3. In order to permit the company to finance a portion of its capital expenditures for the years 1952 to 1960 inclusive, by the issuance of securities other than fixed interest-bearing, the government will purchase annually 4 per cent preferred shares of the company to the extent of 3 per cent of the annual gross revenues of the national system for the 9-year period. Funds received by the company from the sale of the preferred shares to the government will be used to meet approved capital expenditures of the railway system.

4. The capital stock of the Securities Trust, consisting of 5 million shares of no par value now held by the government, will be transferred to the National Company in exchange for an equal number of shares of no par value of the capital stock of the Canadian National Railway Company.

The proposed revision of the capital structure of the company does not increase the net debt of Canada as shown in the public accounts. The securities of the railway, received by the government in exchange for government loans, will continue to be shown in the balance sheet of Canada as an active asset. The value of the shares of the Securities Trust is presently carried in the public accounts as a non-active asset, and the Canadian National Railways' stock received in the transfer will likewise be shown as a non-active asset.

Honourable members will note that the provisions in this bill vary from the recommendations of the royal commission, but after the Honourable members have had an opportunity of making a close study of its contents, I think it will be generally agreed that its provisions will provide the railway with approximately the same quantum of relief from interest payments as recommended by the royal commission, and also result in a simpler, more logical and more flexible capital structure.

The CHAIRMAN: Thank you, Mr. Chevrier. Mr. Gordon?

Mr. DONALD GORDON, C. M. G., (President, Canadian National Railways): Mr. Chairman, I have prepared a brief introductory statement of the position and perhaps it traverses some of the ground the minister has already covered, but with your permission I will read it as I have it prepared.

From the year 1915 when the Grand Trunk Company threw up its hands with respect to its subsidiary the Grand Trunk Pacific Railway, public attention has been directed to the unsatisfactory financial position of the railways which are now known as Canadian National Railways. Each succeeding railway management has pleaded that something should be done to remedy the state of affairs. Three royal commissions have investigated the problem and recommended to the Government that corrective action be taken. The Capital Revision Act of 1937 was not intended to effect a satisfactory or final adjusment of the capital structure of the railways. It was left for the recent Turgeon Commission to make specific recommendations as to the amount and form of relief which should be given in order to bring the fixed charge debt of the Railway into a reasonable balance with its earning power.

The underlying causes which have created the excessive burden of fixed charge debt were as follows:

First: The initial and major cause was that, when taken over by the government, the Canadian Northern, the Grand Trunk, and the Grand Trunk Pacific Systems were insolvent. They had broken down and had been kept going only through large advances of public money. These three bankrupt railways together with the railways known as the Canadian Government Railways were consolidated to form Canadian National Railways. Operations as a unified system commenced January 1, 1923.

In the five years prior to 1923 the four railways failed by $59 millions to earn even their operating charges, and of course there was nothing available for the payment of interest on the outstanding debt. As of the date of consolidation the funded debt of the system held by the public amounted to $804 millions on which there was an annual interest charge of $35·6 millions, in addition to an annual interest charge payable to government of $28·2 millions. It will be seen that, at the outset, the newly organized system was required to shoulder a tremendous load of debt, the interest on which was quite beyond its capacity. The new organization took its first steps, therefore, lugging a financial ball and chain of crippling proportions.

Second: When the government itself operated the Canadian Government Railways (meaning the Intercolonial Railway, the National Transcontinental Railway, the P.E.I. Railway, etc.) the capital requirements were provided by the government free of interest to the railway. Subsequent to consolidation the Canadian National was required to finance the capital requirements of Canadian Government Railways, and to assume the interest charges on such additional capital. As of the date of our submission to the royal commission $140 millions had been expended by Canadian National for account of the Canadian Government Railways property investment and this has added $4·7 millions to the fixed charges of Canadian National.

Third: To co-ordinate into one unified system the four separate and in some respects competing railways necessitated large expenditures. The work comprised the building of connecting lines and cut-offs to permit a more economical routing of traffic and joint use of terminals, stations, offices and other facilities. Grade reductions were undertaken, terminals were enlarged and modernized, some sections of the railway were double-tracked, heavier rail laid, bridges, trestles and culverts strengthened or replaced with permanent work. On a railway with over 21,000 miles of first main track in operation it is understandable that large sums of money were involved.

Fourth: In addition, lines which have been acquired or built for reasons of public policy have been added to the System. The most recent example is the entrustment of the Newfoundland Railway and Steamships to Canadian National for operation as one of the terms of union of Newfoundland with Canada.

The most convincing evidence that the fixed interest charges of the railway are excessive, and the extent of the excess, is to be found in the results of operation for the 26-year period 1923 to 1948. They are as follows:

	26-year period	Average per annum
Operating revenues	$7,329,722,601	$281,912,408
Net revenues	962,146,897	37,005,650
Income available for fixed interest	719,172,578	27,660,483
Fixed interest	1,238,970,214	47,652,700
Income deficit	519,797,636	19,992,217

I would ask the committee, if I may interject here, to bear these figures in mind. They will show the simple proposition of where these figures were excessive.

These are the figures submitted to the royal commission. In 1949 the income deficit was $42,043,000; for 1950 $3,261,000; last year it was $15,032,000; and our budget for 1952 forecasts a deficit of $18,025,000. The average deficit for these four most recent years is $19,590,000. The record is clear that the railway cannot be expected to earn the interest charges for which it has been made responsible. On its record to date the annual deficiency is in the order of $20 millions.

The record of the past does not correctly appraise the situation confronting the railway in the future. In the 26-year average nothing is included for

Newfoundland. Last year our deficit in Newfoundland was $4,922,000, and this year it is estimated it will be $4,896,000. The $20 millions should therefore be increased to $25 millions.

An adjustment must also be made with respect to depreciation of equipment. Depreciation accruals were only taken up in the accounts of the railway from 1940 forward. Prior to that the accounts were stated on what is known as the retirement basis. It is estimated that if the accounts from 1923 forward had made provision for depreciation of equipment on the basis on which the accounts are stated today, the average annual income deficit of the 26-year period would have to be increased by a further $5 millions.

This total of $30 millions a year—that is the $20 million I mentioned, plus the $5 million for Newfoundland, plus the $5 million for depreciation—was the basis of my submission to the royal commission and in order to forestall the further accumulation of fixed debt it was also proposed that the Management should be allowed to re-invest some of the surplus which may be earned in the more prosperous years, thereby avoiding the fixed interest penalty which now attaches to each new dollar invested in the property.

I turn now to the proposed remedy:

The Royal Commission in its conclusions found, and I quote: "The Canadian National Railways has established a case for reduction of its fixed charges and for the desirability of the Company being able to accumulate out of earnings a reserve or 'something to come and go on' ".

The specific recommendations of the commission in brief were intended to relieve the railway of fixed interest charges amounting to $21,798,000, and they would also relieve the railway of the burden of the operating loss of about $4 millions in respect of the Newfoundland Railway and Steamship services, or a total relief of $25,798,000 a year. In addition the commission recommended that some provision be made out of net earnings, when available, in order to finance future additions and betterments.

The plan as contained in Bill No. 308 provides a remedy which differs somewhat from the plan recommended by the commission but the difference is in form rather than in the quantum of relief, and in my opinion the plan in the bill is more factual, more practical and more easily understood. My reasons for this opinion briefly are:—

(*a*) The commission assumed that the Canadian National would continue to be exempt from income tax but the situation has been changed materially by reason of the recent amendments to the Income Tax Act. Under section 74(A) of the Act crown corporations are now subject to tax. The use of income debentures as recommended by the commission in all probability would have eliminated any likelihood that Canadian National would pay tax, as the interest on such income debentures would substantially all be deductible in computing the amount of income subject to tax.

(*b*) There are reasons why it is not advisable to segregate the financial results of the operations of the Newfoundland Railway and Steamship services from the general accounts of the Canadian National Railways. Although the relief granted by the bill is less than what would be the case under the commission's recommendation, I accept it as being the more preferable method.

(*c*) The commission's proposal that losses, if and when realized, should be charged against accumulated reserves set aside to finance additions and betterments, appears to be contradictory and impractical. The formula adopted in the bill is more workable, and the results will be more dependable, and will better relate the disbursements on additions and betterments in any given year to the volume of business done during that year.

(*d*) Income bonds, as recommended by the commission, have largely been used in the recapitalization of corporations emerging from bankruptcy proceedings, and to me at any rate, have the odour of failure or bankruptcy attached to them. I think it is important to exclude any suggestion of this sort from the capital expenditure of Canadian National.

Bill 308 proposes to relieve the railway of fixed charges amounting to $22,154,926 per annum. This interest is not cancelled outright, it is changed from the category of a fixed charge and becomes payable only if earned in the form of a dividend on the preferred stock. The bill also proposes to relieve the railway for an initial period of 10 years of interest amounting to $3,549,908 per annum, this in partial recognition of the burden imposed on the railway as a result of the entrustment to it of the Newfoundland Railway and Steamship services. Together the annual interest relief is $25,704,834 which may be compared with the $25,798,000 recommended by the commission.

The bill further provides that the government will provide funds to finance in part our capital expenditures in each of the initial 9 years 1952-1960. Based on last year's revenues the amount of such financing would approximate $18,700,000 per annum in the form of 4% preferred stock. Perhaps the best test of the reasonableness of this amount may be to compare it with the opinion of the Board of Transport in its judgment in the 21% freight rate case dated March 30, 1948. I quote the Board: "A railway company, as in the case of other enterprises, should have something in addition to 'come and go on', to provide for contingencies and to help equalize the result of poor years with good years, and to have something, if necessity arises, to put back into its railway operation undertaking for the improvement of the services which it is required to furnish." The board found that in the case of the Canadian National Railways a reasonable amount would be $16,777,000. The $16,777,000 represents 3·83% of our gross revenues in 1947, the results of which year were under review by the board at that time.

I mention that payment to measure it against the reasonableness of the 3 per cent gross revenue as mentioned in the bill.

Both in the case of the relief afforded in connection with the Newfoundland Railway and Steamship Services and in the formula for financing part of future capital expenditures through the issue of 4 per cent preferred stock, a most essential principle has been established and while an expiry date for this relief is stated in the bill I assume the measure of continuing relief after such expiry dates will be a matter for review by government at that time. Further, I take it for granted that if any lines acquired in the national interest and entrusted to the Canadian National System, or development lines are to be built, their effect on the operating results of the Canadian National System and any necessary capital or other contributions required for them will be settled at the time such arrangements are made.

The general desirability of the adjustment proposed by this legislation has been discussed on many occasions. The Turgeon Commission was given the task of bringing forward specific recommendations and did so after hearing evidence from all interested parties, and in particular from qualified officers of the Canadian National Railways who have given this matter intensive study over many years. I appeared before the royal commission to give my personal views and more recently accompanied by officers of the railway, have discussed with government officials the details of the legislation now proposed. I take it that all this ground need not be traversed at this time and it remains for me to summarize four points for the benefit of this committee.

(1) That the legislation will enable the Canadian National Railways to produce a statement of its annual operations on a basis that will be readily comprehensible to the public.

(2) That the Canadian National Railways, on the average, should be able to provide out of its own earnings reasonable depreciation, interest on its outstanding debt, income tax, and have something available for a dividend on its preferred stock.

(3) That the need for the capital revision is recognized by all shades of public opinion and that the implementation of it will be a major force in a stimulation of the morale of officers and employee alike, something which is bound to be reflected in the operating results of the property.

(4) That the legislation now before us makes the necessary adjustments and meets the essential points of the Royal Commission recommendation, as well as the views of the Canadian National Railways management in a practical, simple and workable fashion.

The CHAIRMAN: Thank you, Mr. Gordon. Now, is it the wish of the members of the committee that we should have general questions now, or shall I call the sections of the bill?

Shall section 1 carry?

Carried.

Section 2, definition:

Carried.

Section 3, minister to release national company from claims by Her Majesty:

Shall section 3 carry?

> 3. (1) The Minister shall, by instrument in writing, release the National Company from all claims by Her Majesty to payments falling due after the thirty-first day of December, 1951, on account of principal and interest, in respect of each of the loans specified in the first column of Schedule A to the extent specified in the second column of the said Schedule, the total principal amount so released to be $736,385,405, being fifty per cent of the total indebtedness of the National Company to Her Majesty and the public as of the thirty-first day of December, 1951, on account of borrowed capital.
>
> (2) In consideration of the release by the Minister of the claims specified in subsection one, the National Company shall issue and deliver to the Minister 736,385,405 shares of four per cent preferred stock of the National Company.

Mr. MACDONNELL: I do not know how that figure is arrived at. I found the actual operation of taking the indebtedness to the public and the indebtedness to the government and taking half of it as a method of arriving at the figure, but I was not able to see any compelling logic in it. On the face of it you would almost think, first of all, that they are going to pay the debt to the public; is that the idea? Which, of course, doesn't make much sense, but I don't know. It reminded me of a man who was said to have done a very good bit of counting as to the number of cows in a field. He was asked how he arrived at the number and he said, "I counted all the legs and divided that by four".

Mr. GORDON: I heard it another way.

Mr. MACDONNELL: So did I, I was just putting it politely. But couldn't we have a word as to just how this is arrived at? Of course, roughly, Judge Turgeon shows the net amount, but it was not the exact amount although it is almost the same; so you get the same, actually almost the same relief under this as under the Turgeon recommendation.

Mr. GORDON: I think two comments could be made there: one is, that we were concerned with a quantum of relief from fixed interest, I mean the interest charge to be forgiven, so to speak. The second thing is that we felt very strongly that there should be no diversification between the debt due to the government by the Canadian National and the debt due to the public, and that it was the total debt of the system with which we were concerned.

Mr. MACDONNELL: In so far as your company was being relieved?

Mr. GORDON: In so far as it is liability. When we borrow from the government we want to have it perfectly clear that our obligation to pay that money is just as precious as our obligation to pay it if we should borrow it from the public. Therefore, in arriving at any adjustment, we meticulously observed that we were dealing with the total debt of the Canadian National, regardless of who owned it. We took the total debt of the Canadian National and we found how much of that debt should be relieved of interest obligations and we came out with 50 per cent as a nice round figure in connection with the total debt.

Mr. MACDONNELL: Was one of your reasons for not wanting income bonds because it deferred the time when you would be liable to pay income tax?

Mr. GORDON: The commission recommended income bonds, but personally I never liked income bonds for the reason that I stated. I did not like income bonds because they generally arise out of bankruptcy proceedings and they represent, as you well know, largely a deficiency as in the case of the United States railways. I think that is where income bonds originated. But apart from that, shall I say, odour of decay, when it was decided that all crown companies should become liable to pay income tax, we of the Canadian National Railways management rather welcomed that decision because if we were going to operate in the way a business organization should be operated, it should be subject to all the disadvantages as well as advantages of a private corporation. But with a load of income bonds, they would have been payable, and deductible from our earnings, before income tax.

Mr. MACDONNELL: That is clear.

Mr. GORDON: Yes, they would be payable, or deductible from our earnings before income tax became payable. That was our understanding.

Mr. MACDONNELL: You must be almost the first man in existence who would want to rush in to pay income tax.

Mr. GORDON: Mr. Cooper has the ruling with respect to the income tax and I shall ask him to read it.

Mr. COOPER: Section 12(1) of the Act reads:—

> In computing income, no deduction shall be made in respect of
>
> (f) an amount paid by a corporation other than a personal corporation as interest or otherwise to holders of its income bonds or income debentures unless the bonds or debentures have been issued or the income provisions thereof have been adopted since 1930
>
> (i) to afford relief to a debtor from financial difficulties and
>
> (ii) in place of or as an amendment to bonds or debentures that at the end of 1930 provided unconditionally for a fixed rate of interest.

I think in our case, income bonds would meet the requirements of the Act.

Mr. GORDON: That is what it would have been, unless we could have converted the bonds bearing a fixed rate of interest into income bonds under the commission's recommendation. With the transfer of that load into income bonds I myself could not see any conceivable means of ever having any money left over to pay income tax, and we would rather pay income tax and set ourselves up as properly comparable with a similarly constituted private corporation.

Mr. MACDONNELL: I have one other question: We all agree that some modification of the debt was called for and was proper; and yet, in a way, I myself shrink a little from taking $736 million and turning it into stock which, at the present time, is pretty far removed from having any great value. Did you consider that aspect of it? You are taking $736 million here, subject to an increase as the Minister of Finance buys more preferred stock, and you are going to have $349 million of common stock, and another $396 million; and that gives you altogether something over $1 billion one hundred million. Now do you not think it would affect your operating? I just wondered whether you considered that aspect of it?

Mr. GEORGE: Mr. Chairman, would the member mind speaking up?

Mr. MACDONNELL: As I was saying, the method provided in section 3 means that we are going to have $736 million of preferred stock, and also further additions as the minister buys more preferred stock under other clauses; and secondly, that the common stock is stated to have a value of $396 million; so we are going to have a huge equity created, and to have what was a debt turned into a proprietorship.

Mr. GORDON: If I may say so, I made this statement with the suggestion that we expected—that the management expected that the Canadian National, on the average, will be able to provide out of its own earnings a reasonable amount for depreciation, pay interest on its outside debts, pay income tax, and have a dividend available for its preferred stock, maybe not 4 per cent in any one year, but there will be something. Remember that in the past we were short, and that our so-called income deficiency represented the amount by which we were short of paying the government the full amount of interest which we owed. Putting it in terms of last year, we showed last year an income deficiency of $15 million; but actually, the interest owing by us to the government was $23 million. So we did, in fact, pay the government a net payment of $8 million; but by the bookkeeping arrangement that went on, we ended up by showing a deficit of $15 million. However with this adjustment we won't show a deficit. We would rather show that we would be paying the government taxes of $3,791,000 and dividends on preferred stock of $4 million or $5. These are round figures. So it would appear in this that we are paying something.

Mr. MACDONNELL: You did point out that your average shortage over the last "X" years, or let us say, 20 years, was, roughly, $20 million.

Mr. GORDON: That is right.

Mr. MACDONNELL: To which you added $5 million from Newfoundland, and bonds and other things making $30 million.

Mr. GORDON: Including depreciation, yes.

Mr. MACDONNELL: Would you just say a word to indicate why, notwithstanding the $30 million, you should have been short and to the fact that you are only going to get a sweetening of 22 to 3 and that you are still going to be in a position to do just what you said.

Mr. GORDON: We have got a saving of annual interest charges, and in addition to that, we will be getting in the form of additional equity capital, 3 per cent of our gross earnings, and the amount will be roughly $20 million a year in equity capital which will be coming into the property. And in that respect we would save interest on it because normally we would have to borrow that money at fixed interest rates, by going to the market. So that helps us to build up; it starts in the first year; but in due course, over a period of ten years, we would be saving $6,300,000 in interest charges.

Mr. MACDONNELL: Am I right in thinking that the $15 million which you just mentioned would still leave you, judging by the results of the last 2 or 3 years, with a substantial amount of additions and bettterments, for which you would still need to borrow?

Mr. GORDON: Yes; and the amount which the Minister of Finance is instructed to buy there in the form of preferred stock, which we are required to put into use for additions and betterments, when added to depreciation funds would be about, roughly, 50 per cent of our needs for additions and betterments. In other words, we would still have to borrow the balance of our needs for additions and betterments.

Mr. MACDONNELL: You would save interest on that $15 million?

Mr. GORDON: We save interest on the amount of money we are getting, or the money for our stock; and if in due course it builds up our earning position, it would mean that we would be paying it in the form of dividends, but it would not be fixed interest.

Hon. Mr. CHEVRIER: You said something about sweetening it to an amount of almost $27 million.

Mr. MACDONNELL: Yes.

Hon. Mr. CHEVRIER: The $27 million which Mr. Gordon mentioned in his statement consists of $3·5 million for interest over the 10 year period, and $100 million; and $1 million for the prairie operations; that is a total of $26,184,000.

Mr. GORDON: Let me explain it this way: When we made our submission to the Royal Commission, as I said in my statement, I based it on the analysis that the Canadian National needed relief in the form of fixed interest charges of roughly $30 million a year. What I am saying about this bill is that it means that the actual relief that we get by the transfer of this $736 million into 4 per cent preferred stock would relieve us of fixed interest charges, plus the adjustments that we get in connection with the $100 million on behalf of Newfoundland, plus this arrangement in section 6, to give us an amount of equity capital each year, plus the Cabot Ferry adjustment; so that when you put all of those together, you get an effect which, in essence, is the equivalent of $30 million a year relief. It is not exactly the same in form, but it is the same in quantum of relief, and it is in a better form, in our opinion.

Mr. MACDONNELL: Why was the ferry not brought into it?

Hon. Mr. CHEVRIER: We gave that some consideration but we did not think we should put that in the bill because, as long as there is a statement of government policy, it has to go in the estimates each year.

Mr. MACDONNELL: In other words, you think it is not a railway and they should not be loaded.

Hon. Mr. CHEVRIER: That is one reason; and another reason is that it is considered as a bridge, following the terms of the Union; there is a clause in the terms of union with Newfoundland providing for through rates being considered the same on the ferry as on the railroad.

Mr. POULIOT: Mr. Chairman, is it approximately one-half of your whole indebtedness of the railway?

Hon. Mr. CHEVRIER: It is one-half of the indebtedness as set out in the annual report for 1951, at page 25.

Mr. POULIOT: No. I did not ask about the report. I asked the chairman if it is one-half of the total indebtedness of the company, that $736 million?

The CHAIRMAN: If you will read section 3, Mr. Pouliot, you will find the statement there, "being 50 per cent of the total indebtedness of the National Company, owing to Her Majesty and the public, as of December 31, 1951."

Mr. POULIOT: Yes; the total indebtedness of the company would be approximately twice as much.

Mr. GORDON: Exactly twice as much.

Mr. POULIOT: And that includes everything.

Mr. GORDON: As of the date of December 31, 1951, yes.

Mr. POULIOT: But, Mr. Gordon, does it include the amount of $1 billion 280 million which has been cancelled by the Act of 1937?

Mr. GORDON: No. We are talking about the amount outstanding in the form of borrowed capital as at December 31, 1951, as shown on the balance sheet of the railway at that date.

Mr. POULIOT: So it does not include that; it was finished in 1937?

Mr. GORDON: 1937 is not in this statement.

Mr. POULIOT: No, no. It is something which is finished?

Mr. GORDON: That is correct.

Mr. POULIOT: It has been cancelled and it has been finished.

Mr. GORDON: As far as the 1937 revision is concerned, yes.

Mr. POULIOT: Does it include all the amounts which have been voted by parliament in virtue of the Finance and Revision Act?

Mr. GORDON: Let me put it this way: It includes any amounts which have been borrowed by virtue of the Financing Acts, and which remain outstanding either in the hands of the public or in the hands of the government as of December 31, 1951.

Mr. POULIOT: In other words, it represents the amount of money on which you are supposed to pay interest at the present time?

Mr. GORDON: That is correct, as of December 31, 1951.

Mr. POULIOT: And the interest which you would have to pay if you had, therefore, income bonds?

Mr. GORDON: No, no. Income bonds are a different breed of cats altogether. Income bonds, from the very nature of the term, would have interest payable on them, only when the company earns interest. Yet on a funded debt which involves fixed interest charges, there is a legal obligation and the company is required to pay that interest; and if it fails to pay that interest, it defaults. But on income bonds, the company is required to pay interest up to the amount that is available.

Mr. POULIOT: Now, according to section 3 or clause 3 of the bill, the payment of interest on preferred stock would be only eventually?

Mr. GORDON: Yes; and when it is transferred into 4 per cent preferred stock, we would refer to it as dividends; and dividends are only payable if we have enough left over after paying the other things. The first charge would be operating expenses including depreciation; and the second would be payment of interest on bonds outstanding in the hands of the public and the remaining loans from Government, and the third charge would be income tax. The next charge would be payment of dividends on preferred stock. If we failed to earn enough to pay interest on our bonds outstanding to the public, that deficit would again be voted by parliament for that particular year.

Mr. POULIOT: I shall tell you what my sincere opinion about all that financing is. It is, that if you have value for, let us say, $1,000 in hand, it should be considered as an asset, and you should have to pay interest on that; and the thing means $1,000 which you have in hand. You understand me?

Mr. GORDON: That is correct.

Mr. POULIOT: I find this legislation very much complicated and I would like to have some clear showing of the active assets in order that it would be easy to understand; and at the present time we have a mass of clauses and it would require quite a library to have all the legislation pertaining to this thing.

The CHAIRMAN: I think that is the reason Mr. Donald Gordon gave us the earnings of the company over the years; that probably is the best indication of the value of the active assets, of what you term as active assets.

Mr. POULIOT: I am interested in the assets that produce earnings. You understand that?

The CHAIRMAN: Yes.

Mr. POULIOT: The assets of the company are not paper; they have bonds or other values?

The CHAIRMAN: What you are asking for, Mr. Pouliot, is an appraisal of the actual physical assets?

Mr. POULIOT: Yes, the actual physical assets and the property, mobile or immobile.

Mr. GORDON: I can quite sympathize with your difficulty, Mr. Pouliot, and I can assure you that I spent many midnight hours trying to find reasons for these things. But after all what we are considering here are the facts of establishing or determining what amount of fixed interest charges this property could support. It was given to the Royal Commission, and the Royal Commission made a very careful analysis and took a great deal of time to do it, and it was assisted by experts all across this country; and they came to a recommendation. Now I know that it is at least logical to talk about the appraised value of property and to seek what its earning ability should be, but I think it is wholly impracticable in the case of a railway which runs from one end of this country to the other; and not only would it take years to work out, but when it was all done it would not mean anything.

The real point is to try to establish the reasonable earning power of this property and to establish what we should reasonably expect from the level of freight rates and efficient management, and on the basis of that, to establish figures which will enable the company to carry on.

The reason we are not talking about the Canadian Pacific is that when our system was put together it incorporated a number of bankrupt companies, and the debts of those bankrupt companies, which had not even earned anything from their inception, were simply written into the books as debts; and obviously it was hopeless in an amalgamation just by magic to expect that a new organization could arise and have money coming out of an amalgamated railway with which to pay interest on its debts, which were the debts of hopelessly bankrupt companies.

What should have been done in 1923 was that it should have gone through some system of bankruptcy proceedings as was done in the case of the United States railways; but because it was taken over by the government of that day, for good and sufficient reasons, it did not follow. So the Canadian National Railways has appeared to be always in the red, although in point of fact, that was not the case, because the Canadian National system has always earned its operating cost; it has always earned its operating expenses and it has shown a surplus in operating revenue; and it becomes a question of how much operating revenue we can expect to get out of the system to pay the debts which were loaded on it, as shown in its balance sheet?

Mr. MACDONNELL: Was there always an operating surplus, Mr. Gordon?

Mr. GORDON: According to my recollection not only have we had an operating surplus, but the figures show that since 1923 we have averaged a surplus of $27,660,000 available for the payment of interest on debts.

Mr. MACDONNELL: After depreciation?

Mr. GORDON: After depreciation, yes sir. That is the sort of thing of which the public of this country are not aware. They see only red ink figures.

Mr. MACDONNELL: That comes as a surprise to me.

Mr. GORDON: If we should get this bill through, then all the hocus pocus, if I may use the term, in respect of bookkeeping entries will be wound up, and from then on the Canadian National system will have a chance to be judged on its record, and on a basis which will be appropriate and reasonable in respect to what might be expected of it.

Mr. POULIOT: Going into the past, when the Canadian Pacific Railway line was built, they built it through populated areas, while on the other hand the various branches of the Canadian National Railways were built in the wilderness.

Mr. GORDON: It is perfectly true that there were very many thin traffic lines built in the various railways which finally came into the Canadian National Railways. I do not want to discuss the Canadian Pacific finances, but I would like to say that the Canadian Pacific first of all had to engage in fixed interest debt financing but not anything like the extent to which the Canadian National Railways has had to do so. They have been able to get equity financing, and that is why the Canadian Pacific found it so necessary, in making its application for increases in freight rates, to establish its requirements. It must face a test of requirements in the form of payment of dividends and so on, in order to go into the market places, and with respect to the soundness of its management, and its ability to bring in equity capital, when it is needed for legitimate purposes.

Mr. POULIOT: Did they take advantage of their difficulties to make their complaints?

Mr. GORDON: I would not agree with you. I would not accuse the Canadian Pacific of taking advantage of us.

Mr. POULIOT: I just mention the fact.

Mr. GORDON: I have no objection to your stating your opinion, so long as you do not ask me to agree with it, Mr. Pouliot.

Mr. POULIOT: Is not the policy of the various railways that were incorporated into the Canadian National Railways to open new regions, and they had to wait until the population came and until business came also; therefore that was the reason apparently they had some difficulty as to their financing? But, Mr. Gordon, I will tell you what it is. I will try to check up the total amount of debt of the Canadian National Railways. I did not understand very well your answer with regard to the Refunding and Finance Acts. I do not know if it is included twice, such as the amount of $736 million that is mentioned in clause 3.

Mr. GORDON: I think your difficulty is this, Mr. Pouliot: The railway has borrowed money from year to year, and that money can be borrowed for 10, 15, or 20 years; yet in due course it matures, and that money may be paid out, or it may be refinanced; but you must look at it as one debt, to see how much is outstanding. The essential thing is: What is outstanding? And the debt we are looking at is as of December 31, 1951, the total amount of funded debt outstanding in the hands of the public or in the hands of the government, bearing interest. That was twice the amount of $736 million.

Mr. POULIOT: It does not include shares without par value?

Mr. GORDON: I beg your pardon?

Mr. POULIOT: It does not include share without par value?

Mr. GORDON: No, no. There has not been any adjustment in that respect. You see, one of your troubles is this: If you look over the years and you add together the amount of money which the Canadian National Railways has borrowed, you will get a wrong figure, because that money, in one particular year, may be borrowed to pay for another loan. You see, you are counting it twice. You should not count the refunding loans because you are just paying for what is maturing. Therefore, in order to get the record straight, you should devote your attention to the figures and to the date, and I refer you to the figures shown in our December 31, 1951, balance sheet for the funded debt outstanding, and it is shown to be $1 billion 472 million.

Mr. POULIOT: Including all the amounts loaned; including all the amount referred to in the Refunding and Financing Act?

Mr. GORDON: That is correct, through the various years.

Hon. Mr. CHEVRIER: No, no, not necessarily.

Mr. POULIOT: What is that?

Hon. Mr. CHEVRIER: May I interrupt. I think it does not necessarily include that. You have got $615 million owing; the debt of $615 million, for instance, would be under the Guarantee and Financing Act; so that I think the question should be answered that part of it is in here and part of it is not, as I understand the question which was put by Mr. Pouliot.

Mr. POULIOT: The answer to my question is all I want to know.

Mr. GORDON: I understand your question to be whether or not the amount outstanding in our funded debt had been included in the Financing Guarantee Act; and whether from the public or borrowing from the government, it has to be authorized by the Financing and Guarantee Act. The only fluctuation in it from time to time is that there are amounts authorized from year to year which have not yet been borrowed; but to the extent that we have borrowed, they have all been authorized in some Financing and Guarantee Act.

Mr. MACDONNELL: You have to add up all those amounts, or you may get a wrong total.

Mr. GORDON: Yes, and there may be refinancing, or there may be an amount authorized which we have not yet borrowed. For instance, you will have a Financing and Guarantee Act arising out of our budget this year that will authorize us to borrow in order to meet our commitments, but until we actually borrow it, it will not appear in our balance sheet.

Hon. Mr. CHEVRIER: Yes, and there are some amounts in the Financing and Guarantee Act which are still outstanding I mean to date, between $736 million and $857 million held in special funds.

The CHAIRMAN: $121 million odd will still be in after this write-off.

Mr. GORDON: Oh, yes. Once this $736 million is converted into 4 per cent preferred stock, there will still be an amount of funded debt outstanding.

Hon. Mr. CHEVRIER: Yes; and that has been voted in the Financing and Guarantee Act.

Mr. GORDON: That is right, as at December 31, 1951, when this adjustment is made.

The CHAIRMAN: We will have $121,188,369.

Mr. GORDON: Yes; the amount on the revised balance sheet as at December 31, 1951, after this adjustment is made, would show that we have a funded debt held by the public of $615,197,000, and we would have advances from the government of $121,188,000, which makes a total of $736 million, being half of what we refer to in here, in the bill.

The CHAIRMAN: Are there any further questions, Mr. Pouliot?

Mr. POULIOT: Not at this point, Mr. Chairman.

The CHAIRMAN: Shall section 3 carry?

Carried.

Mr. GEORGE: Some time ago we received a circular letter from a chap in England in connection with stocks and bonds in connection with the Grand Trunk Railway, asking that we pass an Act on their behalf. I was wondering if Mr. Gordon could tell us the status of those bonds.

Mr. GORDON: In a general way, I can say that all the liabilities which were recognized as liabilities of the component parts of the railways which came into the Canadian National Railways have been discharged, and that the claims to which you refer—I do not want to get too involved in history—represent the holding of certain stocks which were found valueless by the courts. After consolidation, after the taking over by the government, that was the decision arrived at through the courts. They eventually wound up at the Privy Council, and the result was that only the stocks—not the bonds but the stocks—certain of the stocks were held to have no value to the holders of those stocks in the United Kingdom. And even today there is a feeling that it was an unfair decision, but it was a decision made by the highest court of the land, holding that certain of those stocks had no value. I am speaking again from my reading of history, but perhaps Mr. Cooper would verify what I have said.

Mr. COOPER: Mr. Gordon is entirely correct. We never repudiated any of the bonds of the Grand Trunk, but the value of the first, second and third preference stocks and of the common stock was arbitrated and found to be worthless. That finding was taken through the appeal courts and was upheld.

Mr. GORDON: I think it is important to remember that that was stock of the Grand Trunk Railway and not of the Canadian National Railways. It was one of the bankrupt companies which was taken over because they were not capable of running it. But the actual value of the stock was held to be worthless, and this is just an agitation they are keeping up on it.

Mr. MACDONNELL: I remember the tenor of that letter and the claim is that we should urge the country to pay. I do not think they suggest seriously that there is a legal claim still.

Hon. Mr. CHEVRIER: They say that the Department of Transport has ignored their claim, and that because of the decision of the courts they would like us to bring in a bill under which we would pay them $500 million.

Mr. FRASER: Mr. Gordon said that if those companies had been taken over as bankrupt, the matter of this debt would not be here; and if they had been taken over as bankrupt, then there would be no claim whatsoever.

Mr. GORDON: That is right, there would be no claim at all. And you will remember that there was a large amount of bonds outstanding, and that the proprietorship of those bonds was recognized as a mortgage on the property, and they were paid in full; and the payments which were made on the bonds were held to be representative of the value, if not more than that, of the property. Therefore, there was nothing left for the common stockholder or for any other shareholder who had an equity position on it.

Mr. FRASER: It was the same as if a receiver had taken it over?

Mr. GORDON: That is right. It was arbitrated first in Canada and then it was taken to the Privy Council and that decision was formally upheld.

Mr. MACDONNELL: The minister will have to make one of his disarming refusals.

The CHAIRMAN: Shall section 4 carry?

National companies relief for ten years.

Carried.

Shall section 5 carry?

Ministers to surrender instruments of indebtedness for cancellation.

Carried.

Mr. MACDONNELL: I am not sure that I fully understand. This is the security section?

Mr. GORDON: I think I do.

Mr. MACDONNELL: You said that there was only one man in the world who understood it.

The CHAIRMAN: We have him here with us today.

Mr. GORDON: That was a very badly timed joke on my part which I hasten to correct. Mr. Cooper has accepted that description of himself, but I can assure you that there are other people who do understand it, although Mr. Cooper, because he was so intimately associated with it that when we talked of the securities trust, we thought of Mr. Cooper; but that is not the securities trust in section 5.

Hon. Mr. CHEVRIER: This is really only the mechanics of it. The minister is to surrender the securities under the schedule.

Mr. GORDON: The securities mentioned in the schedule are outstanding in the hands of the minister, and these are cancelled when we give him 4 per cent preferred stock in exchange.

The CHAIRMAN: Section 6? "Minister to purchase shares."

Mr. POULIOT: This is interesting. This is not included in the amount mentioned in the other half, in the amount mentioned in paragraph 3?

Mr. GORDON: Are you referring to section 5?

Mr. POULIOT: Yes.

Mr. GORDON: Section 5 is the section which gives effect to section 3; it is the implementing section.

The CHAIRMAN: Section 6?

Hon. Mr. CHEVRIER: I have an amendment to submit to section 6. In line 7, after the words "total par value" add "when added to the par value of the shares of such stock purchased under section (2)—

Mr. MACDONNELL: What line is that, please?

Hon. Mr. CHEVRIER: That is line 7.

The CHAIRMAN: Page 4 of the bill.

Hon. Mr. CEVRIER: So that the section would read:

> The minister shall, in respect of each fiscal year of the National Company commencing in the years 1952 to 1960 inclusive, purchase at par from the National Company shares of 4 per cent preferred stock of the National Company having a total par value when added to the par value of the shares of such stock purchased under subsection (2), equal to 3 per cent of the gross revenues of the National System in the fiscal year calculated to the nearest dollar as certified by the auditors of the National System.

The object of that is because it has been suggested that the minister might purchase twice in the year an amount equal to 3 per cent; and the only reason for putting it in is to make sure that he will not purchase more than once per year the 3 per cent of the gross revenue.

Mr. MACDONNELL: Subsection 2 says that he can do it in bits.

Mr. GORDON: Yes, it says he can do it in bits, but under the minister's amendment, if he does it in section 2, he is not again to do it under section 1.

Mr. MACDONNELL: Why is this only for 10 years?

Mr. GORDON: You will recall that in my statement I made an assumption that we were establishing a principle here, and that at the end of ten years I assumed the government of the day would extend the period and would probably review the yardstick, so to speak, of the 3 per cent. We have taken 3 per cent now as a suggestion which seems to be reasonable, and it is for a nine year period, not a ten year period.

Hon. Mr. CHEVRIER: There is no doubt that in 1960 we will have to look at it again.

Mr. MACDONNELL: How did you arrive at 3 per cent?

Mr. GORDON: It was simply a matter of judgment. We said that we wanted to find a means whereby the Canadian National could get equity capital into its property, and what properly should be established as against a fixed interest bearing debt, and the best we could do was to relate it to volume; and we took the gross revenue, which would be a fair indication of the volume of the traffic. The more traffic there was, the more would be the wear and tear on the railway. Therefore, on the basis of past experience with respect to the amount of additions and betterments which go into the property to maintain it in good condition, we thought that about 3 per cent of the gross revenue ought to be about the right figure, having regard to a matter of judgment, and the fact that this is established for a period and there is expected to be a review in the light of experience at the end of 1960.

Mr. POULIOT: If the gross revenue of the railway is $600 million, and if the government will buy 4 per cent preferred stock, that would be $18 million.

Mr. GORDON: That is right.

Mr. POULIOT: Then it would mean that instead of paying for a deficit of $18 million, they will be buying shares in that amount?

Mr. GORDON: Well, now to follow up Mr. Macdonnell's question, we were looking for a yardstick. The Board of Transport Commissioners had looked at the situation in 1947 and they came up with a figure then which was $16,777,000, but on a different formula altogether.

Mr. MACDONNELL: That was a figure for what?

Mr. GORDON: For the amount that we would need in the form of additions and betterments, held out of our own earnings, or ploughed back into equity capital; and that figure would come out about 3·8 per cent of our gross revenue; but we think that 3 per cent is reasonable.

Mr. MACDONNELL: Probably your actual needs for that purpose would be something like 3 per cent.

Mr. GORDON: No. I do not remember saying that. You mean our annual expenditure?

Hon. Mr. CHEVRIER: He was talking about interest.

The CHAIRMAN: I thought he was talking about different factors altogether.

Mr. MACDONNELL: That would get you about $18 million?

Mr. GORDON: If our gross revenue were running at the rate of $600 million, yes.

Mr. MACDONNELL: My point is that in looking back to 1950, to the legislation giving or providing money, my recollection was that over those 2 years, there was an amount of something like $30 million for additions and betterments in one year, and $10 million in virtue of the other year.

Mr. GORDON: It varies, yes.

Mr. MACDONNELL: Now, I come back to this: What is your reckoning as to the amount of money you will need on the average, in relation to the $18 millions for additions and betterments, and in connection with your rolling stock?

Mr. GORDON: We could give it but it will vary definitely, depending on conditions and the availability of supplies. But going back to 1946, the Canadian National actually expended, on an average over the seven years, $61 million. That was on the low side; and of the $61 million we financed roughly $16 million from our depreciation reserves; and if we had under that situation, got 3 per cent in gross revenue from the stock, we could have financed another $16 million of it, on that basis, and it would have been about 34 per cent of our actual capital requirements. So we would have got about 34·7 per cent of our actual net capital requirements in the years 1946 to 1952, with the year 1952 estimated. These are actual figures.

Mr. POULIOT: In virtue of this legislation, you will be in a position, by means of an order in council, without any other legislation, in virtue of this, and you will proceed from 1951 to 1960.

Hon. Mr. CHEVRIER: It will not be the Minister of Transport, it will be the Minister of Finance.

Mr. POULIOT: Yes, but no other legislation will be necessary to buy stock from the railway.

Hon. Mr. CHEVRIER: No. The Minister of Finance will operate under the terms of this Act.

Mr. POULIOT: And the purpose is that it would prevent you from paying for a deficit from the railway.

Hon. Mr. CHEVRIER: We hope that it will, but it may not necessarily. It will depend on the earning capacity of the railway. It would grant relief in accordance with the terms of the recommendation of the commission.

Mr. POULIOT: I do not care about the commission. I am interested in you and in Mr. Gordon, and I do not pay any attention to the commission, if you will excuse me for saying so.

The CHAIRMAN: Well, if you are too shy to ask the question, may I ask the question for you? Do you consider the relief adequate?

Mr. GORDON: Yes, I do. And may I just return to the figure I gave, for a moment?

The CHAIRMAN: Yes.

Mr. GORDON: I am not sure that I expressed it correctly. I think this will answer your question. If you take the period of 1946 through 1952, you will find an actual expenditure, on investment in road and equipment, of $429 million; and in that period we would have available from depreciation $112 million, which would leave us with a net capital requirement of $317 million; and if we had this arrangement under section 6, we would have received value in the form of the introduction of equity capital and preferred stock totalling $110 million which would have meant that we would still have had $217 million to finance, of our capital requirements, which would have been, roughly, one-half of our capital requirements. And that is what I meant when I said it was about 50-50.

Mr. FRASER: That makes $207 million not $217 million?

Mr. GORDON: Yes. $207 million; that is a rough figure.

Mr. MACDONNELL: What is $10 million!

Mr. GORDON: $10 million is a hell of a lot of money.

Mr. CHEVRIER: I was taken to task for $10,000 just recently.

The CHAIRMAN: Section 6.

Carried.

Section 7?

Mr. MACDONNELL: There is one bit of wording there which surprises me a little. I understand this is 4 per cent preferred stock?

Mr. GORDON: Yes.

Mr. MACDONNELL: I suppose that was put in for a certain reason.

The CHAIRMAN: Shall section 7 carry?

Carried.

Section 8.

Mr. POULIOT: Does this mean the issue to the government or to the public?

Mr. GORDON: To the government only.

The CHAIRMAN: Shall section 8 carry?

Carried.

Mr. MACDONNELL: Why is that necessary:

> Notwithstanding section 15 of the Canadian National Railways Act, the surplus or deficit of the Canadian Government Railways shall be included in, and deemed to be part of, the surplus or deficit, as the case may be, of the National Railways?

Hon. Mr. CHEVRIER: No, it has not been included since the Capital Revision Act of 1937; since that time it has been included as part of the Canadian National and government account, and this section is simply repeating the wording in the Capital Revision Act of 1937.

Mr. POULIOT: It is probably on account of the letter which the members from eastern Quebec wrote to you, asking that their region be included in the central region, and also on account of the question which was asked of Mr. Gordon about the regions, when they made both ends meet. But I have no objection to it.

The CHAIRMAN: Shall section 8 carry?

Carried.

Mr. POULIOT: I still maintain that the eastern part of Quebec should be transferred to the central region, or that the central region should be extended to Gaspe.

The CHAIRMAN: Section 9?

Mr. MACDONNELL: Just a minute, Mr. Chairman. These figures that we have been dealing with, and on which these calculations are based, have they included the over-all picture, including the Canadian goverment railways.

Mr. GORDON: Yes.

Mr. MACDONNELL: Perhaps I am taking this answer wrong. When we got your annual report, that included all the railways in your system?

Mr. GORDON: As I understand it, the reference under section 8 is this: that the Canadian National Railways Act originally had it that the Canadian government railways' deficit should be shown separately. Then in the Capital Revision Act of 1937 that was changed, and this represents the provision made in the Capital Revision Act of 1937 by saying, notwithstanding what section 15 of the Canadian National Railways Act says, the deficit of the Canadian government railways shall nevertheless form part of the over-all deficit or surplus of the National Railways. Another reason for it is that you will find in section 20 that the Capital Revision Act 1937 is now repealed, you see, so that we have to cover that position here.

The CHAIRMAN: Section 9, earnings remaining after payments made to Receiver General.

Mr. MACDONNELL: If Mr. Gordon does well enough to have any money left, you take it away from him by this section.

Mr. GORDON: Discretionary power is allowed in subsection 2.

Mr. MACDONNELL: So as to give the government a chance to be generous!

Mr. FRASER: By that subsection 2, then, the company could buy outstanding shares that the public has now?

Mr. GORDON: Well, in subsection 2, if the Governor in Council agrees, any surplus that we had remaining could be applied in reducing debt. That might be done by taking up a maturing bond issue or we might even buy bonds on the market, but it would likely mean we would take up maturing bonds. Incidentally, Mr. Macdonnell, I hope that you do not take too literally what you said about judging if I am doing well by whether or not the railway can pay a surplus after all these deductions.

The CHAIRMAN: I would not have too much hope over this section.

Shall the section carry?

Carried.

Section 10.

Hon. Mr. CHEVRIER: May I make a suggestion here in subsection 3 of section 10 that the word "that" be taken out, otherwise it does not make sense. That will be in line 6.

Mr. MACDONNELL: I want to ask a question on subsection 1 of section 10, subparagraph (c): The accounts of the national system are to show (a) the value of the no par value capital stock outstanding of the national company, (b) the par value of the four per cent preferred stock outstanding of the national company, and (c) the capital investment of Her Majesty in the Canadian government railways as shown in the accounts of Canada. That simply means at the present moment it will be this $121 million?

Mr. GORDON: It is shown in the proprietor's equity here, all capital expenditures by the government of Canada on the Canadian government railways, $379,877,000, shown in the balance sheet. It is the Canadian government railways that is shown in the accounts of Canada.

Mr. COOPER: It was the amount expended by Canada prior to 1923 on capital account on the Canadian government railways.

Mr. MACDONNELL: What is the significance of that now?

Mr. COOPER: We include it in our investment account in the consolidated balance sheet, with a contra credit to the government of Canada on the other side.

Mr. MACDONNELL: From the point of view of an ordinary citizen, they are now one enterprise. It seems to me an unnecessary complication of accountancy to carry it that way.

Mr. COOPER: The Government Railways had cost the government $380 million, when they were turned over to the Canadian National for operation.

Now, our balance sheet should show the property that has been entrusted to us, so we increased our investment in railway property by $380 million. Then of course, we must balance the books—

Mr. MACDONNELL: Do not let me get into an argument with an accountant. I am beaten before I start.

The CHAIRMAN: Shall section 10 carry?

Carried.

Section 11, C.N.R. Securities Trust.

Mr. MACDONNELL: One more question on section 10, Mr. Chairman.

The CHAIRMAN: Yes.

Mr. MACDONNELL: Section 10 (2) (a) (ii), the amounts of all capital gains of the national system for the year 1952 and subsequent fiscal years retained by the national company. What capital gains?

Mr. COOPER: During the war we repatriated a large amount of Canadian National securities which were owned by United Kingdom nationals, and in the transaction we gained $19 million, that is, we bought the securities for $19 million less than par. That was a capital gain, and it had the effect of increasing the proprietor's equity.

Hon. Mr. CHEVRIER: I suggested taking out the word "that", but the draughters tell me it would be better to put in the word "are" after government railways in the third line, and that would make better sense than taking out the word "that"; so that the line would then read "government railways are included in the net debt of Canada".

Mr. POULIOT: In what line?

Hon. Mr. CHEVRIER: Line 10 of section 10 (3) of the bill. In line 10, after the words "government railways" add the verb "are". That makes sense. Otherwise there is no verb in the sentence.

The CHAIRMAN: Section 11. Shall it carry?

Carried.

Mr. POULIOT: No, no. Mr. Gordon, I asked for the bylaws of the railways and I see in this section there is a mention of the board of directors. I wonder why you have any objection to letting us have the bylaws of the board of directors of the railways.

Mr. GORDON: Are you referring to section 11, Mr. Pouliot:

Mr. POULIOT: Yes. The board of directors of the national company are mentioned there and I take the occasion to ask you this question, because I had a copy, a summary, an extract of the bylaws that were passed in 1927, and I wondered why I could not have the bylaws of the board of directors of the company.

Mr. GORDON: Well, it is a little confusing; this board of directors reference in section 11 has to do with the Securities Trust. Now, is it the Securities Trust that you want the bylaws in connection with?

The CHAIRMAN: I think Mr. Pouliot just sees the words "board of directors".

Mr. GORDON: There are no bylaws in connection with the Securities Trust that I know of.

Mr. POULIOT: No, no, but as the board of directors of the railway is mentioned there, I am asking why we could not get a copy of the bylaws governing the board of directors of the railways.

Mr. GORDON: I think I can make a general statement here. There are all sorts of bylaws tacked up on station walls, bylaws cautioning against spitting on the platforms, with regard to nuisances, and so forth. Certainly we will give you those.

Mr. POULIOT: But I am referring to bylaws concerning meetings.

Mr. GORDON: There are all sorts of bylaws affecting the internal day-to-day management of the company that are not appropriate for release. They have to do with all types of matters.

Mr. POULIOT: Such as playing poker on the train?

Mr. GORDON: Yes, we will give you a bylaw covering that. We do not approve of poker on trains.

Mr. POULIOT: I will tell you in black and white what I would like to have. I would like to have a copy of the bylaws covering the passing of resolutions.

Mr. GORDON: The passing of resolutions?

Mr. POULIOT: What I would like to know is the constitution of the company in virtue of the will of the board of directors.

Mr. GORDON: Yes?

Mr. POULIOT: You must understand what I mean.

The CHAIRMAN: Do I understand, Mr. Pouliot, that you wish to have copies of any bylaws that delegate to the directors the power to pass and to deal with matters by resolution which ordinarily would be dealt with by bylaws?

Mr. POULIOT: No, no, it is not that; what I want is very simple. I want a copy of the bylaws of the board of directors governing their meetings.

The CHAIRMAN: As to when the meetings are to be called?

Mr. FRASER: Or what their powers are?

Mr. POULIOT: Yes.

Mr. GORDON: There is no such thing, Mr. Pouliot. What happens is this, the board of directors meets on a date which is agreed, and in practice we meet once a month. During the course of the board of directors' meetings, questions which come up for discussion sometimes call for formal resolutions covering legal matters, such as the execution of a mortgage or the release of property, or things of that kind. That is just a normal, ordinary resolution and it says, "Resolved that the company agrees to do thus and so." Now, there is nothing formalized in bylaws about that. They proceed in the ordinary way any board of directors proceeds. There is, as I say, a public list of bylaws which refer to the conduct of the public in respect of company property, trespassing, spitting on the platform, committing nuisances on trains, and things of that kind.

Mr. POULIOT: And playing poker on trains?

Mr. GORDON: There is a bylaw on that, and we would be glad to let you have a copy of that, but you can take it in general we on the board of directors proceed as any board of directors does to express its will by resolution.

Mr. POULIOT: Well, there was a bylaw which was passed in 1927, by which I saw that a Deputy Minister of Railways was a member of the executive committee.

Mr. GORDON: There is no executive committee of the board now. There was an executive committee of the board formed by Sir Henry Thornton, and at that time my recollection is that the Deputy Minister of Transport was a member of the board, and as a member of the board he became a member of the executive committee. There has been no executive committee functioning since, certainly, 1931. There has been no executive committee functioning since then, and, therefore, the board discharges its obligations in the form of either a full meeting of the board, or if there is an emergency comes up we will get expressions of opinion either in writing or by telegraphic communication, but the board always acts as a board, and there is no executive committee functioning, as you describe that, since 1931 or thereabouts.

Mr. POULIOT: Well, is there a link between you and the government—not between you, but between the Canadian National management and the government, as there was when Mr. Bell, the Deputy Minister of Railways, was a member of the executive committee?

Mr. GORDON: I would think, Mr. Chevrier could answer that.

Hon. Mr. CHEVRIER: I do not know what the position was in the past that you refer to but the link as it exists today is contained in the various statutes, chiefly in the Canadian National Railways Act, in the Canadian National-Canadian Pacific Act, and the fact that the Governor in Council appoints the chairman of the board of directors.

Mr. POULIOT: Well, for all matters that are discussed between the Department of Transport and the management of the railways, who corresponds on both sides?

Hon. Mr. CHEVRIER: The president of the railway and myself correspond on matters of policy, and on other matters that are not strictly policy. I would think in the vast majority of matters concerning internal management the government appointed them a body to deal with those questions.

Mr. POULIOT: Who are they?

Hon. Mr. CHEVRIER: The president and his board of directors.

Mr. GORDON: Perhaps I could simplify it this way. The link definitely is between the president and the Minister of Transport. If there is any other discussion with the department, it is with somebody either acting for the president or for the Minister of Transport. For example, my executive vice-president might very well talk to Mr. Lessard, the deputy minister, on some functioning matter, but he is always acting for the minister or he is acting for the president, so the link actually is between the president and the minister. That is the answer to your question.

Mr. POULIOT: But you do meet at regular intervals?

Mr. GORDON: The minister and myself?

Mr. POULIOT: Yes—when you have something to discuss together?

Mr. GORDON: Yes, we do.

Mr. POULIOT: And does the Deputy Minister of Transport get in touch with someone other than you to discuss the business of the railways?

Mr. GORDON: That is a general question. There are all sorts of things come up in the course of a day's work that the minister is interested in. He may have to make a statement to the House, for example, touching on the point—and I hate to make reference to it—of a wreck, and the minister might like to make a statement to the House, as I say. He lets it be known to his deputy, and the deputy would get in touch with my operating vice-president if I was not available, and would get information on matters affecting the operation of the railways. I may say that on matters affecting policy, government action or things like that, considered as a matter of government policy between the railway and the government, the conversation and the discussions take place between the minister and myself.

Mr. MACDONNELL: I think Mr. Pouliot is raising an interesting question here, as to whether the government, which represents the people of Canada, would be in closer touch if in fact a government official was on the board—if I interpret Mr. Pouliot's remarks correctly.

Mr. POULIOT: It happened before and I wonder if it would not be a good thing. Of course as you know, Mr. Gordon, we are all friendly to your company.

Mr. GORDON: I have no doubt about that.

Mr. POULIOT: And we want the management to be as successful as possible, and as the government seems to be very well disposed—it has been in the past—I wonder if there could not be closer co-operation between the railways and the government.

Mr. GORDON: Well, I must let the minister speak for himself, but speaking from my point of view I regard the relationship and the day-to-day working association that exists between the Department of Transport and the railways as highly satisfactory.

Hon. Mr. CHEVRIER: The only other closer relationship that could exist beyond what does exist today would be to return to the position of having the deputy, or some other person representing the department, a member of the board of directors, and I doubt whether that is a good thing because the deputy is deputy of a very busy department, and if over and above that he had the responsibility of being a director of the board I do not know how he could fulfil his duties.

Mr. POULIOT: I have the greatest respect for Mr. Lessard, who is one of the most efficient deputies that we have here in Ottawa, but he is not the only one in the department. You have Mr. Frank Connors and others. Mr. Frank Connors is a very able man. He could represent the Department of Transport and save lots of time, both of Mr. Gordon and of yourself.

Hon. Mr. CHEVRIER: That is also a matter of government policy and it has been considered from time to time, and the government has felt that it would not be desirable to do it.

Mr. GORDON: Mr. Minister, will you agree with this, that it should be remembered that the Department of Transport and the Minister of Transport deal with all railway matters, not only matters affecting the Canadian National Railways, and it is very important that the minister and the deputy minister remain in a completely impartial position. Personally I would deplore the idea that the deputy minister, and I say this without any reference to personalities, Mr. Lessard, but I think it would be highly improper for the deputy minister to be required to sit on the board of directors of the Canadian National Railways, discussing a subject which may represent a competitive position with another railway, and then have to go back to his department and sit in judgment on what the policy of the government may be. The minister and his department must remain in an impartial position respecting the whole field of transportation, and that is why, I assume, an independent board of directors for the Canadian National Railways was thought appropriate. Would you agree with that, Mr. Minister?

Hon. Mr. CHEVRIER: Quite.

The CHAIRMAN: Shall section 11 carry?

Carried.

Section 12, object of corporation.

Carried.

Section 13, capital stock. Any questions on section 13?

Carried.

Section 14, powers of trustees.

Carried.

Section 15, secretary of Securities Trust.

Mr. MACDONNELL: Who is this unfortunate individual who has to work without getting paid?

Hon. Mr. CHEVRIER: That has been Mr. Frank Connors for some time.

The CHAIRMAN: Section 16, every company obligated.

Carried.

Section 17, trustees to report annually to parliament.

Carried.

Section 18.

Mr. FRASER: In section 18, it says here, the capital stock of the Canadian Northern Railway has to be held and cannot be disposed of. Now, the Canadian National Railways also have stock or control of other companies, or railways, I should say. Now, why do you pick just one out?

Mr. GORDON: It is a matter of history.

Hon. Mr. CHEVRIER: I was going to say that the reason, I presume, is that when the Capital Revision Act was passed there was a valuation put on that stock. The Canadian Northern Railway stock consists of 180,000 shares with a par value of $18 million, which was transferred to the Canadian National Railways in exchange for one million no par shares of the Canadian National Railways, with an initial stated value of $18 million. I presume that is why that section earmarks the Canadian Northern stock, because it has a value.

Mr. MACDONNELL: Does this mean that they can sell and release all the others if they like?

Mr. GORDON: I think the explanation on that, too, is a matter of history. It is a matter of timing. For the period of time the government held the Canadian Northern Railway stock it owned it, but on the amalgamation with the Grand Trunk Railway it never actually took over their stock.

Mr. COOPER: The government owned the stock of the Canadian Northern Railway Company. One of the provisions of the Capital Revision Act of 1937 transferred the stock to the Canadian National Railway Company in exchange for stock of the Canadian National Railway Company. It was a requirement included in the Act that the stock could not be sold under any condition except with the consent of parliament. The government never owned any of the shares of the other companies.

The CHAIRMAN: Section 18. Shall it carry?

Carried.

Section 19, minister to include statement of assistance in public accounts.

Hon. Mr. CHEVRIER: I have an amendment here to suggest in section 19, line 42: "in such a manner as to show the value of property granted," strike out the words "the value of" so that it would read "in such a manner as to show the property granted". The reason for that is that this affects railways other than the Canadian National Railways, and the law as it stands now—the section eludes me at the moment—requires even other railways to show the property, the acreage of the property granted and not the value, and it is suggested that that is the intention of the legislation here.

The CHAIRMAN: Is there also a minor correction here?

Hon. Mr. CHEVRIER: Yes. Mr. Gordon has pointed out the marginal note opposite section 18, which reads ". . . without approval of the Governor in Council", whereas the section refers to parliament, so I think the marginal note should read, "national company not to sell, etc., capital stock without approval of parliament."

The CHAIRMAN: Shall the section carry?

Carried.

Shall section 19 carry as amended?

Carried.

Section 20.

Mr. MACDONNELL: I take it that someone has checked very carefully to see that there is nothing in the 1937 Act which still is not needed to give effect to what was done. Certainly I have not attempted to do it, but you are repealing the whole Act.

Hon. Mr. CHEVRIER: You are repealing the whole Act but re-enacting the greater part of it in this Bill 308.

Mr. POULIOT: Mr. Chevrier, does this section 20 mean that the railway will have to refund to the government the amount of $1,218,000,000 which was cancelled by the Act of 1937?

Hon. Mr. CHEVRIER: No.

The CHAIRMAN: Are there any questions on schedule A?

Carried.

On schedule B?

Carried.

Shall the title carry?

Carried.

Shall I report the bill?

Agreed.

Thank you, gentlemen.

The meeting adjourned.