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HOUSE OF COMMONS  
 Sessional Committee on  
 Railways, Air Lines and Shipping

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 1963

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HOUSE OF COMMONS

First Session—Twenty-sixth Parliament

1963

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SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned and Controlled by the Government

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

MONDAY, DECEMBER 2, 1963

TUESDAY, DECEMBER 3, 1963

WEDNESDAY, DECEMBER 4, 1963

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Annual Report and Capital Budget

**TRANS-CANADA AIR LINES**

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WITNESSES:

The Honourable George McIlraith, Minister of Transport; From *Trans-Canada Air Lines*: Messrs. G. R. McGregor, President; W. S. Harvey, Vice-President, Finance and Comptroller; H. W. Seagram, Senior Vice-President, Operations; A. C. MacInnes, Director of Public Relations; André Gauthier, Area Manager, Government and Public Relations; H. D. Laing, General Auditor; H. S. Bowman, Finance Accountant and N. E. Taylor, Chief of Economic Research.

SESSIONAL COMMITTEE  
ON  
RAILWAYS, AIR LINES AND SHIPPING  
owned and controlled by the Government

*Chairman:* Jean T. Richard, Esq.

*Vice-Chairman:* C. R. Granger, Esq.

and Messrs.

Addison  
Balcer  
Bechard  
<sup>1</sup> Cantelon  
<sup>6</sup> Chretien  
Deachman  
Fisher  
Forbes  
<sup>3</sup> Guay

Granger  
Gregoire  
Hahn  
Leboe  
Lloyd  
<sup>2</sup> McNulty  
Mitchell  
Monteith  
Muir (*Lisgar*)

Nugent  
Prittie  
Pugh  
Richard  
<sup>5</sup> Rheaume  
<sup>4</sup> Rideout  
Rock  
Southam—26.

Quorum—(14)

Maxime Guitard,  
*Clerk of the Committee.*

<sup>1</sup> Mr. Cantelon replaced Mr. Bell on November 29.

<sup>2</sup> Mr. McNulty replaced Mr. Macaluso on November 29.

<sup>3</sup> Mr. Guay replaced Mr. Sauvé on November 29.

<sup>4</sup> Mr. Rideout replaced Mr. Cressman on December 2.

<sup>5</sup> Mr. Rheaume replaced Mr. Gundlock on December 2.

<sup>6</sup> Mr. Chretien replaced Mr. Rouleau on December 4.

## ORDER OF REFERENCE

FRIDAY, November 15, 1963.

That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines and such other matters as may be placed before it, 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 67 in relation to the limitation of the number of Members, the said Committee shall consist of 26 Members.

WEDNESDAY, November 20, 1963.

That the Annual Reports for 1962 of the Canadian National Railways and of the Canadian National Railways Securities Trust, the Auditor's Report to Parliament for 1962 in respect of the Canadian National Railways, the budget for 1963 of the Canadian National Railways, the Annual Report of Trans-Canada Air Lines for 1962, the Auditor's Report to Parliament for 1962 in respect of Trans-Canada Air Lines, and the budget for 1963 of Trans-Canada Air Lines, tabled on May 17, 1963, be referred to the Sessional Committee on Railways, Air Lines and Shipping.

TUESDAY, November 26, 1963.

That the Sessional Committee on Railways, Air Lines and Shipping appointed November 15, 1963, be composed of Messrs. Addison, Balcer, Béchard, Bell, Deachman, Fisher, Forbes, Granger, Grégoire, Gundlock, Hahn, Leboe, Lloyd, Macaluso, Mitchell, Monteith, Muir (*Lisgar*), Nugent, Prittie, Pugh, Richard, Rideout, Rock, Rouleau, Sauvé and Southam.

FRIDAY, November 29, 1963.

That the names of Messrs. McNulty, Guay, Crossman, and Cantelon be substituted for those of Messrs. Macaluso, Sauvé, Rideout, and Bell respectively on the Sessional Committee on Railways, Air Lines and Shipping.

MONDAY, December 2, 1963.

That the Sessional Committee on Railways, Air Lines and Shipping be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto; and that it be granted leave to sit while the House is sitting.

That the names of Messrs. Rideout and Rhéaume be substituted for those of Messrs. Crossman and Gundlock respectively on the said Committee.

WEDNESDAY, December 4, 1963.

That the name of Mr. Chrétien be substituted for that of Mr. Rouleau on the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON-J. RAYMOND,  
Clerk of the House.

## REPORTS TO THE HOUSE

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

### FIRST REPORT

Your Committee recommends:

1. That it be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

2. That it be granted leave to sit while the House is sitting.

Respectfully submitted,

JEAN T. RICHARD,  
*Chairman.*

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

### SECOND REPORT

Your Committee recommends that its quorum be reduced from 14 to 10 members, and that Standing Order 67(2) be suspended in relation thereto.

Respectfully submitted,

JEAN T. RICHARD,  
*Chairman.*

## MINUTES OF PROCEEDINGS

MONDAY, December 2, 1963.

(1)

The Sessional Committee on Railways, Air Lines and Shipping met at 2:05 o'clock p.m. this day for organization purposes.

*Members present:* Messrs. Addison, Balcer, Béchard, Cantelon, Crossman, Fisher, Granger, Grégoire, Lloyd, McNulty, Mitchell, Muir (*Lisgar*), Prittie, Richard, Rock, Southam (16).

Mr. Addison moved, seconded by Mr. Béchard, that Mr. Richard be elected Chairman of this Committee.

Thereupon, Mr. McNulty moved, seconded by Mr. Crossman, that the nominations be now closed.

Mr. Richard was declared duly elected as Chairman. The Chairman thanked the Committee for the honour bestowed upon him.

On motion of Mr. Rock, seconded by Mr. Crossman,

*Resolved*,—That Mr. Granger be elected Vice-Chairman of this Committee.

Mr. Prittie moved, seconded by Mr. Fisher,

*Resolved*,—That the Committee seek authority to print from day to day its Minutes of Proceedings and Evidence.

On motion of Mr. Fisher, seconded by Mr. Muir (*Lisgar*),

*Resolved*,—That the Committee print 850 copies in English and 400 copies in French of its Minutes of Proceedings and Evidence.

Mr. Mitchell moved, seconded by Mr. Fisher,

*Resolved*,—That the Committee seek permission to sit while the House is sitting.

Mr. Rock moved, seconded by Mr. Lloyd,

That the quorum be reduced from 14 to 10 members.

And debate arising thereon, the question being put on the said motion, it was resolved, on a show of hands, in the negative; Yeas: 5, Nays, 9.

At 2:30 o'clock p.m., on motion of Mr. McNulty, seconded by Mr. Béchard, the Committee adjourned until tomorrow at 9:30 o'clock a.m.

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TUESDAY, December 3, 1963.

(2)

The Sessional Committee on Railways, Air Lines and Shipping met at 9:40 o'clock a.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Addison, Balcer, Béchard, Cantelon, Deachman, Fisher, Forbes, Guay, Granger, Grégoire, Hahn, Lloyd, Mitchell, Monteith, Muir (*Lisgar*), Nugent, Prittie, Pugh, Rhéaume, Richard, Rideout, Rock, Rouleau (23).

*Also present:* The Honourable George McIlraith, Minister of Transport.

*In attendance:* From *Trans-Canada Air Lines:* Messrs. G. R. McGregor, President; H. W. Seagrim, Senior Vice-President, Operations; W. S. Harvey, Vice-President, Finance and Comptroller; R. C. MacInnes, Director of Public Relations; André Gauthier, Area Manager, Government and Public Relations; H. D. Laing, General Auditor; H. S. Bowman, Finance Accountant and N. E. Taylor, Chief of Economic Research.

The Chairman invited Mr. G. R. McGregor, President, to read The Trans-Canada Air Lines 1962 Annual Report.

The examination of the witnesses namely: The Honourable George McIlraith, Minister of Transport, and Messrs. McGregor and Seagrim concerning the Financial Section of the Report ensued and continuing at 12:00 o'clock noon, on motion of Mr. Nugent, seconded by Mr. Lloyd, the Committee adjourned until this afternoon at 3:30 o'clock.

#### AFTERNOON SITTING

(3)

The Sessional Committee on Railways, Air Lines and Shipping met at 3:55 o'clock p.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Addison, Balcer, Béchard, Cantelon, Deachman, Fisher, Granger, Grégoire, Guay, Hahn, Lloyd, Mitchell, Monteith, Nugent, Prittie, Pugh, Richard, Rideout, Rock, Rouleau (20).

*Also present:* The Honourable George McIlraith, Minister of Transport.

*In attendance:* The same as this morning's sitting. Mr. McGregor's examination was resumed.

And the examination of the witnesses continuing,

At 5:35 o'clock p.m., the quorum having vanished, the Committee adjourned until this evening at 8:00 o'clock p.m.

#### EVENING SITTING

(4)

The Sessional Committee on Railways, Air Lines and Shipping met at 8:17 o'clock p.m. this evening. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Addison, Balcer, Béchard, Cantelon, Deachman, Fisher, Forbes, Granger, Grégoire, Guay, Hahn, Lloyd, Mitchell, Monteith, Nugent, Prittie, Pugh, Rhéaume, Richard, Rideout, Rock (21).

*Also present:* The Honourable George McIlraith, Minister of Transport.

*In attendance:* The same as at this morning and this afternoon's sittings.

On motion of Mr. Prittie, seconded by Mr. Lloyd,

*Resolved,*—That sections intituled Financial, Tariffs, Service and Traffic Growth be adopted as read.

Mr. McGregor's examination was resumed.

And the examination of the witness continuing,

At 10:08 o'clock p.m. on motion of Mr. Mitchell, seconded by Mr. Guay, the Committee adjourned until tomorrow at 3:30 o'clock p.m.

WEDNESDAY, December 4, 1963.

(5)

The Sessional Committee on Railways, Air Lines and Shipping met at 4:43 o'clock p.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Béchar, Cantelon, Chrétien, Deachman, Fisher, Forbes, Granger, Grégoire, Guay, Hahn, Lloyd, McNulty, Mitchell, Muir (*Lisgar*), Nugent, Prittie, Pugh, Rhéaume, Richard, Rideout, Rock, Southam (22).

*Also present:* The Honourable George McIlraith, Minister of Transport.

*In attendance:* From *Trans-Canada Air Lines*: Messrs. G. R. McGregor, President; W. S. Harvey, Vice-President, Finance and Comptroller; H. W. Seagrims, Senior Vice-President, Operations; A. C. MacInnes, Director of Public Relations; André Gauthier, Area Manager, Government and Public Relations; H. D. Laing, General Auditor; H. S. Bowman, Finance Accountant and N. E. Taylor, Chief of Economic Research.

The Committee resumed the examination of the witnesses,

Mr. Grégoire asked that Mr. McGregor tabled the Dixon-Speas' Report.

The Chairman ruled that request out of order, citing Beauchesne's 4th Edition, page 135, citation 159 (5).

Mr. Grégoire moved, seconded by Mr. Lloyd, that this Committee asks the Minister of Transport to disclose the report of T.C.A. on the choice of a new *Moyen-Courrier*, to the Members of this Committee.

And the question being put on the said motion, it was resolved, by a show of hands, in the negative. Yeas: 1, Nays: 18.

On motion of Mr. Grégoire, seconded by Mr. Fisher, that the presidents or their representatives of *Canadair* and *De Haviland* of Canada be called as witnesses to appear to this Committee.

And debate arising thereon, both the mover and the seconder agreed to have their motion referred to the steering Committee for study and to report to the Main Committee.

And the examination of the witnesses continuing, at 5:50 o'clock p.m. the Committee adjourned until tomorrow at 9:30 o'clock a.m.

Maxime Guitard,  
Clerk of the Committee.



## EVIDENCE

TUESDAY, December 3, 1963

The CHAIRMAN: We have a quorum.

This is our first regular meeting and I hope that it will be fruitful and as orderly as possible. I count on your assistance, co-operation and indulgence and I know, with your experience and your help, along with the help of our witnesses, we will have some very good and satisfactory meetings.

As you will realize, among the matters referred to this committee by the House of Commons on November 20 was the annual report of Trans-Canada Air Lines for 1962 and the auditor's report to parliament for 1962 in respect of Trans-Canada Air Lines and the budget for 1962 which was tabled on May 17, 1963.

Yesterday it was agreed that we should proceed with our examination of the position of Trans-Canada Air Lines and this morning we have with us the officials, including Mr. G. R. McGregor, president, Mr. Seagrim, Mr. Harvey, Mr. MacInnes and Mr. Gauthier as well as Mr. J. A. de Lalanne, the auditor. We have several other officials from T.C.A. including Mr. Lamoureux, Mr. Taylor and Mr. Laing.

Gentlemen, it has been the practice in the past to proceed immediately with the presentation of the report by the president, Mr. McGregor. I suggest to you that this report should be read by Mr. McGregor in toto following which we shall proceed with our questions, section by section. I am sure this procedure will allow ample latitude to all members of the committee to raise questions in an orderly fashion so that we are not jumping from subject to subject day by day.

Mr. MUIR (*Lisgar*): Mr. Chairman, before we take the report I would like to draw the attention of yourself and the committee to the fact that we omitted to appoint a steering committee yesterday. I think this should be done. I think we should complete the appointment of the committee before we hear the report.

The CHAIRMAN: Gentlemen, I am in the hands of the committee. I am quite willing to receive the usual motion to that effect and to meet with such a committee immediately after our meeting today, or tomorrow.

Mr. MUIR (*Lisgar*): I believe it has been usual in the past, sir, to have two members of the government, two members of the official opposition and one member from each of the other groups. Perhaps that would meet with your approval; that has been the practice.

The CHAIRMAN: I think the usual practice is to allow the Chairman to select the members. I understand your point of view and I will follow that procedure if the committee will give me the authority to select a group of five or six members to serve on the steering committee.

Mr. MITCHELL: I so move.

Mr. NUGENT: I did not think it was for the Chairman to select members. I thought it was for the parties, in consultation with the committee.

The CHAIRMAN: I have served on a number of committees and I think the usual practice has been to allow the Chairman to have that discretion. I will follow any other practice you want.

Mr. MUIR (*Lisgar*): I think it is usual for you to consult with the whips. Is that not right?

The CHAIRMAN: Yes.

Does that meet with the approval of the meeting?

Agreed.

Mr. NUGENT: One more thing, Mr. Chairman. I was not at the organization meeting, and I would ask if the number of meetings set for today was discussed at that meeting? Is the possibility of changing the number of meetings in one day open to the steering committee, and will the steering committee meet before the next meeting is scheduled?

The CHAIRMAN: Yesterday at the meeting on organization meetings were set for today, for Wednesday, for Thursday and Friday. It was suggested that that would only be in the event that we have not completed the T.C.A. discussion. It was decided that meetings would be held in relation to Canadian National Railways next week, beginning Thursday. That, of course, is in the hands of the committee.

Mr. NUGENT: Do I understand that yesterday three meetings a day were set for this week?

Mr. FISHER: It was agreed to. I think it must be pointed out that the announcement was in *Votes and Proceedings* for three meetings ahead of time. This raises a petty question but one that has intrigued me. Who is responsible for setting up these committees? Was it Mr. McIlraith's responsibility?

Mr. MCILRAITH: It was not I.

The CHAIRMAN: Mr. Fisher, as I told the committee yesterday at the organization meeting, the first organization meeting was supposed to be called on Friday and at that time the committee clerk had already set meetings to begin this week.

Mr. FISHER: In other words, it was the committee clerk who had arranged this?

The CHAIRMAN: He had arranged with me to start on Tuesday.

Mr. FISHER: Then could I ask him a question. What is your authority for doing this? This, of course, applies to more than this committee.

The CHAIRMAN: Mr. Fisher, surely someone has to proceed with these matters.

Mr. FISHER: Let me put it to you in this way—

The CHAIRMAN: There is no authority.

Mr. FISHER: That is what I wanted to find out.

The CHAIRMAN: That is why I submitted this matter to you yesterday and to the members of the committee for approval because it was only a tentative date.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I interject at this time that it was because the meetings had already been set up for today that the committee accepted, but from now on it should be in the hands of the steering committee. We just set meetings for today; is that not right?

The CHAIRMAN: No, they set meetings for the rest of this week.

Mr. MUIR (*Lisgar*): Not three times a day?

The CHAIRMAN: One on Wednesday and Friday, if necessary, three today, and Thursday.

Mr. NUGENT: It is not usual for a committee to set so many meetings every day so far ahead. It is usually arranged in accordance with the number of committee meetings and the arrangements are carried out in consultation with

the steering committee. The steering committee consults the party whips to find out what are the other committees and what conflicts there are with the members.

May I now ask the chairman to put this question of three meetings today and three meetings again on Thursday to the steering committee.

Mr. ROCK: It was already settled yesterday. Why is it brought back again today? I cannot understand why it should be brought up again.

The CHAIRMAN: There is only one meeting set for tomorrow, and I intend to call a steering committee today and ask them to set the meetings after tomorrow's meeting because I am sure that I as well as other members of the committee would like to feel that the whole committee has something to say about the dates and the hours of the meetings.

Mr. NUGENT: Thank you, Mr. Chairman.

Mr. G. R. MCGREGOR (*President, Trans-Canada Air Lines*): The report proper, which commences on page 5 of the printed book is dated February 28, 1963, and it is addressed to the Minister of the Department of Transport.

Sir: The board of directors submit the annual report of the Trans-Canada Air Lines system for the year 1962.

### *Financial*

A deficit of \$3,540,625 was incurred in 1962. This is a substantial improvement over 1961 and marks progress towards financial recovery. Operating revenues were \$183,473,467, an increase of 11 per cent.

The year was characterized by higher revenue yields per passenger mile, but with a continued shift to economy class travel, a slackening in the rate of traffic growth and lower load factors. There was a further reduction of unit costs.

It had become evident by the close of 1961 that the extent of the movement to economy class travel was denying to the airline the revenue it needed to pay its way, and an upward revision to North American fares was made on April 1, 1962. Following devaluation of the Canadian dollar, international fares were adjusted in accordance with international air transport association regulations to maintain the status quo in terms of United States dollars. These actions together raised the revenue per average passenger mile from 5.81c. to 6.04c. Economy class travel increased from 79 per cent to 88 per cent of the total.

On North American services the rate of passenger traffic growth expressed in passenger miles slowed to 4 per cent from the 20 per cent of 1961. This tendency was particularly noticeable on the shorter routes, while long haul transcontinental passenger growth was inhibited by a competitive fare disadvantage.

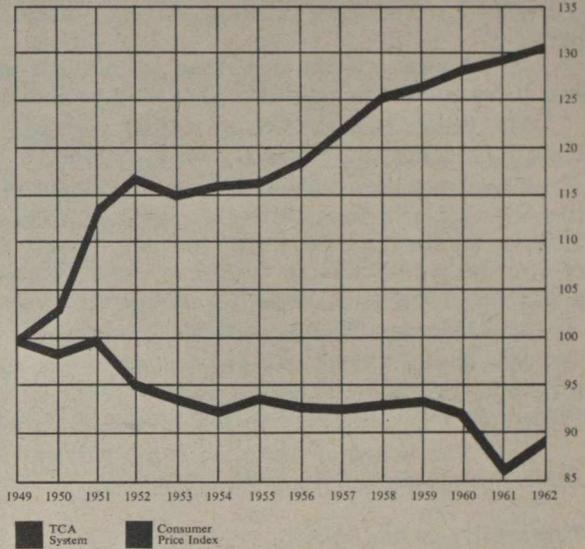
Passenger traffic to continental Europe grew 29 per cent although there was only a modest increase in traffic to the United Kingdom. Excursion fares and fully competitive aircraft together captured for T.C.A. much Canada-Caribbean traffic. The growth in passenger miles on southern services was 30 per cent. This was the second consecutive year of swift expansion.

Commodity traffic recorded a very satisfactory growth. Air freight traffic rose 25 per cent, air express 14 per cent and mail 8 per cent.

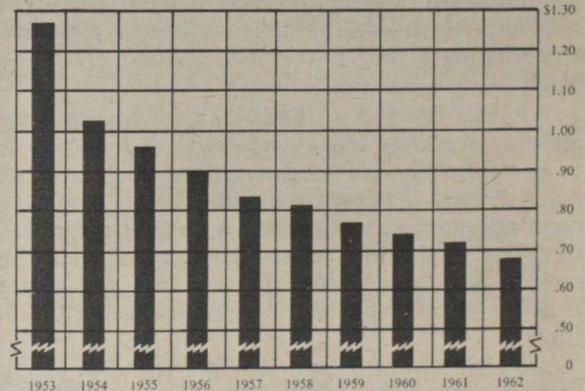
The system passenger load factor fell from 64 per cent to 60 per cent as DC-8 and Vanguard services expanded. Some drop in load factor must be expected when the larger increments of seats are first applied to particular routes.

The modern fleet and facilities provided further cost relief in 1962. Operating expense per available ton mile continued to improve, dropping

Index of  
T.C.A. Fares vs.  
Consumer  
Price Index  
1949-1962  
Year 1949 = 100



Average Return  
Per Mail  
Ton Mile —  
North American  
1953-1962



from 31.30¢ to 29.67¢, and total expense (including non-operating items, mainly interest) declined from 32.95¢ to 31.52¢ per available ton mile.

Behind these improvements lay the rising productivity of aircraft and employees:

	1962	1961
Aircraft productivity—available ton miles per hour	3,178	2,585
Employee productivity—available ton miles per employee	49,837	44,557

Ownership costs, as represented by depreciation, interest and insurance, amounted to \$35,433,000. A comparison with 1961 shows the changes:

	1962	1961
	\$000	\$000
Depreciation and amortization	23,257	19,921
Net interest	10,542	9,018
Insurance	1,634	2,968

Capital expenditures in 1963 totalled \$21,100,000, of which payments on the last three *Vanguards* and on five DC-8F aircraft, together with the cost of completion of the Halifax maintenance base, were the major items.

### *Tariffs*

The twin objectives of the April 1 revision to the North American fare structure were a reduction of the differential between the price of domestic first class and economy class transportation and the establishment of a more realistic relationship in ticket price per mile between long haul and short haul operations. On the one hand this substantially improved the company's yield per average passenger mile and on the other, virtually put an end to the cross subsidization within the airline that had previously required passengers on the longer flights to pay part of the cost of giving service to travellers on shorter distances.

The company believes that it now has passenger and cargo tariffs that represent a proper relationship between the cost of giving service and the value of that service to the air passenger or shipper. It is not anticipated that any further tariff adjustment will be necessary in the foreseeable future unless further reductions in unit expenses make possible a general tariff reduction. Certainly this step will be taken if it can be shown to be economically sound, but it is not likely that this will change the new and sounder relationship between short and long haul domestic fares.

Of particular interest to the company in 1962 was the international air transport association approval of discounts as high as 38 per cent from existing fares for groups of 25 or more persons travelling together on the North Atlantic. Also, TCA lowered cargo rates for a number of specific commodities moving between Canada and the Caribbean. New economy class fares were introduced for passengers travelling in groups of ten or more on domestic services.

In considering international fares, it should be remembered that these are based upon general industry agreement. TCA is, however, not entirely satisfied with present international tariffs and has pressed at International air transport association meetings for lower fares and particularly for a reduced differential between first class and economy class charges.

### *Service and Traffic Growth*

In 1962 TCA marked its twenty-fifth year of public service by offering the greatest capacity for passenger travel and commodity shipment in its history. Almost 600 million ton miles of air transportation were made available, an increase of 14 per cent from the previous year. During the busiest months, 24 return flights a week were operated on the North Atlantic providing over 3,000 seats in each direction. Transcontinentally over 1,000 seats were offered daily in each direction.

More service of a better quality was provided as the company realized its long-term objective of operating an all-turbine powered fleet everywhere except to the small prairie centres where runway lengths required the continued use of DC-3 equipment.

To adjust this fleet to the further demand for economy class service, changes were made in the seating configuration of the DC-8s, *Vanguards*, and *Viscounts*. Specifically this called for 111 economy class seats and 20 first class seats on the DC-8; 90 economy class seats and 18 first class seats on the *Vanguard* and 39 economy class seats and 12 first class seats on the *Viscount*.

The increase in available transportation was supported by the most intensive sales effort in TCA's history. A major advertising program, using newspapers, television and radio, and supplemented by direct sales activity in all the communities served by the airline, aimed at the general stimulation of air travel and air shipment. Particular emphasis was put on the encouragement of business in the normally slack winter season. The success of these efforts was reflected in record revenues. For the fourth time in the past five years TCA advertising was judged to be the best in the Canadian transportation field.

The growth of air freight traffic accelerated very satisfactorily. This trend was due, in part, to the improved shipping service made possible by the larger and faster turbine powered aircraft, particularly the Vikings with their great cargo capacity. Credit must also be given to the company's very active promotion of air shipment and the growing awareness of the business community of the advantages of the service offered.

The airline flew 12,862,000 ton miles of mail. The bulk of this constituted first class domestic mail which has been generally transported by air since 1948. A new contract was negotiated with the Canada post office in 1962 to provide for the growing volume of mail being carried on North American routes. This increases the permissible monthly volume of mail transport and its payment. The lowest rate is reduced from 62¢ to 48¢ per ton mile, a decrease of approximately 22½ per cent. It is through this type of cooperation between the Post Office Department and T.C.A. that it has been possible to bring about in Canada one of the highest standards of air mail service in the world at low cost to the consumer. No other country offers to the public air mail service on the scale available in Canada at rates of 5¢ for the first ounce and 3¢ per ounce thereafter, up to 8 ounces per piece.

In the summer months the airline, for the first time, scheduled a daily through service with DC-8 jet aircraft between Vancouver, Toronto, Montreal and continental Europe. These flights served Calgary four days a week and Edmonton three days a week.

The company's operations to Brussels were suspended on March 2 due to insufficient traffic to and from that point.

On June 7 T.C.A. had the honour of transporting Her Majesty The Queen Mother from London to Montreal on a scheduled jet flight. This operation was conducted with efficiency, the aircraft touching down at precisely the planned minute. The Queen Mother, in the course of the Atlantic crossing, thoroughly endeared herself to the other passengers.

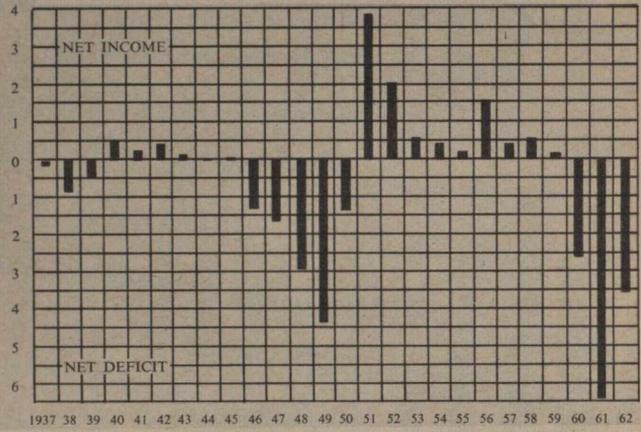
The company observed its twenty-fifth birthday by flying one of its original aircraft, a ten passenger Lockheed 10A, from Halifax to Vancouver. It was then used on September 1 to re-enact over the 122-mile route between Vancouver and Seattle T.C.A.'s first scheduled flight which had taken place on that same day a quarter of a century before.

The commercial agreement with the British Overseas Airways Corporation on the North Atlantic was continued to the advantage of the carriers and the travelling public. Joint planning provided a superior schedule of Overseas flights and permitted important operating economies.

At year end, T.C.A. was operating over 35,246 miles of air routes and serving 58 communities in Canada, the United States, the British Isles, continental Europe and the Caribbean. The company's route pattern is illustrated by the map on pages 12 and 13.

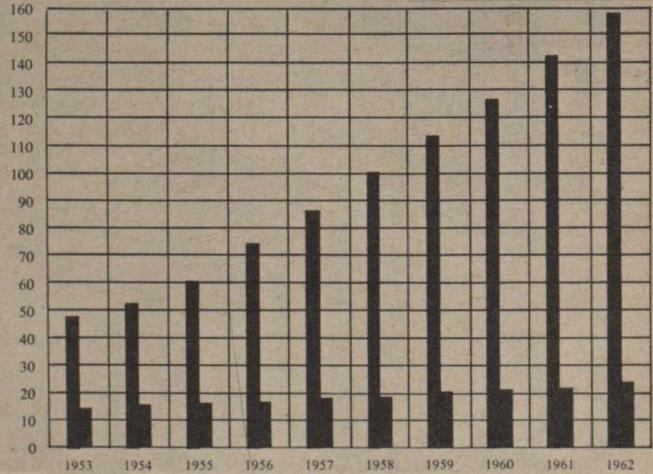
Net Income or Deficit, 1937-1962

MILLIONS OF DOLLARS



Sources of System Revenues, 1953-1962

MILLIONS OF DOLLARS



■ Pgr.  
■ All other

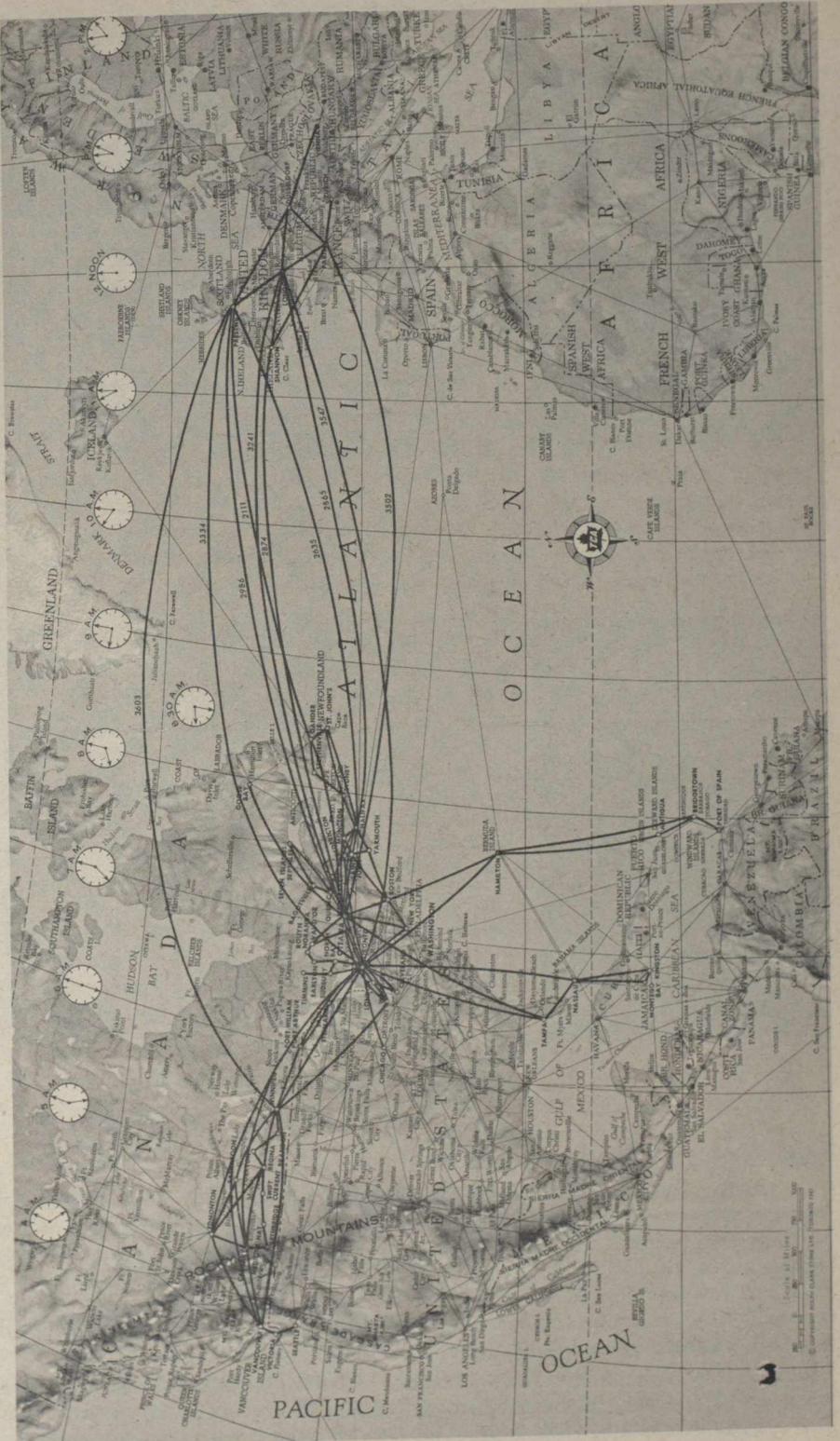
*Equipment and Facilities*

During 1962 one additional DC-8 aircraft and two more Vanguards entered service with the company and the last of the piston powered super constellations was retired. At the end of the year the airlines' turbine powered fleet consisted of 11 DC-8s, 22 Vanguards and 48 Viscounts. In addition, two DC-3s were still in service on the Prairie routes. On October 10 a Viscount was damaged beyond economical repair by an R.C.A.F. aircraft at Bagotville. Eight other Viscounts were taken out of schedule service.

Manufacture of the four Douglas DC-8F aircraft previously ordered for early 1963 delivery proceeded on schedule. In December an order was placed for a fifth aircraft of this type. The DC-8F will possess a high degree of load

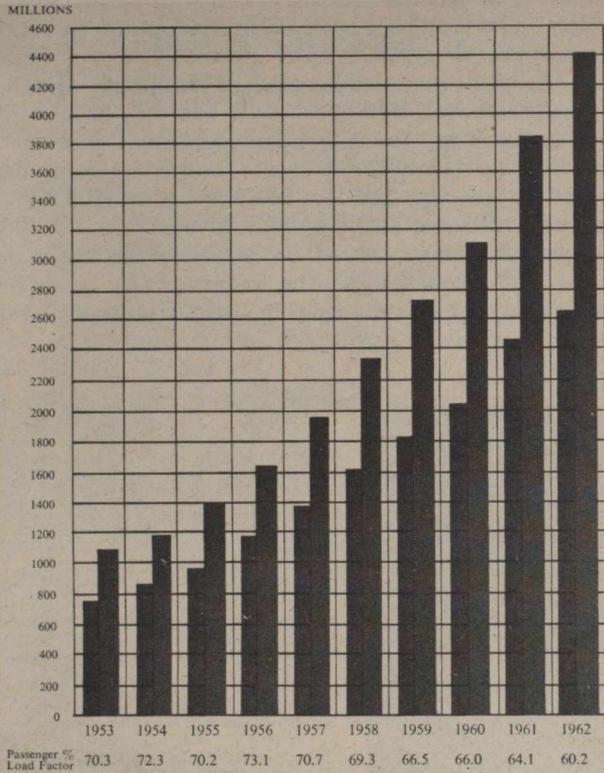
ROUTES OF TRANS-CANADA AIR LINES

TCA SERVICES  
CONNECTING SERVICES



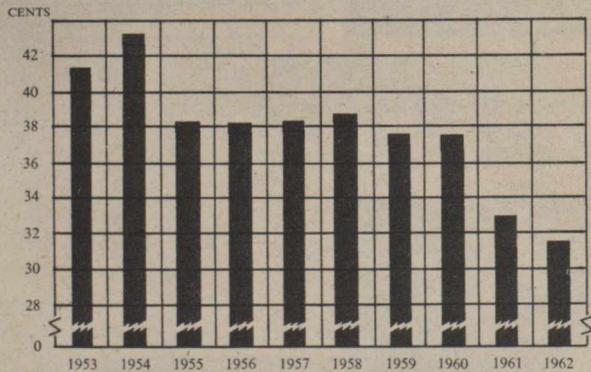
Scale: 1:1,000,000  
© Copyright 1954 TCA  
Map of the Atlantic Ocean

Available  
Seat Miles  
and Revenue  
Passenger  
Miles  
1953-1962



Revenue Passenger Miles Available Seat Miles

Operating  
and Total  
Costs per  
Available  
Ton Mile  
1953-1962



Operating Cost Total Cost

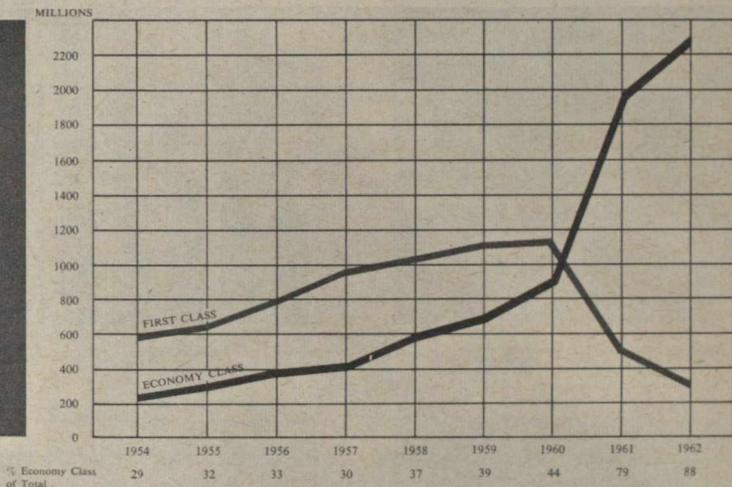
flexibility and can be used entirely for the carriage of freight or passengers or a mixture of both. It will integrate readily into the existing DC-8 fleet and will provide T.C.A. with the ability to expand its cargo carrying capacity both domestically and internationally at precisely the pace required by market demand.

TCA's operating reliability reached new levels of excellence with on-time performance being comparable to the best in the North American air transportation industry. While this was partly due to the efficiency of the turbine powered aircraft, tribute should also be paid to the skill of the Company's personnel who maintained the highest technical standards. In 1962 T.C.A. flew 98 per cent of all scheduled mileage.

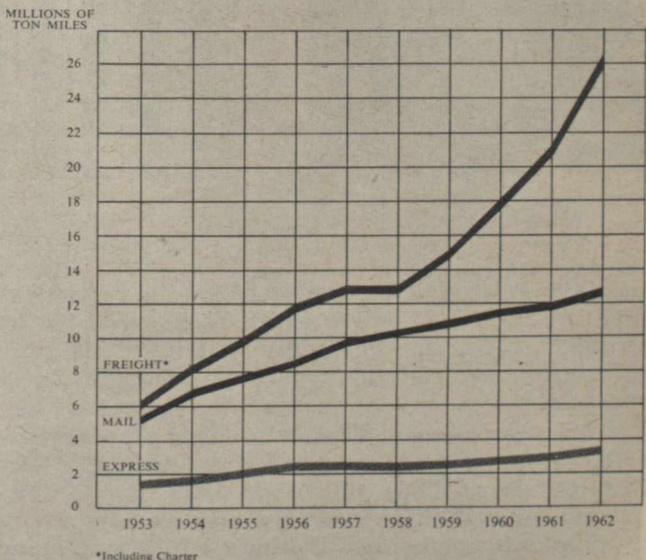
It is of interest that by the end of the year Rolls Royce Dart engines in T.C.A.'s Viscount aircraft had, with the approval of the Department of Transport, reached a 4,200-hour service life between overhauls. This is the first time in the air transportation industry that an engine has won such a high service life and great credit is due to both the manufacturer and T.C.A.'s own technicians for this achievement.

The new automatic reservations system, designed and manufactured in Canada, was applied to 65 per cent of T.C.A.'s domestic routes and was expected to have full application early in 1963. This very advanced electronic equipment demonstrated its worth from the outset by greatly improving the speed and accuracy of the reservations process. The heart of the ReserVec system is a central registry in Toronto consisting of dual general purpose

Revenue Passenger Miles by Class, 1954-1962



Growth of Mail, Freight and Express Traffic, 1953-1962



\*Including Charter

electronic computers built to T.C.A. specifications. The device by which passenger agents seek and receive information from the central computer is known as a transactor and over 300 of these in T.C.A. offices across Canada and the United States are linked to Toronto through relay equipment and standard telephone type lines. During the year the company completed the training of its own highly skilled staff of computer operators and technicians.

On July 3 the company's headquarters offices in Montreal moved to the new Place Ville Marie. Involved were approximately 500 company personnel previously scattered at a number of Montreal locations. The move served the purpose of consolidating all Headquarters activities under one roof in the interests of administrative efficiency.

Construction of the new maintenance hangar at Halifax was completed and this modern facility, designed to accommodate the large turbine powered aircraft, was occupied at year end.

New and improved sales offices were opened at several European points including Dusseldorf, Geneva and Zurich.

The Company maintained a close and constructive relationship with the Department of Transport and lent its technical advice to the planning of improved airport and airway facilities throughout Canada. This close association of an operating airline and a government department has, for the last quarter century, contributed greatly to the healthy development of Canadian commercial aviation.

#### *Board of Directors*

Retiring from the company's board of directors in 1962 were Mr. J. Campbell Haig and A/V/M C. M. McEwen. The directors wish to express appreciation for their valued services.

Appointed to the board of directors were the hon. Leslie M. Frost of Toronto and Mr. R. S. Misener of Winnipeg.

#### *Personnel*

At the close of the year there were 11,719 men and women in T.C.A.'s employ and it is worthy of note that in its quarter century of service the company has developed one of the most skilled groups in the air transportation industry. Almost entirely Canadian, the airline's employees represent an accumulation of experience and specialized knowledge that is a national asset.

Staff productivity again increased, as a rise of 14 per cent in available ton miles of air transportation was achieved with a growth of only 2 per cent in the work force.

The transition from a piston powered to a turbine powered fleet was accomplished smoothly thanks to the careful training of staff in the new techniques required. The board of directors wish to take this opportunity to thank all staff for a year of loyal and able effort.

Relationships with organized labour continued in the main to be healthy.

#### *Outlook*

While 1962 was a year of adjustment, T.C.A. enters 1963 strengthened by a well established fleet of the most modern aircraft and by a staff now well conversant with the requirements and challenges that have accompanied major technological changes in the air transportation industry. The airline is in a position to attain even higher service standards and to seek further operating efficiencies.

Flight frequencies will be increased as required by public demand and improved scheduling will be sought within the limitations imposed by technical and other considerations.

Another Vanguard and four DC-8F aircraft will be delivered early in 1963. Two of the latter will be in composite cargo-passenger configuration and two in all-passenger configuration, but all will lend themselves to ready flexibility of load. The first of the composite DC-8Fs, capable of carrying 117 passengers and up to 28,000 pounds of cargo, will enter service on the trans-Atlantic route in March. These aircraft will considerably increase T.C.A.'s cargo carrying capacity while meeting demands for additional passenger seats. Eventually one or more of the DC-8Fs will probably be converted to all-cargo carriage when the demand for such a large capacity warrants.

The company's technicians will continue their thorough investigation of the new types of aircraft that may be required by the airline in future years. The threat of the supersonic aircraft is still sufficiently far away that the need for any decision in this area is unlikely to arise for at least the next three years. The same cannot be said with respect to the short-to-medium range jet type and this selection will continue to be the subject of searching technical and economic analysis.

With the new automatic reservations system fully operational, a distinct improvement can be anticipated in the speed and accuracy of the company's reservations service. Almost instantaneous response can now be obtained to reservations requests from any point on the North American route network. Furthermore the possibilities of human error have been greatly reduced.

Better economic health for the air transportation industry can now be forecast following a very difficult period in which the costs of introducing new turbine powered equipment combined with a condition of over-capacity to produce a series of financial deficits for most carriers. This phase of expensive transition is now passing and it is to be hoped that the inherent efficiency of the new flight equipment, together with continued traffic growth, will produce substantially better financial results. The problems of excessive capacity and uneconomic competition will continue, however, to harrass the industry in some areas, a fact that is recognized by the general trend towards airline merger and pooling throughout the world.

T.C.A. looks forward in 1963 to a healthy increase in both its passenger and commodity traffic. This will be stimulated by aggressive sales activity. The airline will operate a full year under the revised passenger tariff, as compared with nine months in 1962, and this also should have a buoyant effect upon revenues. All possible economies, commensurate with good service standards, will be sought and it is hoped that some further reduction in unit operating expenses can be achieved. If these forecasts prove valid and if there is no deterioration in the airline's competitive position, T.C.A. should return to the profit position which it enjoyed during the nine years prior to 1960.

The CHAIRMAN: Gentlemen, you have heard the annual report. I note there is also included in that report a balance sheet, a statement of income and the auditor's report. I suppose it is the wish to the members of this committee that these should be printed in the Minutes of Proceedings and Evidence, is it agreeable?

Some hon. MEMBERS: Agreed.

Trans-Canada Air Lines

BALANCE SHEET—TCA—as at December 31, 1962

ASSETS

CURRENT ASSETS

Cash .....		\$ 2,818,584	
Accounts receivable			
Government of Canada .....	\$ 2,559,718		
General traffic .....	10,514,028		
Other .....	5,237,010	18,310,756	
Materials and supplies—			
at cost less obsolescence ..		24,088,609	
Other current assets .....		425,989	
			\$ 45,643,938

INSURANCE FUND .....

8,816,596

CAPITAL ASSETS

Property and equipment—at cost	\$274,825,089		
Less: Accumulated depreciation	72,224,845		
	\$202,600,244		
Progress payments .....	15,033,406	217,633,650	
UNAMORTIZED AIRCRAFT INTRODUCTORY COSTS		2,216,882	
			\$274,311,066

LIABILITIES

CURRENT LIABILITIES

Accounts payable.....		\$ 4,665,036	
Traffic balances			
payable to other air lines .		6,452,738	
Air travel plan deposits .....		1,779,050	
Salaries and wages .....		2,990,028	
Unearned			
transportation revenue ....		4,592,753	
Interest payable .....		2,543,865	
			\$ 23,023,470

LOANS AND DEBENTURES—

Canadian National Railways			
Notes payable .....	\$ 55,371,000		
Debentures .....	182,100,000	237,471,000	
			\$ 8,816,596

INSURANCE RESERVE .....

8,816,596

CAPITAL STOCK

Common stock—authorized			
250,000 shares par value			
\$100 per share			
—issued and fully paid,			
50,000 shares .....		5,000,000	
			\$274,311,066

CAPITAL COMMITMENTS AND

CONTINGENT LIABILITIES

Balance of payments for equipment and			
construction under contract .....	\$30,000,000		
Notes under discount with banks in			
connection with the Pay Later Plan		2,107,000	

This is the balance sheet referred to in my report to the Minister of Transport dated February 8, 1963.

J. A. deLALANNE,  
 CHARTERED ACCOUNTANT,  
 Auditor.

W. S. HARVEY,  
 Vice-President—Finance  
 and Comptroller.

RAILWAYS, AIR LINES AND SHIPPING

## TCA STATEMENT OF INCOME

	1962	1961
Operating Revenues		
Passenger	\$158,791,609	\$143,301,442
Mail	10,561,669	10,245,935
Express and freight	10,463,264	8,447,115
Excess baggage	888,825	772,857
Charter	1,188,101	756,771
Incidental services—net	1,579,999	1,911,588
	<hr/>	<hr/>
	\$183,473,467	\$165,435,708
	<hr/>	<hr/>
Operating Expenses		
Flying operations	\$ 37,796,217	\$ 37,968,236
Maintenance	38,826,563	34,816,104
Passenger service	13,356,686	13,660,235
Aircraft and traffic servicing	27,338,845	25,757,021
Sales and promotion	27,879,968	24,509,908
General and administrative	7,622,699	6,658,664
	<hr/>	<hr/>
	\$152,820,978	\$143,370,168
	<hr/>	<hr/>
Income from operations	\$ 30,652,489	\$ 22,065,540
Depreciation and amortization	23,257,274	19,921,497
	<hr/>	<hr/>
Operating Profit	\$ 7,395,215	\$ 2,144,043
Non-operating income—net	582,936	1,917,208
	<hr/>	<hr/>
Income Before Interest Expense	\$ 7,978,151	\$ 4,061,251
Interest on loans and debentures	11,518,776	10,511,333
	<hr/>	<hr/>
Deficit—Recoverable from Government of Canada	\$ (3,540,625)	\$ (6,450,082)
	<hr/> <hr/>	<hr/> <hr/>

## AUDITOR'S REPORT

TO THE HONOURABLE, THE MINISTER OF TRANSPORT,  
OTTAWA, CANADA.

I have examined the balance sheet of Trans-Canada Air Lines at at December 31, 1962 and the statement of income for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and the related statement of income are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1962 and of the results of its operations for the year ended on that date, according to the best of my information and the explanations given to me and as shown by the books of the Corporation.

I further report that, in my opinion, proper books of account have been kept by the Corporation and the transactions that have come under my notice have been within the powers of the Corporation.

J. A. deLalanne,  
*Chartered Accountant.*

February 8, 1963.

The CHAIRMAN: Gentlemen, we have now reached the stage of our proceedings for questions of Mr. McGregor by members. I suggest that in order to proceed in an orderly manner we proceed through the report paragraph by paragraph commencing with the paragraph headed "financial".

Mr. FISHER: Mr. Chairman, I should like to ask a question for the purposes of getting information only. How long will the minister be with us this morning?

The Hon. G. J. McILRAITH (*Minister of Transport*): I hope to be here throughout all the sittings of this committee.

Mr. FISHER: Fine.

The CHAIRMAN: Shall we proceed with our consideration of the financial section of this report?

Mr. MUIR (*Lisgar*): Mr. Chairman, I should like to suggest, so that there will be continuity of questioning, that each member be allowed perhaps ten minutes to ask a series of questions? Otherwise we are going to have one or two members monopolizing all the time, doing all the talking, and we will not have continuity of questions whatsoever. If we do not proceed in an orderly manner the committee may as well not proceed at all.

The CHAIRMAN: I am in the hands of the committee, but I think your suggestion is good. Whether the time allotted to each member should be limited to ten minutes or 12 minutes, I do not know, but I think we should allow reasonable latitude to members to ask questions. I would hope that these would not be duplicate questions in respect of a specific subject.

Mr. NUGENT: Mr. Chairman, for the purposes of clarification, when you refer to a paragraph by paragraph consideration, you are referring to the sections such as the first one headed "financial"?

The CHAIRMAN: Yes.

Mr. PRITTIE: Mr. Chairman, I have two questions to ask in respect of the financial section.

First of all there is a notation in respect of losses suffered on short runs. I wonder whether these losses are to railways and secondly is the whole passenger growth inhibited by a competitive fare disadvantage? I wonder if we could have an estimate of the loss to Canadian Pacific Airlines in 1962-63? I am sure this reference to competition is made in respect of C.P.A.

Mr. MCGREGOR: Mr. Chairman, the loss of passengers on short haul runs was due I think entirely to the fact that the revised tariff dated April 1, 1962 increased the cost per passenger mile of travel on short routes, while leaving the longer haul routes either at their previous level, or, in one or two cases, at a reduced level. Naturally there has been a price penalty placed on short haul operations as compared with long haul operations. This has had an apparent effect on traffic growth.

In answer to your second question, I should like to say that it is not easy to make an estimate of the revenue effect or loss as you described it, due entirely to the fare differential. We do know the total amount of revenue earned by C.P.A. on its transcontinental operations but it is not easy to make an accurate estimate. I could make a guess as to how much of the revenue devolved to C.P.A. entirely because of the fare differential.

Another thing that complicates an estimate of this kind is the fact that a fare differential favours C.P.A. on economy travel, T.C.A. on first class travel. Our first class fares on duplicate legs are lower than C.P.A., but the reverse is true in respect of economy travel.

Mr. PRITTIE: I should like to have an estimate made in this regard.

Mr. MCGREGOR: It would be very little more than a guesstimate on my part.

Mr. FISHER: Mr. Chairman, I should like to ask a supplementary question in respect of the fare differential. I should like to know whether the officials of T.C.A. have approached the air transport board about this discrepancy which exists in the fare structure, asking the air transport board whether it would consider issuing a tariff, or requesting both air lines to issue a tariff schedule?

Mr. MCGREGOR: Yes. We not only did that, we also made a proposal which we thought was fair. We offered to refile our tariff on the basis of reaching a halfway point between the present C.P.A. and T.C.A. economy fares and that would reach a halfway point between their first class fares and our first class fares.

In other words, we offered to be one side of an agreement which would equalize the fares at the midpoint of each.

Mr. FISHER: Did the air transport board bring you and the head of C.P.A. together on this question?

Mr. MCGREGOR: The air transport board invited us to communicate with one another, which we have done virtually ever since.

Mr. FISHER: What has been the result?

Mr. MCGREGOR: There has been absolutely no result.

Mr. FISHER: Have you taken this matter up with either of the recent ministers of transport?

Mr. MCGREGOR: This has been drawn to their attention. They have been made aware of the existence of this situation, yes.

Mr. FISHER: There has been no response at all in a positive way?

Mr. MCGREGOR: There has been no positive action taken. Both ministers of transport have expressed concern in respect of the situation.

Mr. FISHER: Have you raised the question with the air transport board whether it is the responsibility of the air transport board to require matching rates, or do you believe it is its responsibility?

Mr. MCGREGOR: Mr. Fisher, we are not sure it is the responsibility of the air transport board. Our understanding of the function of the air transport board is that it has the right to disapprove tariffs filed by companies but not the right to establish tariffs.

But quite frankly we would like to retain the ability to file what we believe are proper tariffs and have the air transport board either disapprove or not, as the case may be. I do not believe it is exactly the function of the air transport board to take arbitrary action in settling differences of opinions of this kind. On the other hand, I think it is almost unique in civil aviation, with identical transportation and identical type of aircraft, or virtually so, to have companies operating on two different fares on paralleling routes.

Mr. FISHER: What is the nub of the difference between C.P.A. and T.C.A. that cannot be cleared up by discussion?

Mr. MCGREGOR: Basically they like to have a fare advantage, for which I cannot blame them.

Mr. FISHER: May I ask whether the minister is seized with this situation and has been considering it?

Mr. McILRAITH: Yes.

Mr. FISHER: Can you give us any indication whether you feel you have the authority to make any suggestions or interpretations to the air transport board?

Mr. McILRAITH: There is some doubt as to the precise legal position, but certainly the point is of very real concern to the minister and it is one that I would think could not be permitted to continue indefinitely. What the difference

amounts to in essence is about \$20 from Montreal to Vancouver on the economy class fare. The fare is \$20 lower by C.P.A. than by T.C.A.

Mr. FISHER: Do you feel there is an anomaly here that should be removed?

Mr. McILRAITH: The anomaly will have to be removed.

Mr. BALCER: Mr. Chairman, I do not want to interject, but I was faced with this problem. C.P.A. contends that the present fare structure of their company on the transcontinental route is a fair one which meets their requirements. Their argument, as far as they are concerned, is that their fares are realistic and sound. Their argument is that they are not just taking advantage of T.C.A.

Mr. FISHER: Perhaps I could ask the minister whether he has received an analysis of this fare business from both T.C.A. and C.P.A.?

Mr. McILRAITH: I did not get an analysis from the companies. There is a whole mass of information in this regard, some in the possession of the minister and some in possession of the air transport board. The problem has been placed before the president of C.P.A. by myself, and I must say in all fairness to him that he is still ill.

Mr. MCGREGOR: Yes, he is at home and not allowed to carry out business.

Mr. McILRAITH: I read nothing into the fact that he has not come back to discuss the problem. He has unfortunately been in ill-health which prevented him from coming back, but I think he normally would have been back to discuss the situation.

Mr. FISHER: Can you give us any indication when we are likely to have a decision in this regard?

Mr. McILRAITH: I cannot tell you because this is linked with many other questions which have to do with large matters requiring decisions with respect to a broad air policy.

Mr. DEACHMAN: I should like to ask a supplementary question.

Mr. FISHER: I have more questions following the minister's last answer. You have referred to a broad air policy, and you indicated in your speech in the House of Commons that you expected to have something done in this regard fairly soon. By that I take it you mean a total approach to your commercial air situation, and that you will do something within the next few months in respect of such a policy decision?

Mr. McILRAITH: Yes, that is correct. I am quite definitely working on this problem. I might say that at one point I hoped to have had this policy before now, but I cannot at this stage be precise on when a decision in respect to broad air policy is to be made.

Mr. FISHER: Can you give us any hint whether there will be legislation required?

Mr. McILRAITH: I do not know, but it is not a question of legislation that is delaying an answer in any way.

Mr. MCGREGOR: Mr. Chairman, if I could interject at this point, I should like to amplify the answer to a question that was asked by Mr. Fisher about the amount of information supplied in respect of the matter of fare structure. I should like to explain that fares are not arrived at by some arbitrary method. We have prepared now twice what we call cost curves showing the operating costs per seat mile by route length. That is, the vertical ordinate of the curve is the cost and the horizontal is the length, or distance. This curve is extremely steep on the short end, but curves down and flattens out. The fare established for the route length is drawn from that curve. This curve and its structure has been explained in detail to the air transport board. That board has found no fault with the technique of construction which is involved.

I think that explanation might supplement what I have said.

Mr. DEACHMAN: In respect of the equalization of fares, if fares were equalized as you have suggested, by arriving at a point between the C.P.A. route and the T.C.A. route, would this result in a higher total cost to Canadian passengers travelling on these routes?

Mr. MCGREGOR: It would result in higher economy fares and slightly lower first class fares than C.P.A.'s present fares.

Mr. DEACHMAN: As first class fares are tending to decline in relation to economy fares, the tendency would be a shift to a higher rate placed upon passengers; is that correct?

Mr. MCGREGOR: Any higher rate shifts upon passengers, I guess.

Mr. DEACHMAN: I am talking about the total number of dollars which passengers in Canada expend on air fares within this framework of which we are speaking.

Mr. MCGREGOR: I think that is correct.

Mr. DEACHMAN: So in fact this would fix a price or fix a rate at an equal rate but at a level which would cost the Canadian user more, and destroy a competitive position which now gives Canadian passengers the option of choosing a lower rate; am I correct?

Mr. MCGREGOR: You are not quite correct, because we are carrying something like four times as many passengers transcontinental as C.P.A., so the total cost to Canadian air users as a body by a fare increase in the economy rate from C.P.A.'s rate at the present level would be a drop from our present level. I do not think this would cost Canadian users more.

Mr. DEACHMAN: For the total number of passengers carried in Canada would the sum total of rates in general be higher?

Mr. MCGREGOR: They would be lower.

Mr. DEACHMAN: They would be lower?

Mr. MCGREGOR: Yes.

Mr. DEACHMAN: Would the Canadian passenger then receive an advantage by adopting this rate rather than be charged a higher rate in total?

Mr. MCGREGOR: I think that is correct, yes. Our economy fares would go down half way to the present C.P.A. fares. That is, our return transcontinental rate between Montreal and Vancouver would be dropped by approximately \$10. We are carrying four times as many passengers, so the advantage to Canadian air travel I think is obvious.

Mr. HAHN: Mr. Chairman, I should like to ask one or two questions in this same area.

The CHAIRMAN: Have you any other questions?

Mr. ADDISON: Mr. Chairman, I should like to ask a supplementary question. In relation to this cost curve to which you have referred, as far as passenger miles are concerned in relation to the effect on C.P.A.'s economy fare, which is less, does the fact that you have operating costs such as in respect of the Winnipeg T.C.A. maintenance base have any bearing in this regard? It is my understanding that the cost of that maintenance base is in the neighbourhood of \$19 million. Would this be a factor in relation to the difference in fares?

Mr. MCGREGOR: No, I do not think so. Let me explain the history of this fare situation. T.C.A. and C.P.A. have duplicated route legs and have always charged the same fares. On January 1, 1961, we both filed identical tariff reductions. We both operated during 1961 with a very substantial deficit and we found that we had set the fares too low in relation to our operating costs.

We therefore proposed a general fare revision, as I described previously, for April 1, 1962. We of course advised C.P.A. of our intention of doing so. C.P.A., up until a very few days before the effective date of the tariff, by accident or otherwise, created the impression in our minds that they were going to make duplicate fares. At that time I remember Mr. McConachie saying that he agreed that the yield was not as high as it should be. However, C.P.A. did not duplicate the fares, but have carried on with a fare structure which went into effect on January 1, 1961. This is why there is a difference in two ways; why we have lower first class and they lower economy. That is the history of the situation.

Mr. HAHN: As I understand the structure now, T.C.A. is lower in respect of first class fares and C.P.A., as you have said, is lower in respect of economy fares across the country?

Mr. MCGREGOR: That is right.

Mr. HAHN: If T.C.A. were to follow the pattern you would drop your economy fares?

Mr. MCGREGOR: May I interrupt you, Mr. Hahn and explain that I do not think this would be following our pattern. I do not think it would be adhering strictly to the cost curve described. This was a compromise suggestion we made in an effort to remove an unsatisfactory situation in respect of fare differentials for identical services.

Mr. HAHN: Mr. McGregor, do you know whether C.P.A. can operate on their economy fare structure, keeping in mind that economy traffic represents the bulk of traffic, on an economic basis?

Mr. MCGREGOR: I am afraid I do not have the financial results by routes of C.P.A.'s operation.

Mr. HAHN: Mr. Chairman, I have two or three more questions to ask in respect of this general area.

How do the fares of T.C.A. or C.P.A. compare with United States domestic fares over similar route lengths?

Mr. MCGREGOR: I have not made a comparison of C.P.A. fares, but I presume in view of what I am going to say that the same thing applies to them. Our transcontinental fares are lower than comparable fares in the United States. In fact, the cheapest way to travel from Seattle to New York is to go to Vancouver and cross the continent by T.C.A.

Mr. HAHN: So our fare structure is lower generally speaking than the fare structure in the United States?

Mr. MCGREGOR: That is correct.

Mr. HAHN: What about fares on flights that cross the border into the United States; are they completely within Canadian control or are they bound by international agreement?

Mr. MCGREGOR: Neither of your two suggestions is accurate. They do not come under I.A.T.A. jurisdiction or regulation, in respect of which all fares are identical.

Mr. HAHN: They are uniform?

Mr. MCGREGOR: Yes.

Mr. FISHER: Overseas fares are settled by international agreement; is that right?

Mr. MCGREGOR: That is right.

Mr. FISHER: Are the fares then uniform for all carriers flying overseas routes?

Mr. MCGREGOR: Yes. There are one or two exceptions which are hardly worth while mentioning; I refer, for example, to an airline of Iceland which is not a member of I.A.T.A.

Mr. BALCER: Mr. Chairman, I should like to ask Mr. McGregor whether when setting fares for transcontinental flights he has taken into consideration the fact that these fares are not exactly realistic, and by that I mean that this route is partially subsidized by the profit derived from overseas runs?

Mr. MCGREGOR: Mr. Chairman, I do not think I can agree with what Mr. Balcer has said because we have two routes only that are steady contributors to overhead. One is the transatlantic route, as Mr. Balcer has stated, and the other is the transcontinental route. I do not think it is quite true to say that the transatlantic revenues subsidize the transcontinental operation, although these two routes do subsidize, by cross-subsidization within the company, many other non-profitable routes.

Mr. LLOYD: Mr. McGregor in answer to a question concerning the financial information of C.P.A. you said that such information was not available to you. Has the air line industry ever seriously studied the possibility of controlling fare structures by the air transport board or an equivalent body?

Mr. MCGREGOR: I am afraid I do not understand the question.

Mr. LLOYD: Public utility rate making is regulated on the basic principle that when you get to a monopoly position, the only way you can judge, in the public interest, the fairness of the rate structure of a service is to put it under some rate regulatory board. Has this question ever been debated or discussed at any depth at any time, or has the wisdom of such a policy applied to air lines traffic in Canada been considered?

Mr. MCGREGOR: Mr. Lloyd, I think I mentioned earlier that the way the present jurisdiction is established is by the air transport board either approving or disapproving a tariff submission made to it. If a submission is made and the air transport board raises no objection to the tariff, the tariff goes into effect on the file date. To that degree the air transport board has jurisdiction over present filings.

Mr. LLOYD: Does the air transport board require, as public utility boards in provinces, a full disclosure of the financial information?

Mr. MCGREGOR: Absolutely. In fact, the air transport board study these cost curves of ours in great detail.

Mr. LLOYD: The air transport board study the whole financial structure of an application on the part of C.P.A. as well as in respect of T.C.A.?

Mr. MCGREGOR: I expect it does.

Mr. LLOYD: But there is no public information received from the air transport board in regard to the results of their inquiries?

Mr. MCGREGOR: Not that I have ever seen.

Mr. LLOYD: This information has never been disclosed publicly.

Mr. MCGREGOR: I have never seen it.

Mr. GREGOIRE: Mr. Chairman, I should like to ask a question in respect of another matter but related to the financial report contained in the first section of the annual report.

Mr. NUGENT: Mr. Chairman, I should like to ask a question in respect of this same matter before we move to another point. Mr. McGregor, most of these companies' financial statements are made available and I presume that you have seen C.P.A.'s financial statement and have had your staff study the information in respect of where C.P.A. is making a profit and where they are losing money; is that right?

Mr. MCGREGOR: The fact is that C.P.A. does not put out a financial statement. Their financial statement is included in a paragraph in the annual report of the C.P.R.

Mr. NUGENT: But that financial statement included in the report of the C.P.R. I gather from your answer is not sufficiently detailed to enable you to give us any indication whether they are making a profit on their trans-Canada hauls or not?

Mr. MCGREGOR: It is not detailed at all. This is a report in respect of the overall operation of C.P.A.

Mr. NUGENT: You mentioned that you were carrying four times as many passenger as C.P.A. Is there a difference in percentage of your aircraft load? Does C.P.A. operate on a higher load factor?

Mr. MCGREGOR: On the average I think that is right.

Mr. NUGENT: Certainly, this would have some effect? If your aircraft is travelling with a greater load you can operate at a lower cost; is that correct?

Mr. MCGREGOR: That is correct.

Mr. NUGENT: This fact may in itself explain why C.P.A. is content with the present fare structure?

Mr. MCGREGOR: That is correct.

Mr. NUGENT: In respect of fares, you mentioned that the air transport board has some jurisdiction. Is it not a fact that the air transport board has less jurisdiction over T.C.A. than it does over a normal commercial airline such as C.P.A. and P.W.A.?

Mr. MCGREGOR: No.

Mr. NUGENT: Is T.C.A. subject to exactly the same regulations throughout?

Mr. MCGREGOR: Exactly the same regulations, yes.

Mr. NUGENT: Are you subject to exactly the same overseas regulations in respect of your overseas operations?

Mr. MCGREGOR: Those regulations are not within the jurisdiction of the air transport board so far as fares are concerned, except as it may disapprove I.A.T.A. rates.

Mr. NUGENT: I am asking you whether you are subject to the same regulations throughout.

Mr. MCGREGOR: We are subject to the same regulations throughout, yes.

Mr. MONTEITH: Mr. Chairman, I have one or two questions. I am a member of this committee although I am sitting over here.

The CHAIRMAN: We will have to make better arrangements in the future.

Mr. MONTEITH: Mr. Chairman, in respect of these cost curves to which Mr. McGregor referred, I am assuming that C.P.A. may well have presented similar cost curves to the air transport board which might not be comparable and show a lesser cost.

Mr. MCGREGOR: I do not think I am in a position to comment. The air transport board, I should say, is, and quite rightly so, very careful about keeping the details of the business of one air line out of the hands of another.

Mr. LLOYD: Mr. McGregor, you said that the air transport board is very careful about keeping the details of one air line away from another, or at least I felt that was the import of your observation. In view of the fact that T.C.A. is a public agency and comes under detailed and critical examination by a committee, do you feel that this is a disadvantage to you in respect of this alleged competitive position?

Mr. MCGREGOR: Yes, I do.

Mr. LLOYD: You do see this as a disadvantage?

Mr. MCGREGOR: Yes.

Mr. LLOYD: Therefore, there is something to be said in your opinion for a better method of rate setting for at least domestic services in Canada?

Mr. MCGREGOR: Personally I think the method of rate making adopted by T.C.A. is excellent, but I should like to know as much about C.P.A.'s operations as I know about T.C.A.'s operations.

Mr. LLOYD: Do you suggest that you cannot do the kind of comprehensive administrative job you are required to do to protect the competitive position with the insufficient information you have received? Do you feel you need more information in order to perform a better job?

Mr. MCGREGOR: No, I do not think one needs more information about a competitor, according to my understanding of the competitive situation. I think that anywhere there is competition it is most unusual for both competitors to have complete information on the economic details of the competitor. I do not think we would be entitled to that information any more than I think C.P.A. should be entitled to information in respect of T.C.A.

Mr. BALZER: Mr. McGregor, do you think the fact that C.P.A. is restricted to only one flight a day while you are not restricted as far as the number of flights you may make are concerned, has a certain bearing on the fact that C.P.A. is sort of forced to charge a lower rate to meet this unfavourable position?

Mr. MCGREGOR: Mr. Balcer, I think it is a very natural attitude for them to take, and I would not suggest that if positions were reversed T.C.A.'s attitude would be any different. C.P.A. is seeking, as has been suggested, to get the highest load factor possible; whether the fact they operate only one flight a day is an advantage over-all or a disadvantage, I am not sure. I would be inclined to think it is an advantage. C.P.A. suggests, let us have a fare differential as long as we can get away with it, and, therefore, we will have a high load factor.

Mr. BALZER: That is one of the arguments they use.

Mr. NUGENT: Do you suggest that is an advantage, Mr. McGregor? Surely they would operate more flights per day if they were allowed to. C.P.A. is restricted in that regard not by its choice; is that right?

Mr. MCGREGOR: I think that is probably right.

Mr. HAHN: Do air carriers in the United States operating over the same routes have the same fare structure, or do they have a different fare structure?

Mr. MCGREGOR: I know of no cases where there are different fare structures for identical services in United States.

Mr. HAHN: Are these fares under the control of an authority in the United States?

Mr. MCGREGOR: Yes, they are under the control of the civil aeronautics board.

Mr. PUGH: I am wondering why you used the word "disadvantage". You said in your opinion you thought it would be a disadvantage to have more than one flight.

Mr. MCGREGOR: I think if C.P.A.'s capacity was increased, and it could only be doubled presumably, they would have to operate on quite low load factors; whereas with one flight per day, with a fare advantage, it is not difficult for them to have a good load factor, and they do have a good load factor particularly in the summer months.

Mr. PUGH: Do you run four flights each way per day?

Mr. MCGREGOR: We say we run four and a half actually counting the Winnipeg turn around flight and so on.

Mr. PUGH: On comparable trans-Canada runs you operate four per day?

Mr. MCGREGOR: No, we run only one flight that is identical to theirs in stopping. We run one non-stop flight from Toronto to Vancouver, one flight a day stopping at Winnipeg, which is an identical flight to C.P.A.'s flight, and one through Calgary and one through Edmonton, so we have only one flight that is identically comparable to C.P.A.'s operations.

Mr. PUGH: You say this is identical simply because Winnipeg happens to be a stop along the trans-Canada route, but surely you have almost identical flights with the stops at Calgary and Edmonton as well as the straight flight across the country from Toronto to Vancouver? Just to be clear in this regard, you say that it would be a disadvantage to C.P.A. to have more than one flight per day? I should like to follow that through and hear your reasoning. As I understand what you have said, you are suggesting C.P.A. would probably lose by having another flight?

Mr. MCGREGOR: What I am saying is that I do not think if C.P.A. doubled its transcontinental capacity it would double its traffic simultaneously. I think C.P.A. would undergo a time during which their load factor would be dropped very materially.

Mr. PUGH: How long has T.C.A. been operating four flights per day, and I am thinking of transcontinental flights as distinguished from flights to Winnipeg?

Mr. MONTEITH: I wonder whether the committee member would speak a little louder?

Mr. PUGH: Why did you not get here earlier?

Mr. MCGREGOR: T.C.A. has operated four flights throughout 1962.

Mr. PUGH: You have operated four flights throughout 1962, is that correct?

Mr. MCGREGOR: I believe that is correct. Let me explain that there is a heavy seasonal fluctuation in respect of traffic, and our flight frequency in capacity is adjusted to that fluctuation. The number of flights in the total operation is reduced in the autumn in an attempt each year to show an over-all correct relationship between traffic as against capacity.

Mr. PUGH: Are the four flights operated throughout the year? Four flights are taking place at this time, are they not?

Mr. MCGREGOR: Four flights are taking place now, but this is a reduction from the capacity that was available last July.

Mr. PUGH: Naturally in the summertime more people are travelling, but I am interested in your use of the word "disadvantage".

Mr. MCGREGOR: I said that it may be an advantage or disadvantage. Perhaps we could have the record read.

Mr. PUGH: That will not be necessary. You did use the word "disadvantage"?

Mr. MCGREGOR: I used the word, but I said I was not sure whether it would be an advantage or disadvantage. I think perhaps it is an advantage.

Mr. PUGH: You used the word "disadvantage" in respect of C.P.A. not getting an increase in traffic by, as you said, doubling their service, and I assume you mean by that two flights as against one?

Mr. MCGREGOR: Yes.

Mr. PUGH: I should like to revert to a question of revenues; is it fair to ask you whether you make more money on your overseas routes than on your transcontinental routes?

Mr. MCGREGOR: I think we make more money on our overseas routes.

Mr. PUGH: How much of your profit made on the overseas routes is applied in Canada, and in respect of that profit split do you include flights which originate in Winnipeg destined for London?

Mr. MCGREGOR: We separate the traffic which is transatlantic or international.

Mr. PUGH: Yes.

Mr. MCGREGOR: If we have a passenger on a flight from Winnipeg to Montreal, who then continues overseas, that revenue is separated.

Mr. PUGH: Yes, I see what you mean. In Canada are you operating any short runs at a loss?

Mr. MCGREGOR: Every short run is operated at a loss, with a few exceptions.

Mr. PUGH: All short runs are operated at a loss? Are all your transcontinental runs operating on a profit basis?

Mr. MCGREGOR: Yes.

Mr. PUGH: All your overseas runs then operate at a profit?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Mr. McGregor, I should like to ask you one or two questions in respect of the first part of your report appearing at page 5 where you state that your \$6 million deficit is now reduced to \$3,500,000. I think you must be very proud of this situation, but if you continue to operate the Winnipeg overhaul base will your deficit increase? How much do you anticipate your deficit will increase next year if you continue to maintain the Winnipeg overhaul base?

Mr. MCGREGOR: I do not expect 1963 to produce a deficit.

Mr. GREGOIRE: Do you think the continued operation of the Winnipeg overhaul base until 1964 will result in an increased deficit?

Mr. MCGREGOR: I do not think this will increase the deficit position. What we are saying is that Dixon, Speas made an estimate of the increase in operating costs which would devolve from duplicating the overhaul bases. Whether that, what I might call, unnecessary operating cost is going to put the company in the red or not, I do not know, but I do not think so.

Mr. GREGOIRE: If it does not increase the deficit it might give you a surplus?

Mr. MCGREGOR: It certainly worsens the position.

Mr. GREGOIRE: There has been a report to that effect?

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: What made you change your idea?

Mr. MCGREGOR: I did not change my ideas at all.

Mr. GREGOIRE: I understand your first idea was to move that base for overhauling from Winnipeg to Montreal?

Mr. MCGREGOR: Yes, by 1966.

Mr. GREGOIRE: Have you changed your idea of moving it from Winnipeg?

Mr. MCGREGOR: Basically the change occurred when the study that was done in respect of small jet aircraft indicated a continuing use of Viscounts in substantial numbers through to 1973. Perhaps I should explain that situation. Trans-Canada Air Lines management through me, is under a positive commitment to the personnel of the Winnipeg base to maintain the base at Winnipeg for the overhaul of Viscounts and Dart engines as long as the company continues to operate a substantial number of Viscounts.

Mr. GREGOIRE: If by 1966 or 1967 you are no longer operating Viscounts you will move this overhaul base?

Mr. MCGREGOR: Under those circumstances the base will have to be closed.

Mr. GREGOIRE: It is definite that the base will be kept open while you are operating the Viscounts?

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: Your decision to keep open the overhaul base at Winnipeg was made as a result of reports received?

Mr. MCGREGOR: Mr. Gregoire, we are getting a little bit far afield, but this information, so far as I can make out, based on the assumption that the new small jet aircraft can be overhauled in Winnipeg, is not based on facts.

Mr. GREGOIRE: Will this be less expensive than moving the base to Montreal?

Mr. MCGREGOR: The cost will be fantastically more expensive. We would have to rebuild the Winnipeg base.

Mr. GREGOIRE: You would prefer to carry out this overhaul work at Montreal?

Mr. MCGREGOR: Very much so.

Mr. GREGOIRE: What made you choose Winnipeg?

Mr. MCGREGOR: I did not. There is no suggestion that small jet aircraft can be overhauled at Winnipeg.

Mr. PRITTIE: Mr. Chairman, Mr. Gregoire did not wait for Mr. McGregor's answer. He said it was not a fact that T.C.A. will overhaul jets at Winnipeg.

Mr. MCGREGOR: That is correct.

Mr. BALCER: From what you have said, am I correct in understanding that nothing has been changed as far as the decision by T.C.A. to move out of Winnipeg is concerned when Viscounts are no longer in service?

Mr. MCGREGOR: So far as T.C.A. is concerned that is certainly correct. The one change that occurred resulted from a study of the small jets, indicating the desirability of continuing to use a substantial number of Viscounts for a longer period than originally estimated.

I am not sure I satisfied Mr. Gregoire in answering his questions.

Mr. LLOYD: Mr. Chairman, I should like to ask a supplementary question.

Mr. NUGENT: Mr. Chairman, on a point of order, would it not be more appropriate to ask this type of question when we are considering the section of the annual report covering equipment and facilities?

The CHAIRMAN: I have allowed the discussion to go ahead although we commenced with a consideration of the section dealing with finances. I think we should proceed in a more orderly fashion. I understood Mr. Gregoire's questions up to the point they departed from the financial aspect.

Mr. GREGOIRE: I should like to ask one more question in this regard.

Mr. BALCER: Mr. Chairman, I think perhaps we should clear the situation or some people will have the impression that T.C.A. has been forced by the government to accept a loss of \$19,800,000 as a result of the exertion of some political pressure. Mr. McGregor said there was no change in the plans of T.C.A. Let us have a clear picture because I think it is important that we realize the situation, and in all fairness I think we should allow Mr. McGregor to state the situation clearly.

Mr. MCGREGOR: Thank you very much Mr. Balcer. I should like to read you a paragraph of my letter of November 14, 1962, addressed to the Winnipeg base personnel, and I think this will make the point very clear as to what our commitment is. I have no intention of breaking that commitment. As I say, the letter is dated November 14, 1962 and is addressed to the Winnipeg overhaul base, to all employees at the Winnipeg overhaul base.

There is a lot more in the letter, but the paragraph that is relevant states: "Therefore, I feel reasonably certain in forecasting that apart from conditions over which T.C.A. has no control, T.C.A. will be operating a Viscount fleet of not less than 40 aircraft through 1965. Naturally I can be much less definite as to what may occur thereafter, but it is quite possible that the Viscount fleet will start to dwindle in numbers perhaps quite rapidly early in 1966".

That was the paragraph that caused the hullabaloo. One would think we were shutting off Winnipeg the next day. I say that the Viscount fleet will start to dwindle so far as I can see in 1966.

There is another paragraph in my letter which states that as long as there is a substantial number of Viscounts in operation we will keep the base open.

Mr. LLOYD: I should like to ask a supplementary question. There is not a transfer involved here, but the complete abandonment of a type of operation which requires certain overhaul alterations.

Mr. MCGREGOR: I think that is a more accurate assumption.

Mr. GREGOIRE: Only Viscounts will be overhauled in Winnipeg?

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: No other type of aircraft will be overhauled there?

Mr. MCGREGOR: No other type of aircraft will be overhauled there.

Mr. GREGOIRE: If the report you received indicated a transfer of the overhaul of Viscounts to Montreal, would it have been your intention to do so?

Mr. MCGREGOR: As far as that committment allowed me to do so, yes. In other words, as soon as the number of Viscounts in operation falls below what I call a substantial number, which has been variously thought of as between 20 and 30, this change should be effected.

Mr. GREGOIRE: So there is no change from the report to the actual facts?

Mr. MCGREGOR: Except that we now think we are going to be using a substantial number of Viscounts longer in time then previously forecast.

Mr. GREGOIRE: There was no political pressure exerted, as Mr. Balcer stated a few minutes ago?

Mr. MCGREGOR: If we are talking about the statement made by the Prime Minister, so far as I am concerned it was exactly in accordance with our plans. I even made a press release to that effect.

Mr. BALCER: What about the differences—

Mr. ROCK: I think there is something which should be cleared up. I am not trying to ask another question, but when you said no in respect of political pressure, you did so by nodding your head, but the record will not show that head nod.

Mr. MCGREGOR: I understand the situation. I have been caught by *Hansard* before by nodding my head. No, there was no political pressure brought to bear on T.C.A.

Mr. BALCER: I know Mr. McGregor and know he is not a man who will bow to political pressure.

Mr. FISHER: How do you know?

Mr. BALCER: All I wanted to say was I was surprised to note in the newspapers that you had expressed the opinion that you were going to stay in Winnipeg for ten years, which would result in a net loss to T.C.A. of \$19,800,000.

Mr. MCGREGOR: I did not quite say that, Mr. Balcer. What I said was that the Dixon, Speas summary report indicated that the cost of maintaining the Winnipeg base beyond 1966 amounted to \$19,800,000 through to 1973. This

is a sad fact, but it is a fact if Dixon, Speas figures are correct. This is something in respect of which I can do nothing unless I make a liar of myself with respect to that letter.

Mr. BALCER: The only thing that has been changed is the decision by T.C.A. to stretch out the use of Viscounts?

Mr. MCGREGOR: That is right. You have put it in a nutshell. That is exactly correct.

Mr. PUGH: Mr. McGregor, is the \$19 million figure, as reported in the newspaper, the normal expenditure to maintain that base, or would this be an increase over the amount of cost if you moved the base to Montreal?

Mr. MCGREGOR: According to Dixon, Speas that is the amount of difference between doing our overhaul work at one base at Dorval and doing it at two, Dorval and Winnipeg.

Mr. PUGH: The cost of overhauling will be \$19 million more as a result of doing this work at Winnipeg; is that right?

Mr. MCGREGOR: That is the Dixon, Speas forecast.

Mr. PRITTE: The Viscounts will be depreciated and there will be the added saving as a result of longer service?

Mr. MCGREGOR: The \$19 million figure is a plus figure, regardless of where they are maintained.

Mr. NUGENT: Do you have facilities at Montreal at the present time to handle this type of work?

Mr. MCGREGOR: If we are able, as we see it, in the late 1960's in respect of DC-8's, Vikings and Viscounts, as well as the new jets, to do the overhaul work at Dorval there would have to be some expansion of facilities at Dorval, but the Dorval base was built with exactly this in mind.

Mr. NUGENT: Do you have the facilities now at Dorval to overhaul Viscounts?

Mr. MCGREGOR: Yes, its size is adequate.

Mr. NUGENT: Do you do any overhauling of Viscounts there?

Mr. MCGREGOR: No.

Mr. FISHER: Mr. Chairman, I should like to revert to our original discussion.

Mr. MUIR (*Lisgar*): Mr. Chairman, before Mr. Fisher continues I should like to interject and state that I have a series of questions in respect of this subject.

Mr. FISHER: Mr. McGregor, do you feel that the present fare differential which exists in respect of transcontinental routes between T.C.A. and C.P.A. is not fair or equitable.

Mr. GREGOIRE: Mr. Chairman, I should like to ask a question regarding the increase in deficit as a result of the Winnipeg operation.

Mr. FISHER: I am speaking about the fare differential.

The CHAIRMAN: I think perhaps we can accept your question at this stage.

Mr. FISHER: To which question do you refer?

The CHAIRMAN: I had reference to the question in respect of the Winnipeg base.

Mr. GREGOIRE: In respect of the possible increase in the deficit, Mr. McGregor, you say that if you keep that overhaul base in Winnipeg in operation it will cost \$19 millions, is that right?

Mr. MCGREGOR: Not quite. I said that Dixon, Speas said that.

Mr. GREGOIRE: Do you agree with that report?

Mr. MCGREGOR: I think it is quite accurate.

Mr. GREGOIRE: Let us say \$18,000,000; if you kept them based in Winnipeg it would increase your expense by \$18,000,000 a year?

Mr. MCGREGOR: No. This has to do with the period of 1966 to 1973.

Mr. GREGOIRE: If the expenses are higher, why do you not move them to Montreal?

Mr. MCGREGOR: Because I promised 800 men at Winnipeg that I would not.

Mr. GREGOIRE: Is it because of your letter of November 14, 1962, that you keep the expenses increased by \$18,000,000?

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: Had you written that letter then?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Do you regret that letter now?

Mr. MCGREGOR: Very much so.

Mr. FISHER: What was your question?

Mr. GREGOIRE: I asked him if he keeps his T.C.A. overhaul base at Winnipeg, it is because of the letter of November 14, 1962.

Mr. FISHER: Did you ask him if he regrets it?

Mr. GREGOIRE: Yes.

Mr. FISHER: This letter is based on details which go back over a number of years beyond 1963.

Mr. MCGREGOR: That is right. This is not the first time that a promise had been made to them.

Mr. FISHER: It should be made clear that this is not something new.

Mr. MCGREGOR: That is correct.

Mr. GREGOIRE: This was the main letter which you just read?

Mr. MCGREGOR: It was the last one, but it was only reporting what had happened. We had made a promise back in the mid fifties, I do not remember the exact year, but it arose when Dorval was being built and there was a lot of agitation among the personnel at Winnipeg about what would happen to them. So the statement was made to a meeting of base personnel on the authority of my board of directors that we would continue with the base at Winnipeg as long as we had a substantial number of Viscounts. Time went by and we got up to 1962 when the new small jet was being seen over the horizon by everybody in the company and they became restless again. Do I buy a house, or send my child to school here? What do I do? So this letter was written to clarify the position and to allow them to do some planning. It was a humanitarian effort, if you like, which misfired badly, in my opinion.

Mr. GREGOIRE: I understand your point of view but I want to know why you kept on.

Mr. MCGREGOR: It is a matter of keeping one's word, I suppose.

Mr. MUIR (*Lisgar*): How many Viscounts have you in service today?

Mr. MCGREGOR: Forty but we own 46.

Mr. MUIR (*Lisgar*): What would be the operational life of a Viscount?

Mr. MCGREGOR: It is difficult to state such a thing. I have always told the committee on previous occasions that a commercial aircraft is not allowed to grow old physically. Our Viscounts have been delivered over quite a period of time between 1955 and 1959, so they vary in age. So a Viscount could have an extended life through 1973.

Mr. MUIR (*Lisgar*): Might we have a breakdown of the years of purchase of the Viscount. Could we have that supplied?

Mr. MCGREGOR: We will be pleased to give you an answer.

Mr. MUIR (*Lisgar*): Are they all serviced in Winnipeg at the present time?

Mr. McGREGOR: Yes.

Mr. MUIR (*Lisgar*): What do you consider to be the rate of withdrawal from 1964 through 1973, and how does this tie in with their operational life so that we could be able to arrive at some conclusion?

Mr. McGREGOR: Our forecast is that we will have 34 Viscounts left in 1973. I will give you the Viscount ownership by years. There are 40 this year; 40 next year; 40 in 1965; 36, in 1966; 34 in 1967 and 34 through 1973.

Mr. MUIR (*Lisgar*): How many personnel are now employed at Winnipeg in the overhaul and maintenance base there?

Mr. McGREGOR: Slightly over 800.

Mr. MUIR (*Lisgar*): And how many have been transferred to Montreal?

Mr. McGREGOR: These include also personnel in the purchase and stores department associated with the base.

Mr. MUIR (*Lisgar*): That is slightly over 800?

Mr. McGREGOR: Yes.

Mr. MUIR (*Lisgar*): How many have been transferred to Montreal in the last four or five years?

Mr. McGREGOR: We cannot be precise about that. Something like five people moved in the last six to eight months.

Mr. MUIR (*Lisgar*): How many were transferred to Montreal on a temporary basis?

Mr. McGREGOR: None.

Mr. MUIR (*Lisgar*): Over the past few years, none?

Mr. McGREGOR: None that I can think of.

Mr. MUIR (*Lisgar*): How many do you expect to transfer between 1964 and 1973?

Mr. McGREGOR: Might I make it clear that these transfers are mostly bid by the men themselves. If a mechanic has a certain seniority and a certain service period, the policy with respect to his work is that when a vacancy occurs at, let us say, Dorval, Vancouver, or Halifax, the man may bid for it on his own.

Mr. MUIR (*Lisgar*): If you are going to phase these out in 1973 somebody is going somewhere from Winnipeg. So it will not be because of bidding out; it will be a case of getting out or you are out.

Mr. McGREGOR: At the time the Viscount operations stop at Winnipeg, yes.

Mr. MUIR (*Lisgar*): How many do you expect to have transferred from Winnipeg from 1964 to 1973 out of the 800 odd that you have there now?

Mr. McGREGOR: Does anybody want to make a guess on that?

Mr. H. W. SEAGRIM (*Senior Vice President, Operations, TCA*): Possibly as many as 200. But they might be transferred to Vancouver, Halifax, or Toronto.

Mr. MUIR (*Lisgar*): How many to Montreal?

Mr. SEAGRIM: This would simply be a guess at this time, but I would estimate it to be something in order of 100 people.

Mr. MUIR (*Lisgar*): I thought you said 200.

Mr. McGREGOR: He said 200 out of Winnipeg.

Mr. SEAGRIM: I said 200 out of Winnipeg, but some of them might go to Vancouver, Calgary, Halifax or Toronto.

Mr. MUIR (*Lisgar*): You expect about 100 to move to Montreal?

Mr. SEAGRIM: That is a guess.

Mr. MUIR (*Lisgar*): What service personnel does T.C.A. expect to reclaim in Winnipeg following 1973?

Mr. MCGREGOR: I would think we would have something like 1,200 people in Winnipeg.

Mr. MUIR (*Lisgar*): That does not include the 800 in the maintenance base?

Mr. MCGREGOR: That is right.

Mr. MUIR (*Lisgar*): You have something like 1,200 now?

Mr. MCGREGOR: Something like that.

Mr. BALCER: Concerning the DC-9's which you intend to have as replacements for the Viscounts—at the time you made the decision to buy this quantity of jets, the policy of the company was to retire the Viscounts by 1966. If you are going to have a fleet of 34 Viscounts in 1970, there is no need for the DC-9's as early the previous forecast.

Mr. MCGREGOR: Yes, there is. I am afraid when you say "I understand" you are basing your opinion on a newspaper statement. It has been widely reported in the press that we wanted small jet aircraft to replace both the Viscount and the Vanguard. That statement was made just like that. It is not by any manner of means entirely true. We require a small jet aircraft in 1966 to meet the growth requirements, and thereafter retirements from the services. For instance, take the Vanguard fleet, on the same forecast, the total operation will leave us with 12 Vanguards in 1973 as opposed to the 22 we now have. So there is not and there never has been a complete takeover of turbo-propeller work by the new jets, in the forecast period.

Mr. LLOYD: Have we left the subject of finance? I have a question.

The CHAIRMAN: We are still on finance. I hope I have given enough latitude to discuss the Winnipeg base so that we will not have to go back to it again. Is that the wish of the committee?

Mr. LLOYD: That is agreeable.

The CHAIRMAN: But if we are through with finance, then I think from now on we should dispose of finance and discuss other matters according to the various paragraphs listed in the report.

Mr. MUIR (*Lisgar*): May I ask a supplementary question to clear up an answer I received from Mr. Seagrim. You said that in 1973, or between now and 1973, there would be about 200 people employed who would be transferred to Vancouver, Montreal, or some place else in Canada.

Mr. SEAGRIM: Yes.

Mr. MUIR (*Lisgar*): What are you going to do with the other 600 odd?

Mr. SEAGRIM: My reply was based on the plan to dispose of approximately 25 per cent of the Viscount fleet between now and 1973, and approximately 25 per cent of the people we employ to overhaul those airplanes in Winnipeg.

Mr. MUIR (*Lisgar*): You mean you would drop 25 per cent of the people?

Mr. SEAGRIM: That is right; 25 per cent of the aircraft and 25 per cent of the people would go elsewhere.

Mr. MUIR (*Lisgar*): That does not answer my question. You are still going to have 35 planes in 1974, and you are now employing something over 800 men in Winnipeg, and you are going to transfer between now and 1973 something like 200. What is going to happen to the other 600 in 1973?

Mr. MCGREGOR: There will have to be a certain strength maintained at Winnipeg, which we seem to have established at 600, as long as we are operating 34 Viscounts. This study only goes to 1973. As to what happens after that, I would hope that the number of Viscounts beyond 1973 would drop quite sharply. I thought it would happen in 1966. But as long as we have a substantial number of Viscounts, we must keep the base in operation in Winnipeg. But if in 1974 or 1975 the number of Viscounts in service—or even before that time—drop into

the twenties, we would certainly have to shut down Winnipeg and offer transfers to other places in the company to experienced personnel, and those who accepted a transfer would be transferred. Those who declined to accept transfers would be asked to leave.

Mr. MUIR (*Lisgar*): You give this on your own.

Mr. MCGREGOR: As long as we have useful work for them elsewhere in the system, yes.

Mr. GREGOIRE: I can assure Mr. McGregor that when I started to question him I had some impressions which were not in accordance with the facts. For instance, I thought he wanted to transfer the overhaul bases, and that a change had been made in the last two or three weeks. But is it a fact that you had decided to keep the overhaul base at Winnipeg as long as there would be some Viscounts in service?

Mr. MCGREGOR: I had promised to do so.

Mr. GREGOIRE: Was that as far back as November?

Mr. MCGREGOR: It was further back than that. It was in 1962 when I wrote the formal letter to all the employees which pinned it, but prior to that the promise had existed since 1955.

Mr. GREGOIRE: Discussing the reason?

Mr. MCGREGOR: Yes, that is correct.

Mr. GREGOIRE: Why is everybody asking questions? Why did you not make a statement before?

Mr. MCGREGOR: I cannot answer for the general hullabaloo in Winnipeg. It has been surprising and shocking to me that this thing got to be such a *cause célèbre*.

Mr. GREGOIRE: Were you aware that questions were being asked in the House of Commons on whether T.C.A. would keep its overhaul base? You knew that you were going to keep it, yet no statements were issued.

Mr. MCGREGOR: But there was a statement issued.

Mr. GREGOIRE: Only two weeks ago.

Mr. MCGREGOR: This statement was made to the press on November 22, of this year, after the Prime Minister had made his statement to the house.

Montreal, November 22, 1963

TCA's management has for quite a long time now been under a firm commitment to its Winnipeg overhaul base employees to continue the overhaul work on Viscount airframes and Dart engines at Winnipeg "as long as the company operated a substantial number of Viscount aircraft." TCA's statement to base personnel last November made a forecast that the numbers of Viscounts in operation would begin to dwindle "perhaps quite rapidly, early in 1966."

Therefore it seems to me that any conflict which may exist between the Prime Minister's statement in the House of Commons today and the company planning, relates entirely to the forecast as to when the numbers of Viscounts in operation will cease to be substantial.

Admittedly, as the Prime Minister has inferred, present company planning calls for the ownership of a "substantial" number of Viscounts further into the future than was previously thought likely.

Out of this, two facts emerge clearly:

1. TCA management must and will continue to honour its commitment to base personnel.

2. If the Dixon Speas report figures are accurate, a substantial penalty in otherwise avoidable operating costs will have to be paid, if the Winnipeg overhaul base is maintained as such after TCA's operation of Viscount aircraft reaches an uneconomically low figure.

Mr. GREGOIRE: You kept all these Viscounts because the DC-9's would not be ready for operation until later?

Mr. MCGREGOR: No, it was because we were not prepared to imagine or forecast substantial changes in our route patterns. As long as we had these small, light traffic routes, these Viscounts appeared to be the cheapest way to operate them.

Mr. GREGOIRE: Did you publish a report on the overhaul base in Winnipeg that you received?

Mr. MCGREGOR: You are talking about the Dixon, Speas report?

Mr. GREGOIRE: Would you publish it?

Mr. MCGREGOR: The Dixon, Speas report is basically a four volume set of books containing thousands of valuable items of information that we regard as proprietary to the interest of T.C.A., and it would be very wrong to make them public.

Mr. GREGOIRE: Do you think that any part of the Winnipeg overhaul base is included in that classification?

Mr. MCGREGOR: In addition, there is a summary which was prepared by Dixon, Speas, who, knowing this problem full well, prepared a summary. But anything we regard as not proprietary to T.C.A. interest, we would have no objection to making public. However we would not want to publish any material that we considered to be proprietary to T.C.A.'s interest, and which would be of value to other air lines.

Mr. GREGOIRE: You do not object to the publication of this summary?

Mr. MCGREGOR: No, that is right.

Mr. GREGOIRE: Would the minister be prepared to make it public?

The hon. G. J. MCILRAITH (*Minister of Transport*): No. I made a statement in the House which I think may have been missed the other day. It was T.C.A., not the government which obtained the Dixon, Speas report. The government has asked Dixon, Speas to summarize his whole report in a way which will leave out the kind of material spoken of by Mr. McGregor, and leave everything else in. It is being prepared for the purpose of being tabled in the House. That is the purpose of it. Incidentally, I hope that it comes soon.

Mr. FISHER: I have a supplementary question. Did Dixon, Speas investigate or try to make an estimate of the cost of social dislocation?

Mr. MCGREGOR: No. The Dixon, Speas report was prepared by a firm of well established economic consultants on air line operations, and it confined itself under the terms of reference and by natural instinct to the exact effects on the air line of duplicating two bases.

Mr. FISHER: Mr. Chairman, I should like to ask the minister whether the government is in possession of any information which may have been provided by any source regarding the cost of these lags which wipe out the Winnipeg air base?

Mr. MCILRAITH: You are asking about costs to whom?

Mr. FISHER: I refer to costs to employees, and to the communities around Winnipeg.

Mr. MCILRAITH: No, but there have been submissions by various groups from Winnipeg. I do not know exactly how to describe these submissions,

but they are based on studies of human welfare and there have been quite extensive representations in respect of this point.

Mr. FISHER: Have you also received one from the provincial government as well as the city of Winnipeg?

Mr. MCILRAITH: Yes, as well as from other committee organizations. One of the ministers of the provincial government has also been making representations in respect of this subject.

Mr. FISHER: I should like to distinguish between these representations as they apply to T.C.A. in other words, there have been official representatives from the Manitoba government and from the city of Winnipeg to the government as distinguished from T.C.A. making a point about social costs and the cost to the Winnipeg community in respect of its growth potential.

Mr. MCILRAITH: Yes. I do not know whether you would call this government representation or not, but this community organization was headed by Mr. Eraro a minister of the government, and this group has made quite extensive representations in respect of this subject.

Mr. FISHER: Was the Prime Minister's statement of last week the final government position in this regard or are these representations from Manitoba still under consideration?

Mr. MCILRAITH: They are still under continuing consideration, yes. Their representations I should say are quite broad in their context. They have made studies which they have referred to me on behalf of the provincial government showing the need for this class of industry or work in their economy. They have made quite extensive representations in this regard. The government announcement in respect of the purchasing of the DC-9 was also an attempt to allay their fears consequent on the interpretation they placed on the letter of November 14, 1962. I may say I read that letter and made reference to this fact to the delegations on different occasions, but sometimes perhaps delegations do not listen as thoroughly as they talk.

Mr. FISHER: I can assume then that the government has an open mind and the matter is still open in so far as the government is concerned?

Mr. MCILRAITH: Yes.

Mr. MUIR (*Lisgar*): Mr. Chairman, I should like to correct one statement. Is it not true that besides the community people you have mentioned the city of greater Winnipeg, including the surrounding areas such as St. James, has also made submissions on an official basis?

Mr. MCILRAITH: All these submissions were presented together by one huge delegation in June headed by a minister from the Manitoba government. There were in attendance mayors and reeves of all the municipalities. As a matter of fact, the mayor of Winnipeg is renting billboards in order to publish facts in respect of this subject. I do not know whether you draw a distinction between different groups in that delegation.

Mr. ROCK: Mr. Chairman, I should like some clarification of the word "duplicate" as used by Mr. McGregor. Is the Winnipeg overhaul base a duplicate of the base at Dorval? Have you the same stock, spare parts and other equipment at Winnipeg as in Dorval?

Mr. MCGREGOR: No. There is a spare parts stores at Winnipeg associated specifically with Viscount aircraft and Dart engines. What I was trying to say is that the duplication of service has reference mainly to supervision where there is a heavy and unnecessary additional expense.

Mr. ROCK: Do you have the same type of automatic I.B.M. system in respect of controlling the spare parts situation in Winnipeg as in Dorval?

Mr. MCGREGOR: Yes, but they are not identical.

Mr. NUGENT: Mr. Chairman, I should like to ask a question more in respect of a point of order. I thought you mentioned earlier that you hoped we would finish with this subject and refrain from going back to it. I should like to be sure that no one is taking the position that we cannot go back to what I call the proper order of procedure. When we are considering facilities and equipment, and personnel, it seems to me that a question of that type will naturally lead to a consideration of repair facilities. I certainly wish to ask the questions I have at the proper time of consideration, but I want to be sure that we are not going to be precluded from dealing with these questions in their proper order when we come to them.

The CHAIRMAN: Mr. Nugent, I appreciate your point of view but I do not know what the wish of this committee is in this regard. We have now gone quite far afield from the first paragraph in respect of financial matters.

Mr. NUGENT: You did indicate this was only a diversion, Mr. Chairman.

The CHAIRMAN: Perhaps it is only a diversion. Is it the wish of the committee to proceed with the financial section of this report?

Some hon. MEMBERS: Agreed.

Mr. PUGH: Just a moment. Actually I have been waiting some time to ask questions.

Quite frankly, Mr. McGregor, I cannot understand—

Mr. NUGENT: Before you proceed, Mr. Pugh, let us get this straight.

Mr. PUGH: For God's sake.

Mr. NUGENT: As I understand the situation, Mr. Chairman, you would like us to question in an orderly manner. If we are going to continue in this way I think we should have a ruling from the Chair. Can we go back to these questions in proper order when we are considering equipment and personnel at the time when these questions should be asked. Our questions in regard to equipment and personnel during our consideration of financial matters can only be partially answered and I want to make sure, while some members may have isolated points to consider, that we can carry out a systematic inquiry in a proper orderly manner.

Mr. GREGOIRE: On the point of order, Mr. Chairman, I raised a question in respect of deficits. That was completely in line with questions we are now asking. Therefore I did not refer to the question of parts or the overhauling of aircraft, but to deficits which might be increased or decreased because of the operation of this overhaul base. I think I was in order in asking that question for clarification.

The CHAIRMAN: I allowed Mr. Gregoire to open that subject because he spoke of deficits. This committee expressed the desire to go a little further afield. If it is the wish of the committee to discuss the Winnipeg base in respect of equipment and facilities I hope that we will defer questions in this regard until we reach that portion of the report.

Mr. PUGH: Mr. Chairman, I should like to ask questions in respect of the equipment and facilities later on during our consideration of this section, particularly in respect of the Winnipeg situation, but we have been talking about humanities. You said you wrote this letter in 1962; is that correct?

Mr. PRITTIE: Mr. Chairman, on the point of order, are we leaving the Winnipeg situation now and referring back to financial matters?

The CHAIRMAN: I am in the hands of the committee but I would suggest we leave questions in respect of the Winnipeg base until we are considering the section on equipment and facilities. It was my original hope that we proceed in this manner. Mr. Gregoire did confine himself, very cleverly or otherwise, to a very good point in respect of deficits. I am sure there will be other

questions regarding Winnipeg when we are considering the section on equipment and facilities, but I think we should now confine ourselves to a discussion of the financial matters. Perhaps we can complete this consideration very quickly and reach our consideration of equipment and facilities early in our proceedings, at which time we will be in a position to discuss the Winnipeg base operations.

Mr. ADDISON: Mr. Chairman, I should like to direct a question to Mr. McGregor in connection with the tragic air crash on Friday, as well as in connection with the DC-8F which wound up in a cabbage patch over London.

The CHAIRMAN: Mr. Addison, do you want to raise this matter at this time during our consideration of the section on finances?

Mr. ADDISON: Yes. My question is in connection with depreciation and amortization as well as insurance.

I understand the DC-8F costs approximately \$7 million. First of all, is the aircraft in London repairable and if it is not repairable, then my concern involves \$14 million which will be charged I assume as a total write-off for 1963, and will doubtlessly be reflected in the company's profit position. Does the company insure itself as far as equipment is concerned? These are the first serious losses suffered by T.C.A. with regard to equipment, and I am referring to the \$14 million in the 1963 operating statement.

Mr. MCGREGOR: The repair or loss of equipment in 1963 will not appear in the operating statement. This is a loss of equipment directly as such and it may have an effect in the 1963 results, but the company has built up over the years an insurance reserve fund because it has self-insured its hull risk—not its passenger liability risk—in the amount of approximately \$9,800,000. This is available at the discretion of the directors for the use of replacing equipment or meeting repair bills.

In answer to another question which you incorporated, the information we have at the present time is that the London aircraft is economically repairable. We have not yet got an exact estimate; we will compare our own and the manufacturers' independent assessment of the cost of repairing the damage in order to be sure that we are reasonably close to one another before a decision is made to repair or not repair the aircraft. My own belief is, in view of the high cost of the aeroplane and the visible damage, and so forth, that it will be repaired.

The total loss of the aircraft last Friday will necessitate a replacement in its entirety. The aircraft had been in service for only a few months so the amount of depreciation from its first price is negligible.

Mr. BALCER: In respect of this same matter, the minister yesterday in the House of Commons in answer to a question informed the house that what happened in London cannot be described as a crash. I noted in the papers this morning that you were reported as stating there was no reason for grounding the DC-8F because there was no connection between the two accidents. Without going into great detail, I wonder whether you could briefly explain to us what happened in London which makes that incident different?

Mr. MCGREGOR: Yes. Thank you Mr. Balcer for giving me this opportunity. I will be glad to explain the difference.

I think the minister in his statement was quite correct and meant that the London incident was not a flying accident, and it was not. In London the aircraft never became airborne. It was at the election of the captain, to use jargon, to "abort" the take-off. This simply means he decided to abandon the effort to take the aircraft into the air. Whether he was right or wrong in that decision is something that will have to be decided by the official investigations now being conducted in England, but it does not really matter what the

answer is. The fact is that at the point at which the aircraft had attained too much speed, and had already used up too much runway, the captain in his judgment decided that he would abort that take-off. This decision would appear to have been taken at a time during the take-off when it was impossible to stop the aircraft on the runway. Therefore, there could be no stigma attached to the aircraft as a structure or flying machine in respect of that decision. The situation last Friday is one in respect of which we know very little.

Mr. NUGENT: Before you leave that subject—

The CHAIRMAN: Let him complete his answer.

Mr. NUGENT: He is going now to the next question.

The CHAIRMAN: He is making a comparison Mr. Nugent.

Mr. NUGENT: I should like to clarify one point, if I may.

The CHAIRMAN: Order. Do you not think, Mr. Nugent, it would be better to let the witness finish his answer and then ask your question?

Mr. MCGREGOR: Thank you, Mr. Chairman.

The situation last Friday is one that is being examined intensively in an attempt to determine exactly what happened. There was no similarity at all between that event and the one in London, because the aircraft had taken off perfectly normally and had climbed to our certain knowledge through 3,000 feet and probably beyond that altitude. It commenced to turn in accordance with its flight clearance and flight plan. What took place immediately thereafter is something that we all must make every effort to determine.

Mr. NUGENT: Mr. McGregor, you said that with regard to the London incident the fact that the pilot changed his mind could not be interpreted as placing any stigma on the performance of the aircraft. You indicated that the aircraft had achieved more than its usual take-off speed.

Mr. MCGREGOR: No, I did not say that.

Mr. NUGENT: I thought that is what you indicated.

Mr. MCGREGOR: No, I said it had attained more than the speed which would allow it to be stopped on the runway.

Mr. NUGENT: I see, I am sorry. The pilot flying that aircraft was an experienced pilot, and the fact that this experienced pilot knew the length of the runway and the weight factor of the airplane, must indicate something about the performance of the aircraft which caused the pilot to try to stop it when he knew he could not stop it in time?

Mr. MCGREGOR: Mr. Nugent, we are now entering an area in respect of which we would be encroaching upon the findings of that investigation in London, and I do not think this would be right.

Mr. NUGENT: Your statement that there could be no stigma attached to the aircraft encroached on the findings of the investigation, did it not, Mr. McGregor?

Mr. MCGREGOR: Perhaps you are right under the circumstances.

Mr. GREGOIRE: Have you finished your investigation in respect of that accident?

Mr. MCGREGOR: There are two investigations now under way. One investigation is being carried out under British authorities, which is normal and there is a company investigation. I think it is true, subject to correction by Mr. Seagrim, that the company investigation is virtually completed.

Mr. H. W. SEAGRIM (*Senior Vice President—Operations Trans-Canada Air Lines*): That is correct.

Mr. ADDISON: I should like to ask a supplementary question. What is the amount of money that goes into the fund each year?

Mr. MCGREGOR: \$850,000.

Mr. ADDISON: Is that a fixed amount or is the amount based on the number of losses?

Mr. MCGREGOR: This figure is based on a decision of the board in respect of what the accruals to the fund will be.

Mr. GREGOIRE: How much would it cost to insure your aircraft through a company outside your own?

Mr. MCGREGOR: Our last consultation with an agent produced a figure in the neighbourhood of \$5 million per year. We have also made calculations in relation to self-insurance savings against outside underwriting, and it is still substantial.

Mr. GREGOIRE: In view of the complete loss of the DC-8F, your fund will be almost depleted.

Mr. MCGREGOR: I am afraid you are correct.

Mr. GREGOIRE: If you have another complete loss you will then be in the red, but on the average you have not lost to date?

Mr. MCGREGOR: That is correct.

Mr. PRITTE: Mr. Chairman, I have a question based upon page 7 of the annual report. Last year there was a great deal of discussion in this committee regarding the so-called social runs. I notice the statement at page 7 to the effect that cross subsidies in respect of fares have virtually ended. I should like to ask a specific and general question. My specific question is, how much did the Vancouver-Victoria run lose in 1962? My general question is, is the company able to give any information in respect of what the losses are on some of these other short runs, such as the Montreal-Ottawa and Toronto-Ottawa runs? We realize that these runs must be maintained, but I think the Canadian public should know just what the company has to pay to maintain these runs.

Mr. MCGREGOR: We can give you those figures in groups. The Vancouver-Victoria run, according to our calculations, in 1962 lost \$891,000.

Mr. ADDISON: Thank you.

Mr. GRANGER: I should like to ask a question along the same lines.

The CHAIRMAN: Have you finished, Mr. Prittie?

Mr. PRITTE: I believe Mr. McGregor has some further information in respect of short haul losses.

Mr. MCGREGOR: Yes. Perhaps you would like to mention a route, or would you like to group them in groups?

Mr. ADDISON: I am interested in knowing the losses incurred as a result of maintaining the Montreal-Ottawa and Toronto-Ottawa runs.

Mr. MCGREGOR: Those are incorporated, in the Toronto to Montreal route which includes both the Montreal-Ottawa leg and the Ottawa-Toronto leg, and it lost \$2,273,000.

Mr. GREGOIRE: Are you referring to the traffic service between Montreal and Toronto?

Mr. MCGREGOR: Yes, including Ottawa.

Mr. GREGOIRE: You are losing on that run?

Mr. MCGREGOR: Yes.

Mr. NUGENT: Could you give me the figures in respect of the Edmonton-Calgary run while you have those figures before you?

Mr. MCGREGOR: I think it is fair to say that every air line loses on any run under 500 miles in length.

Mr. NUGENT: Perhaps you could give me the Edmonton-Calgary figures while you have them before you?

Mr. MCGREGOR: We have a designation of the prairies and foothills runs which include the multi-stop run between Winnipeg and Lethbridge. The figure in this regard is \$1,392,000.

Mr. NUGENT: Do you not have any breakdown in respect of the Edmonton-Calgary run?

Mr. MCGREGOR: No.

Mr. GREGOIRE: Do you have figures in respect of the Quebec-Montreal run?

Mr. MCGREGOR: That again is classified as the north shore route extending to Bagotville and Seven islands.

Mr. GREGOIRE: What is the loss there?

Mr. MCGREGOR: The loss is \$1,534,000.

Mr. GREGOIRE: Can you indicate any route in respect of which you make a profit?

Mr. MCGREGOR: I cannot indicate a short route in this regard, no. As I say, the two routes that make money constantly are the transcontinental and transatlantic.

Mr. REGAN: Did you decide to use DC-9's on shorter runs because they are more economic?

Mr. MCGREGOR: I do not think so. It is more competitive to use DC-9's on transborder runs such as from Montreal and Toronto to New York. Very soon we will have to give up operating turboprops and use full jet aircraft to compete with United States carriers on these runs.

Mr. PRITTE: Mr. McGregor, do you know whether C.P.A. loses money constantly on short runs?

Mr. MCGREGOR: C.P.A. has indicated that they do, so I presume it is a fact.

Mr. NUGENT: Mr. McGregor, in respect of the Edmonton-Calgary run, surely your system of cost accounting would enable you to give us information as to the loss incurred?

Mr. MCGREGOR: Are you referring to the Calgary-Edmonton run?

Mr. NUGENT: Yes.

Mr. MCGREGOR: Yes, surely.

Mr. NUGENT: Could we have that figure at a later date perhaps?

Mr. MCGREGOR: This involves a completely arbitrary breakdown. The aircraft takes off from Edmonton, flies to Calgary, stops, and then goes down to Lethbridge.

Mr. NUGENT: I understand most of the trips are from Edmonton to Calgary and back.

Mr. MCGREGOR: Most of the trips are not just back and forth.

Mr. NUGENT: How many trips are there from Calgary to Lethbridge per day?

Mr. MCGREGOR: I think there are four or five now.

Mr. NUGENT: I wish you would check that situation because it seems to me that there are three or four trips made per day between Edmonton and Calgary, in respect of which the aircraft stops in Calgary, turns around and goes back to Edmonton.

Mr. MCGREGOR: The same aircraft and crews are involved in other operations, and this is why it is very hard to break down a specific leg. Our accounting is done on a group basis, and this is true in respect of runs such as the Edmonton-Calgary-Lethbridge run and the Swift Current-Regina-Medicine Hat, until we got rid of it.

Mr. NUGENT: For instance, you are using the DC-8 on that run, and I presume these aircraft would be used on trans-Canada runs. What portion of the cost would be related to the short run, and what portion to the transcontinental run? Perhaps if you cannot give me the information now you can do so later. I am trying to find out how accurate your information is.

Mr. MCGREGOR: What I am saying is, it is hard to break out one leg of a route which has been accounted on the basis of a group of routes.

Mr. NUGENT: Yes, it may well be that a group of routes are losing, but that does not mean that each one of these small routes is losing money.

Mr. MCGREGOR: That is correct.

Mr. NUGENT: Can you give us any information that will re-enforce your opinion in that regard, showing that each one of these small routes, for instance the route from Edmonton to Calgary to Lethbridge, is losing money? The run from Edmonton to Calgary may be making a profit, and it may be important to our considerations, particularly when we perhaps have to compare P.W.A. against T.C.A. I gather T.C.A. is not happy with the competition from P.W.A. in respect of the run from the municipal airports, but there are questions in that regard and it would be most helpful if we had that information. Perhaps you could give us a breakdown based on actual route operations.

Mr. MCGREGOR: Are you referring to post P.W.A. or pre P.W.A.?

Mr. NUGENT: I am referring to both before and after because I have a series of questions I wish to ask in respect of the effect of that competition.

Mr. MCGREGOR: That is not competition because that operation is over a different route.

Mr. NUGENT: P.W.A. does operate a flight from Edmonton to Calgary, whereas you operate from Nisku to Calgary. P.W.A. runs from the Edmonton municipal airport to Calgary, but so far as the citizens who are concerned, both air lines are servicing the citizens of Edmonton and Calgary. I think it would be most important and helpful to us if T.C.A. could give us a breakdown and a little more detail of the actual cost of the operation of each of those legs.

Mr. MCGREGOR: We will endeavour to break that information down for you.

Mr. FISHER: Mr. Chairman, could I ask Mr. Nugent why this information would be important and helpful?

Mr. NUGENT: To begin with, there have been a number of requests regarding the effect of P.W.A. competition. Mr. Fisher may not be aware of the situation in respect of the Edmonton municipal airport, but some individuals want to close it. The fact is that P.W.A. operates an air bus service from the middle of downtown Edmonton to Calgary at lower rates. It is a different type of service, as Mr. McGregor has pointed out, but I am interested in knowing whether this service has increased the total number of passengers or not, and I would like some information in respect of T.C.A.'s cost because I think it is important in analysing Mr. McGregor's evidence to the effect that no air line makes money on a short run. It is my information the P.W.A. does make money on the Edmonton to Calgary flight. I think these factors are very important to our consideration of your plans.

The CHAIRMAN: Are there any other questions in respect of the section covering finances?

Mr. FISHER: Yes.

Mr. NUGENT: Mr. Chairman, when are we going to adjourn?

Mr. LLOYD: Mr. Chairman, when you ask if there are any other questions in respect of finance, I suggest it would be more accurate if you asked whether there were any more questions in respect of the financial organization or financial statement, because we will have ample opportunity of asking questions in respect of other sections. I suggest you are opening up the subject regarding deficits in respect of which questions should be asked while we are dealing with the financial organization.

The CHAIRMAN: Yes. Are there any other questions in respect of the financial operation and statement?

Mr. MONTEITH: Mr. Chairman, unless someone is ahead of me I should like to ask Mr. McGregor to explain the accounting procedure regarding new aircraft. Do they come in as capital and are they depreciated? Presume an aircraft becomes obsolete, is the balance of the capital cost written off immediately?

Mr. MCGREGOR: It is written off on disposal.

Mr. MONTEITH: It is done on disposal?

Mr. MCGREGOR: Depreciation is charged by T.C.A. when the aircraft goes into service and stops when the aircraft goes out of service.

Mr. MONTEITH: At what rate is the depreciation charged?

Mr. MCGREGOR: The rate varies depending upon the type of aircraft. In the case of the DC-8 it is based on a 12-year life. In respect of the Vanguard it is ten years and in respect of the Viscount it is nine years. These are different rates of depreciation based on our estimate of the useful service life of the aircraft. If there is a difference between the book value remaining at the time the aircraft goes out of service and its resale value, this is absorbed as a loss at that time.

Mr. ADDISON: You use a straight line system of accounting?

Mr. MCGREGOR: Yes. It is a straight line system of depreciation.

Mr. ADDISON: For the purposes of taxation I suppose you use a different system, is that correct?

Mr. MCGREGOR: Yes.

Mr. ADDISON: Do you pay any taxes?

Mr. MCGREGOR: We did on one occasion, I regret to say. We have a straight line depreciation from the purchase price to the residual value which is believed to be the forced sale value of the aircraft.

Mr. GRANGER: Mr. Chairman, I should like to ask Mr. McGregor a question. What is T.C.A.'s financial position with regard to the operation of its run from Montreal through to the Atlantic provinces?

Mr. MCGREGOR: Are you asking whether it is profitable or not?

Mr. GRANGER: Yes.

Mr. MCGREGOR: It is not profitable.

Mr. GRANGER: What are the figures involved in this regard?

Mr. MCGREGOR: I will give you those figures.

Mr. GRANGER: Could you give us as much information as possible in this regard?

Mr. MCGREGOR: In 1962 our losses were \$2,486,000.

Mr. GRANGER: Is that in respect of the whole operation?

Mr. MCGREGOR: That is in respect of the whole operation. There are certain legs which you might not think as being part of the operation which have shown losses and they are the Toronto-Moncton run; the Montreal-Fredericton run; the Saint John to Moncton run; the Halifax to Sydney run; the Montreal to Moncton run; the Fredericton to Saint John run; the Montreal to Halifax run; the Quebec to Fredericton run; the Saint John to Halifax run, the Saint John to Yarmouth run; the Halifax to Yarmouth run and the Moncton to Sydney run.

Mr. GRANGER: In respect of the flight that goes from Montreal to St. John's, Newfoundland is that a profitable run or not?

Mr. MCGREGOR: No. When I say no that does not mean that no flight is profitable, the over-all operation is not.

Mr. GRANGER: It is the over-all operation to which I had reference.

Mr. HAHN: In respect of the so-called unprofitable or actually unprofitable runs, could they be made profitable if you could get the public to accept less sophisticated aircraft? In other words, if you were to perhaps go back to using the DC-3's or an equivalent, would these legs become profitable?

Mr. MCGREGOR: I do not think so. They never were profitable when we used the DC-3's.

Mr. HAHN: We are not concerned with the fact that the public demands a higher calibre aircraft, and that is not the cost problem.

Mr. MCGREGOR: No, to maintain traffic volume I think you have to maintain standards of service. As I have said, these routes are traditionally non-profitable.

Mr. HAHN: Do you mean it is impossible to service distances of less than 500 miles by air and make a profit?

Mr. MCGREGOR: That is my opinion.

Mr. FISHER: I should like to ask one or two questions in respect of two different areas. I should like to revert to our starting point. I am assuming, Mr. McGregor, that you feel the fare differential between C.P.A. and T.C.A. on trans-continental routes is unfair and equitable?

Mr. MCGREGOR: Mr. Chairman, this is a difficult question to answer in the affirmative right off the bat, although my tendency is to do just that. However, Mr. Balcer raised the point in respect of frequency restrictions. It certainly seems quite wrong to me that in a public service organization there should be an identical service flying an identical route leg with a different price tag.

Mr. FISHER: I should like to ask Mr. McGregor whether it would be of any assistance to him in regard to this anomaly to have this committee make a recommendation?

Mr. MCGREGOR: You are putting me on the spot.

Mr. BALCER: That is a loaded question.

Mr. MCGREGOR: I do not know of any recommendation on the part of the committee, keeping in mind the evidence the committee has received, that would be of tremendous value. I say that with great diffidence to this committee. This is a very complex question and a recommendation of the committee based on the amount and nature of the evidence it has been given in these public hearings might not be of a great deal of help. I am very much aware of the problem.

Mr. FISHER: Suppose we made a recommendation on the basis that this would be healthy for the government owned air lines, for which you are responsible, would that make a difference?

Mr. BALCER: In that event perhaps we should have evidence from the officials of C.P.A.

Mr. FISHER: I always thought it would be of interest to have such evidence. I notice a vice president of C.P.A. in attendance here. I do not know whether it would be proper to ask him if C.P.A. would be prepared to give evidence in this regard.

The CHAIRMAN: Order.

Mr. NUGENT: Mr. Chairman, I think this is an appropriate time to adjourn.

The CHAIRMAN: Perhaps we could proceed for five more minutes.

Mr. FISHER: I have one more question to ask Mr. McGregor. The railways are making a strenuous effort in respect of the social routes in an attempt to increase their load factor. Is there any possibility at all, considering the loss you are suffering in respect of these social routes, to implement a red, white and blue system of fares particularly for your poor load days in order to increase your load factor and lower the cost of domestic air travel to the consumer?

Mr. MCGREGOR: This depends entirely on the route, Mr. Fisher. In the case of the Montreal-Toronto route the load factor is excellent. In fact, we are hard put to meet demands, so that anything in the way of a fare reduction would do very little to the volume of traffic, and would do a certain amount of damage to the revenue; inherently the cost of an air line operation is based on the kind of aircraft, providing it, fueling it and flying it; having done all those things, many of those costs are quite constant and therefore have a greater effect per mile on a short route than over a long route. This is why the economy of a short operation is bad. Frankly I know of no regional carrier in Canada which is in anything like a comfortable financial position. I heard reference a moment ago to the glee of P.W.A. over their operation between Edmonton and Calgary. This may or may not be the case. I do not think they are all that happy financially.

Mr. FISHER: Is there any possibility at all of designing a new fare structure to take care of the fact that your load factors vary so much on different days of the week such as the railways are attempting?

Mr. MCGREGOR: We have had a plan in operation for some time in this regard. We endeavour to draw traffic, (a) to the bad season and, (b), from certain light-load days to other days. Certainly I would agree with you entirely, Mr. Fisher that volumes of traffic are very susceptible to price changes. This is perhaps more true of air travel than of any other commodity. The tremendous traffic growth we had in 1961 was certainly directly attributable to the fare reduction put into effect on January 1, 1961. There was a noticeable slowing up of the rate of growth on short routes when the April 1, 1962 tariff went in, which increased the cost on short haul operations. There has been steady endeavour to properly relate the revenue derived from short hauls to the revenue derived from long hauls.

Mr. FISHER: I think we are all interested in having lower fares on short haul routes. Would you consider trying to make a new analysis to see if it might not be possible to knock these fares down particularly on certain days?

Mr. MCGREGOR: We could knock them down. In fact, we did the reverse in April of last year and produced the effect that we now have before us. The only possible chance of the cost per seat mile, or per passenger mile on short haul routes being of the same general order as on long haul routes, would be if we had short haul aircraft that could be operated on something like half the present day cost, but I know of no such aircraft, and furthermore I do not know of anyone who is busy building or designing one.

Mr. FISHER: Mr. Chairman, I should like to ask one question for the sake of information. I should like to ask more questions about the transair milk runs, but do you consider that these questions should be asked during our consideration of the financial structure?

Mr. MCGREGOR: We can answer your questions at this time if you prefer.

Mr. NUGENT: Mr. Chairman, on a point of order, it is now 12 o'clock. The house sits at 2.30 p.m. I have to attend another committee meeting at two o'clock. Perhaps we could adjourn at this point.

The CHAIRMAN: I am open to a motion for adjournment.

Mr. HAHN: I move we adjourn.

Mr. MUIR (*Lisgar*): I wonder whether Mr. McGregor could bring some figures regarding the breakdown of operating cost factors in respect of the DC-8 as compared with the Vanguard and Viscount?

Mr. MCGREGOR: Are you referring to figures in respect of aircraft miles or per seat mile?

Mr. MUIR (*Lisgar*): I am interested in seat miles, but perhaps you could bring both sets of figures?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Mr. Chairman, I think we should express our appreciation to Mr. McGregor for the way in which he has answered our questions, and the politeness he has extended to us in answering our questions. We are very happy to have him with us.

The CHAIRMAN: Gentlemen, before you leave, I hope it is understood that we will meet after the orders of the day in this same room.

Committee adjourned.

#### AFTERNOON SITTING

The CHAIRMAN: Gentlemen we have a quorum. This morning when we adjourned we were considering the financial section of the annual report. Mr. McGregor was asked a question by Mr. Muir and he wishes to give the answer at this time, although Mr. Muir is not present.

Mr. McGregor: I can give the answer now or wait until Mr. Muir arrives, whichever you like.

Mr. NUGENT: Mr. Chairman, Mr. Muir gave me a copy of the question and asked me to listen to the answer.

Mr. MCGREGOR: Mr. Muir asked for the dates of the delivery of the Viscounts. If I may I will table this sheet of paper which shows the dates of delivery from 1954 through to 1959. The aircraft delivered to us by years is as follows: 1954, 1; 1955, 13; 1956, 4; 1957, 13; 1958, 16; and in 1959, 4, making a total of 51 which is our total acquisition of Viscounts.

We have in service at the present time 40 Viscounts. We have six inactive and the five not accounted for have had a variety of fates. One was destroyed while parked on the ramp at New York by another aircraft being driven into it; one was destroyed at Bagotville by another aircraft being driven into it; one was destroyed during a landing at Malton and two have been sold.

Mr. NUGENT: Perhaps I may just interject at this point, Mr. Muir indicated to me, Mr. Chairman, that he also asked for a breakdown of operating costs.

Mr. MCGREGOR: That is correct.

I have another sheet of paper covering this question.

As I understood his question, he wanted to know our operating costs for various types of aircraft, the Viscount, Vanguard and DC-8. I asked him if he wanted this breakdown on a per seat mile basis or on an aircraft mile basis and first of all he said on a seat mile basis and then said on both bases.

The Viscount operating costs on an aircraft mile basis is \$1.28 and on a per available seat mile basis it is 2.501 cents.

The Vanguard operating cost on a per aircraft mile basis is \$2.10, and on an available seat mile basis it is 1.941 cents.

The DC-8 operating cost on a per aircraft mile basis is \$2.08 and on a per available seat mile basis it is 1.590 cents.

I rather suspect that Mr. Muir might have had in mind the idea of comparing our operating costs with another carrier. If this was his thought, I should explain that if we are talking about C.P.A. DC-8's, I should point out that at the expense of giving up the first class passenger lounge they have installed 141 seats. We have 131 seats with the lounge. So that if you divide the operating costs by the greater number of seats you would get a lower operating cost per seat mile.

I should also like to explain that T.C.A. does C.P.A.'s engine overhaul work with respect to the DC-8 and therefore the tendency to have a lot of money invested in overhaul equipment and parts is reduced.

Mr. PUGH: They would pay for that service would they not?

Mr. MCGREGOR: Indeed they do.

Mr. PUGH: Do they pay a good rate for this service?

Mr. MCGREGOR: Yes, they pay the same rate we pay.

Mr. PUGH: You have capital expenditure tied up in this regard?

Mr. MCGREGOR: Yes, as well as staff and so forth.

Mr. PUGH: Would C.P.A. not pay something in this regard in the amount that they must pay for this service.

Mr. MCGREGOR: I am afraid not.

Mr. PUGH: You are providing this work for less than cost?

Mr. MCGREGOR: Not less than cost, but less than it would cost them if they did it themselves. There is a big difference there.

Mr. MONTEITH: In calculating this cost per seat mile or aircraft mile, is it only the actual operation that goes into the figure or, is the company overhead distributed?

Mr. MCGREGOR: I will give you the calculation. I don't know just how to define company overhead, but these figures include only direct flying costs:—flight crew salaries and expenses, fuel, oil, landing fees, meals, flight equipment insurance and depreciation, to name a few. These are direct operating costs.

Mr. PUGH: In respect of this \$20 variation in and across Canada, could the overhead of C.P.A. be less than the overhead of T.C.A. making it possible for C.P.A. to reduce the fare by the \$20.

Mr. MCGREGOR: I don't know.

Mr. HAHN: First of all I should like to ask a supplementary question regarding the information we have just been given. In arriving at this cost per seat mile, or per aircraft mile you must have assumed a certain stage length. Can you give us an indication as to the average stage length?

Mr. MCGREGOR: This depends on the operations of the different types of aircraft. I would say the average stage length of a DC-8 is probably in the order of 2,000 miles.

Mr. HAHN: So that these figures you have given us are based on an average stage length, and you have used that figure for each type of aircraft.

Mr. MCGREGOR: No, these are total costs of operating the DC-8 divided by the miles they operated and, in the case of seat mile costs, divided by the number of installed seats.

Mr. HAHN: I should like to ask another question. At page 7 of your annual report there are certain figures which I would like you to explain a little further the left hand column, after the figures 32.95 cents and 31.52 cents as the per available ton mile. Do these figures reflect only the freight costs, or do these figures include passenger costs where you have estimated the passenger weight?

Mr. MCGREGOR: That is the total available pay load of the aircraft.

Mr. PUGH: Going on from that, these figures show an improvement, but they do not mean anything because we have no standard of comparison as against other air lines. Do you have any idea how these figures stack up?

Mr. MCGREGOR: Yes. I have a comparison between T.C.A. and U.S. carriers on the basis of a system cost per available ton mile. These are in respect of 1962. T.C.A. system figure is 29.44 cents and American Air Lines is 28.13 cents.

Mr. HAHN: What would be the reason for the difference? Would it be a route structure that we have in this country?

Mr. MCGREGOR: Basically. As I explained this morning, the longer the average stage length of a carrier the better its operating cost will be per ton mile.

Mr. HAHN: A little further on in this report at page 7 you refer to the cross subsidization in giving service on shorter distances. Is the mix of loads that T.C.A. flies comparable in average stage length to the mix that domestic United States carriers would fly, or do we have differences by reason of our geography?

Mr. MCGREGOR: I think basically we tend to serve stations of considerably lower population and, therefore, a lower traffic generating potential as opposed to any of the major carriers in the United States. In fact, both American Air Lines and United Air Lines a few years ago appealed to the C.A.B. for the right to pass up smaller centres that they were serving, and I think permission was granted. We still serve a very much higher proportion of small points, populationwise, on our route pattern than I think any of the major United States carriers.

Mr. HAHN: The areas that were bypassed in United States were then being served by some other form of transportation which took up the slack; is that right?

Mr. MCGREGOR: Yes. I should explain the situation, in case that seems to be a mystery; in the United States, there is also a subsidy to what we call regional type carriers.

Mr. HAHN: Thank you.

Mr. CANTELON: Mr. Chairman, I should like to ask a question which arises out of the information given in answer to a question asked this morning by Mr. Monteith, and which deals with the table appearing at page 4 of the annual report, particularly in respect of depreciation and amortization. I gathered from your reply that the depreciation and amortization in respect of your aircraft are done on a straight line basis which means that by the time they are retired the depreciation has eliminated the cost?

Mr. MCGREGOR: With certain modifications, that is right. First of all, we depreciate as I have mentioned, from the purchase price to an arbitrarily arrived at residual value, which we believe to be the forced sale value. We also have forecast, in setting up that period of time, how long we think we will

be able to operate an aircraft in satisfactory operations. If both of these assumptions are correct, then you are correct, but you should have those modifications.

Mr. CANTELON: I realize that there would be changes but the assumption I was trying to make was that there would be then a fairly regular depreciation each year, depending upon the total number of aircraft you had in service?

Mr. MCGREGOR: Yes, and their cost, and those have risen quite sharply in recent years for obvious reasons.

Mr. CANTELON: Perhaps that is the answer for the difference between 1961 and 1962 of some \$3,300,000 roughly.

Mr. MCGREGOR: There are four more \$6-million or \$7-million aircraft being depreciated in that figure as a starter, and also quite a number of additional Vanguard's.

Mr. CANTELON: Thank you.

Mr. GREGOIRE: Mr. Chairman, Mr. McGregor said this morning that they originally intended to put the Vanguard out of circulation by 1966.

Mr. MCGREGOR: I do not think that is quite right, Mr. Gregoire, I said that we intended, to use an expression that we have, "to phaseout" the Viscount not the Vanguard, beginning in 1966.

Mr. GREGOIRE: You intended to phase them out?

Mr. MCGREGOR: We intended to phase them out, adopting a program of regular reduction in the size of the Viscount fleet.

Mr. GREGOIRE: And instead of 1966 you will start in 1973?

Mr. MCGREGOR: No. This program will still begin in 1966 but at a very much slower rate, so there will still be 34 of them in being in 1973. At the time, we foresaw 25 or 20 aircraft probably by 1967 or 1968 under the original plan. This is a change in the plan, I am quite free to admit.

Mr. GREGOIRE: I can see that the interest on loans have increased by \$1 million. Is this because you have made investments in 1962?

Mr. MCGREGOR: Yes, and previous to that time. We increased the Vanguard fleet very substantially in 1962 and the DC-8 fleet in 1962 and each time we paid for the aircraft we borrowed the money, (and our interest charges have gone up.) Would you like to know how much money is under interest?

Mr. GREGOIRE: Is it always true that you get your money from the C.N.R.?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: The only way T.C.A. can borrow money is through the C.N.R.?

Mr. MCGREGOR: I would not say that is the only way. It is the only way we have borrowed money. The machinery has been set up and it is as economic as we can borrow, so we borrow our money from the C.N.R. and we pay the same rate of interest that the C.N.R. pays to the government, having borrowed that same money from the government.

Mr. GREGOIRE: And the government has borrowed the money from the lenders of money and that makes three different operations before it reaches T.C.A.

Mr. MCGREGOR: It is the same amount of money earning the same interest rate. If I borrowed \$10 from you, Mr. Gregoire and then lent it to someone else, you charged me five per cent and I charged him five per cent, we both have the five per cent, but it is the same five per cent.

Mr. GREGOIRE: What is the average interest you pay?

Mr. MCGREGOR: It is actually 4.86 per cent including debentures. The notes were at an average rate of 3.81 per cent and the debentures were at an average rate of 5.18 making an over-all average of 4.86 per cent.

Mr. BALCER: Mr. Chairman, what I have to say is perhaps not in the form of a question. This is a matter that has intrigued me in the past. I remember a couple of years ago a Canadian delegation living here had to go in Paris; it was quite a large delegation of external affairs people. These people travelled by K.L.M. via Amsterdam. At that time I raised the matter with the Minister of External Affairs and he assured me that such a practice was going to stop. Apparently this practice had been going on for quite a while. I myself think this is absolutely silly on the part of government employees going on government missions using foreign carriers. As a result of such a practice good Canadian money is being spent outside of the country.

I was very surprised last May when the NATO permanent delegation to Paris came to Ottawa for a NATO meeting and travelled by Air France although T.C.A. had offered their services. T.C.A. officials had approached this group and made quite a sales effort, but these people snubbed our air lines and travelled to Canada by a foreign carrier.

I think this committee should make some recommendation to the Canadian government that no Canadian personnel employed by this government should travel in any other overseas carrier than a Canadian carrier.

Mr. PRITTIE: Yes, T.C.A.

Mr. BALCER: Or C.P.A. so long as they use a Canadian carrier. The other staff of the NATO group from Paris travelled by T.C.A., but our permanent Canadian delegation travelled by foreign carrier. I think this practice is silly and should be changed.

Mr. MCGREGOR: Thank you very much Mr. Balcer. I very much welcome your comments.

Mr. PRITTIE: I am sure Mr. McGregor is pleased with the new travel arrangements for members of parliament.

Mr. MCGREGOR: Yes, I am, but not for the reason that you would think. This new arrangement brings a member of parliament into a position where he is a proper revenue passenger and may be properly treated as such. The other arrangement was extremely dangerous because we have the basic regulation in our company that the first passenger to be invited off an aircraft is a pass holder and the business, as I have said before, of throwing members of parliament off a flight enroute I do not cherish. I am very much happier that the members are being put in the position of regular revenue passengers vis-à-vis the air line.

The CHAIRMAN: Gentlemen, I know that these are very important observations to the members of this committee and we must take note of them, but I hope that we will be able to make some progress in respect of the section of this annual report, covering finances.

Mr. FISHER: Mr. Chairman, I think we can clear up some of our questions by asking Mr. McGregor to explain the situation in respect of the agreement that was entered into by Trans-Air. You are aware, Mr. McGregor, that I placed certain questions on the order paper in the House of Commons in an attempt to find out the details of this situation, but those details were not supplied. One rather large question remains in my mind. Was T.C.A., as a result of either a decision on the part of the air transport board or a recommendation of the ministry, put in the position of having to give up assets particularly in relation to its equipment by any arrangement or service for equipment which would

effect the financial picture in any undesirable way? I would like to know something in respect of what it gave up in getting clear of the obligations it had to carry on those runs.

Mr. MCGREGOR: Yes. I guess I am in the same position, Mr. Fisher, that the minister was in when you asked the question.

I understand that it is fairly common practice in business not to disclose the terms of an agreement without the consent of the other party. I gathered from something you said before lunch that such a question was going to be asked, and I took the opportunity at lunch to telephone Mr. Ron Turner, President of Trans-Air. I told him I thought I was going to be asked very much the same question you have just posed and, left to my own device, I would give the answer I have given unless he was prepared to say he had not any objections. He said he had objections, that he did not wish the terms of the agreement entered into between T.C.A. and Trans-Air disclosed. He did not think it would be to the advantage of Trans-Air to do so.

However, Mr. Fisher, I understand at the time you asked the question you were given a certain general description of what the deal was about and I do not think I would be violating Mr. Turner's confidence if I did the same thing. Basically, it seems to me to have been a deal which was advantageous certainly to T.C.A. and I hope also to Trans-Air, and these things are not too frequently encountered these days. But, the operation of the prairie milk run, so called, according to our figures was costing us a net deficit of just a hair under \$300,000 per year. This we were quite prepared to disclose at the time, and we did. The route was put up for bids and several regional carriers expressed a desire to operate the route provided they were paid a subsidy in the amount of our deficit, but in the case of Trans-Air it would be somewhat more.

The whole question arose because the airports were not suitable for the operation of Viscount aircraft. Everything else had gone in the way of small routes, which had small airports, and we were left with two D.C. 3's. We had to keep a group of pilots checked out on the D.C. 3 operations, maintenance and so on. Also, we had to keep a set of stores for the D.C. 3 aircraft, and we moaned quite loudly about this.

The alternative which was open at that time was to rebuild these airports, some of them to a major extent, making them suitable for Viscounts, or transfer the route licensing to a carrier that was prepared to continue the operation of D.C. 3's, as was the case with Trans-Air. I am very happy, from T.C.A.'s standpoint, it was to our net advantage.

Mr. FISHER: Now, Trans-Air has applied to the air transport board and I gather favourable consideration is to be given to it getting out of it.

Mr. MCGREGOR: Out of part of the route.

Mr. FISHER: Yes, the southern part of the route. Will you have to make any representations in order to protect yourself from this particular route bouncing back on you?

Mr. MCGREGOR: No, it cannot bounce back to us under the three year period from the first licensing.

Mr. FISHER: I would like to ask the present minister whether he has looked at this case and whether he is satisfied that the crown corporation received a good deal on the transaction with Trans-Air.

Mr. MCILRAITH: Yes, I have.

Mr. FISHER: You have looked at it?

Mr. MCILRAITH: Yes.

Mr. FISHER: Do you agree it was a good deal for T.C.A.?

Mr. McILRAITH: Yes.

Mr. FISHER: Could I ask the minister this question—and perhaps the Chairman may rule it out; could the minister give us any indication of his thinking at the present time in respect of this southern route and what provision may be made for places like Medicine Hat? The reason I asked the question is because there are suggestions coming forward these should again become the responsibility of T.C.A.

Mr. McILRAITH: I am speaking from memory now but the application to discontinue part of this route—that is, the part west of Regina, and, by the way; I did not hear it referred to as the southern part—came to the board, and this is based on a discontinuance as of December 31. The board sent the appropriate notice, did the advertising, and asked for representations up to November 30, I believe it was. I have forgotten the date but, in any event, it was up to a particular date, and I think it was November 30. Those representations then will be considered to see whether or not it is necessary to hold public hearings. I have not checked since the expiry date as to precisely what representations came in. There was the question of other carriers being interested and the re-arrangement of schedules—that is, re-arrangement of routes involved in it.

It is a matter of getting a route that is suitable and it certainly looked as if the route as formerly constituted was not the most satisfactory type of route because it just did not seem to go where the passengers wanted to go. Actually, at one stage of that route there was an average of less than one passenger per flight.

This is a matter of trying to get a method of re-arranging basically so that the aircraft service will go where the passengers want to go.

Mr. FISHER: I have two final questions. It is now up to the air transport board to determine the balance between what Trans-Air gained out of this transaction with T.C.A. as against the loss that it has suffered.

Mr. McILRAITH: Oh, it is much wider than that. They also have to try to get some kind of a route laid out which will serve the people in those communities. That is the nub of the problem on this particular run.

Mr. FISHER: Because of the general interest could Mr. McGregor or the minister comment on the fact this whole arrangement broke down so quickly.

Mr. McGREGOR: I would like to make a comment in this connection. I do not want to attempt to malign a friendly acquaintance of mine, but there was a great many things said by Trans-Air prior to the time of the transfer of licence, to the effect that scheduling changes and so on would correct the whole situation and they would have to fight passengers off with clubs.

We made a complete disclosure of our traffic experience to Trans-Air, our revenues, boarding and deplaning loads. This was all given and we said if this is their belief maybe we do not know how to run a prairie airline. I am afraid they quickly found out there is not a big traffic generating potential in that route.

Mr. FISHER: There should be no misapprehension then that T.C.A. went along in giving optimistic or rosy information to them.

Mr. McGREGOR: This is true; we gave them our full figures for two years and complete access to our records. They came up with the statement finally that they could not operate the route any more cheaply than we could but that they were convinced more revenue could be generated by different routing and timing. But, they have found this is not the case.

Mr. FISHER: I understand there are changes underway and contemplated in respect of some of the airports which would make them flyable for Viscounts.

Mr. MCGREGOR: This is right in one case.

Mr. FISHER: Would this have any effect on T.C.A. entering back into some sort of service in those areas?

Mr. MCGREGOR: If it covered all the airports it might make it physically possible but it would not increase our desire to get back onto the route.

Mr. PRITTE: Is Trans-Air likely to be held to their part of the agreement, with the change of routes that have been made out?

Mr. McILRAITH: I cannot anticipate a decision of the air transport board. I have tried to go as far as I thought I could in dealing with the problem but I would think that part of this route belongs on another route; people go in another direction another way and I do not think this is part of this Trans-Air route at all. I have not the areas firmly enough in mind to make a map of them but I think you will see what I mean if you get the actual route maps out and look at them.

Mr. FISHER: There is another route operated by another company.

Mr. McILRAITH: Yes.

The CHAIRMAN: Have you a question, Mr. Nugent.

Mr. NUGENT: At page 5 of the report, the second paragraph under the heading "financiál" I note in the last paragraph the sentence:

the year was characterized by higher revenue yields per passenger mile, but with a continued shift to economy class travel, a slackening in the rate of traffic growth and lower load factors.

In respect of the slackening in the rate of traffic growth does that not indicate percentage?

Mr. MCGREGOR: Yes.

Mr. NUGENT: The quantitative rate of growth was increased just as much or more than in the year before?

Mr. MCGREGOR: No, not as much.

Mr. NUGENT: There were not as many passengers hauled?

Mr. MCGREGOR: We usually refer to traffic in terms of passenger miles because that takes two things into account, and that rate of growth did slacken.

Mr. NUGENT: But was the quantitative increase very much different than it was the year before?

Mr. MCGREGOR: I can give you the figures.

Mr. NUGENT: Yes, if you would. Could I have the figures for 1960-61 and 1961-62?

Mr. MCGREGOR: I can give you the percentages right now; 21 per cent increase 1961 over 1960 and 7 per cent 1962 over 1961.

Mr. NUGENT: Was this at the time of the impact of competition from C.P.A.?

Mr. MCGREGOR: No, it was after.

Mr. NUGENT: So this was sometime after the inauguration of the competition?

Mr. MCGREGOR: It was in 1960.

Mr. NUGENT: Would C.P.A. experience a similar sort of thing?

Mr. MCGREGOR: I would not think so.

Mr. NUGENT: In the forecast—

Mr. MCGREGOR: I do not want to interrupt you, Mr. Nugent, but I think you must understand this in the context of the background.

As I said this morning, on January 1, 1961, we put in an over-all fare reduction. Now, that produced a fantastic growth in 1961 over 1960. In April, 1962, we put in what amounted to a short haul fare increase and that would decrease the growth rate in 1962 over 1961. You have picked three years to look at and the figures are warped by two different fare changes.

Mr. NUGENT: I was trying to ascertain how closely these figures corresponded to your forecast of what you likely would be doing by way of passenger mile business in these years.

Mr. MCGREGOR: I think we never have had an annual traffic volume which has differed from the forecast by more than 3 and a fraction per cent.

Mr. NUGENT: You mentioned lower load factors and you referred to the Montreal-Ottawa-Toronto run as already operating to capacity. Obviously this does not refer to the short run. Is the lower load factor an important one on the transcontinental run?

Mr. MCGREGOR: I can give it to you by routes, but I would not think so. You see, what tends to drag the factor down is that we got into bigger equipment; one flight has 50 seats whereas years ago one flight had 18 seats. Obviously, if there is a small number of passengers the load factor is adversely affected.

Mr. NUGENT: So one of the factors in this lower load percentage is the fact you are using bigger aircraft?

Mr. MCGREGOR: One of the factors.

Mr. NUGENT: And another factor would be the frequency of the schedules?

Mr. MCGREGOR: If there were too many, you mean?

Mr. NUGENT: Yes.

Mr. MCGREGOR: Yes.

Mr. NUGENT: Now, what is the increase in the number of schedules on the trans-Canada run over the last two or three years? Would not this vary? Does not the increase in the number of schedules bear some relation to the decrease in your load factor?

Mr. MCGREGOR: I think you would get farther if you asked for our number of seats of capacity rather than frequency. The Viscount carries 51, the Vanguard 108 and the DC-8, 131. Frequency is not related to this.

Mr. NUGENT: It may be if we limit it to all the planes you are using at one time.

Mr. MCGREGOR: But, it would be better to ask for the seats.

Mr. NUGENT: Is there any significant difference between your 8 a.m. flight out of Vancouver and your noon flight? Is there a consistent difference in the load carried?

Mr. MCGREGOR: Yes.

Mr. NUGENT: Which flights are the lowest percentage? Which carry the least passengers?

Mr. MCGREGOR: The non-stop to Toronto is the lowest.

Mr. NUGENT: Is it scheduled near the same time as C.P.A.?

Mr. MCGREGOR: I think it is within an hour.

Mr. NUGENT: Now, this lower load factor was also mentioned, and I was talking about the revenue of the company and the cost. As I understood it, your testimony was to the effect that you are carrying as many as you can; you have all the business you want from Montreal to Toronto.

Mr. MCGREGOR: I did not make that statement.

Mr. NUGENT: You said you had as much as you could handle and it was not paying.

Mr. MCGREGOR: Between Montreal and Toronto only.

Mr. NUGENT: But I was talking about Montreal, Ottawa and Toronto.

Mr. MCGREGOR: All right.

Mr. NUGENT: Is that correct?

Mr. MCGREGOR: Generally correct.

Mr. NUGENT: And you are running to near capacity?

Mr. MCGREGOR: We are running at about 65 per cent load factor on that route.

Mr. NUGENT: And this still is not a paying route?

Mr. MCGREGOR: That is right.

Mr. NUGENT: Is there a significant difference in the cost depending on the type of aircraft used, that is whether it is a Vanguard or Viscount, on that route?

Mr. MCGREGOR: No. Are you talking about the two aircraft operating at about the same load factor?

Mr. NUGENT: Yes.

Mr. MCGREGOR: The reason I asked is because the operating costs per seat mile of the Vanguard is lower than the Viscount; it would give a better showing.

Mr. NUGENT: I have one more question. Does the load factor on the Vanguard correspond to the Viscount? Is it the same percentage for both?

Mr. MCGREGOR: We try to achieve that, yes.

Mr. NUGENT: Is this what actually happened in this run, from your experience?

Mr. MCGREGOR: I do not know that we ever conducted a survey in respect of a certain route of the load factors by aircraft types but, generally speaking, I would say the over-all load factor on the route would be pretty much the load factor, as an average, that would be achieved by each flight.

Mr. NUGENT: Farther down I note you say:

On North American services the rate of passenger traffic growth expressed in passenger miles slowed to 4 per cent from the 20 per cent of 1961. This tendency was particularly noticeable on the shorter routes.

How much of this is because of the air fare increase and how much would be due to difficulties of getting from the airports into the cities, or as a result of the competition from other means of transport?

Mr. MCGREGOR: I have not the slightest idea.

Mr. NUGENT: Then, I will put it this way. We know that the faster aircraft over the last few years has been the Vanguard, that it is faster than the Viscount; does the total elapsed time from city centre to city centre now by Vanguard any faster than it used to be, say, six years ago when you only had the Viscount?

Mr. MCGREGOR: Yes.

Mr. NUGENT: It is?

Mr. MCGREGOR: It depends on the length of the route. A faster airplane only means a time advantage over a slower airplane, if the flight is of a reasonable length; a difference of 40 knots between Montreal and New York represents six or seven minutes.

Mr. NUGENT: I wanted to find out how significant the increase in speed is. The total elapsed time for your passengers is not going to vary very much on a short run and if this is so then the speed of the aircraft is a rather minor factor really in attracting passengers.

Mr. MCGREGOR: It depends whether or not another airline is operating a faster one.

Mr. NUGENT: Even though you have said in a comparable short run there is only a few minutes difference?

Mr. MCGREGOR: Yes, but the public will go to the faster service.

Mr. NUGENT: I am not sure of my figures on this but I contacted your passenger agent for the Montreal-New York route and compared your figures with those of your competitors; he informed me you were getting the major share of the business even though your planes were slower.

Mr. MCGREGOR: I would question that.

Mr. NUGENT: They are not slower?

Mr. MCGREGOR: No.

Mr. NUGENT: But you are getting a very large percentage of the business compared with them?

Mr. MCGREGOR: Yes, even though some of the flights are operated by Eastern Airlines jets.

Mr. NUGENT: Is it because of the safety factor then?

Mr. MCGREGOR: I think it is largely habit, regularity of operation in this service, and so on.

Mr. NUGENT: To go on a little farther into this passenger traffic to continental Europe, did you indicate earlier this was a remunerative part of your business increase, 29 per cent, even though there was only a modest increase in traffic?

Mr. MCGREGOR: Yes.

Mr. NUGENT: There is nothing stopping T.C.A. in respect of its landing facilities; you have a terminal in London.

Mr. MCGREGOR: Yes.

Mr. NUGENT: Which C.P.A. does not have?

Mr. MCGREGOR: Yes.

Mr. NUGENT: Is there any place in London or in the United Kingdom which would be more advantageous for you to land from the viewpoint of attracting passengers?

Mr. MCGREGOR: Than London?

Mr. NUGENT: Yes.

Mr. MCGREGOR: No. We also land at Prestwick and Shannon, if you call that the United Kingdom.

Mr. NUGENT: Could you give us some explanation on the fact that while the European runs seem to have increased satisfactorily the increase to the United Kingdom was not as much? Was someone else getting it?

Mr. MCGREGOR: I think in some cases the total market is divided. Also, I think a proportion of our traffic to London previously was destined for Europe, and now we operate direct services to the continent.

Mr. NUGENT: So, the London traffic included what was going on.

Mr. MCGREGOR: Previously, yes.

Mr. NUGENT: How about the arrangement with B.O.A.C.; what percentage is carried by T.C.A. tickets which you sell and which percentage is turned over to them?

Mr. MCGREGOR: I do not like the expression "turned over to them". We operated a pool service with B.O.A.C. and I can give you the proportion of the total carriage between the two carriers between the United Kingdom and Canada.

This is a fairly complicated arrangement. The value of a seat is dependent on the type of aircraft and it is established in reference to other seats; for instance, a first class DC-8 seat will have an equivalent index of, say, 2. These are not correct figures I am using; I am just taking that number as an example. An economy seat in a Britannia turbo-prop aircraft operated by B.O.A.C. would have an equivalent value of .75. Then, the cost of providing the total seats between the two companies on this evaluation basis is established and if there is any exchange back and forth that takes place. The revenue is divided on the basis of the origin of traffic between the two carriers so that there remains an incentive to both carriers to develop traffic.

Mr. NUGENT: Would not the elimination of the competition factor enable you to run on a high load factor?

Mr. MCGREGOR: Yes, to have a more economic operation.

Mr. NUGENT: As we well know, T.C.A. does charter flying overseas; I have not the figures but it seems to me that of the 150 charter flights during 1962 there was only 20 or 30 carried by T.C.A. Am I fairly accurate in that?

Mr. MCGREGOR: I do not think so. But, it is something like that. We will get the figures for you.

Mr. NUGENT: I think there was about four times the charter service carried by foreign carriers compared with Canadian airlines.

Mr. MCGREGOR: We will take that as a generality.

Mr. NUGENT: It that a co-operative venture or do you not have the aircraft available to get a better percentage of that business? What is your explanation?

Mr. MCGREGOR: The explanation is that regulations permit a lower fare to be quoted on a turbo-prop aircraft, as a result of which our charter rates were higher. However, this will not be the case after next April. The vast majority of chartered operations across the Atlantic in 1962 were turbo-prop aircraft.

Mr. NUGENT: You had to charge more for T.C.A.?

Mr. MCGREGOR: Yes.

Mr. NUGENT: Was the Vanguard not suitable for this?

Mr. MCGREGOR: No, rangewise.

Mr. NUGENT: I thought that the Vanguard had sufficient range for trans-ocean travel.

Mr. MCGREGOR: Roughly, the range is 2,000 miles. I suppose if you wanted to stop at Gander, Greenland and Iceland, it would be all right. They were all delivered across the Atlantic but that does not mean it is good passenger aircraft on the Atlantic.

Mr. NUGENT: Gander is not a regular stop. even if it was Gander to Shannon it would not be suitable.

Mr. MCGREGOR: It would do it physically but it would not be a very satisfactory operation from a competitive point of view.

Mr. NUGENT: Would it be safe?

Mr. MCGREGOR: Yes.

Mr. NUGENT: And you would have been able to compete pricewise doing it that way?

Mr. MCGREGOR: Yes.

Mr. NUGENT: But you did not?

Mr. MCGREGOR: No.

Mr. NUGENT: I am reading now from page 7, the left hand column at about the third paragraph.

Some drop in load factor must be expected when the larger increments of seats are first applied to particular routes.

Are air passengers that much creatures of habit they have to get used to knowing that certain flights are there?

Mr. MCGREGOR: That is not what that means. It means that there is a bundle of 100 seats and it is hard to get a good load factor or harder to avoid a drop in the load factor than if the bundles are 50's.

Mr. NUGENT: What is the difference in the length of time when they are first applied to particular routes.

Mr. MCGREGOR: What this paragraph is trying to say is that it will take a long time for the growth in traffic to fill up that quite substantial increase in capacity.

Mr. NUGENT: Have you flights out of Vancouver?

Mr. MCGREGOR: Yes.

Mr. NUGENT: And since that has started has your load factor increased to a satisfactory level or do you still now regularly operate some of these flights on an unsatisfactory load level?

Mr. MCGREGOR: I do not want to try to be facetious but anything less than 100 per cent is unsatisfactory to an airline. The load factor on the trans-continental operations out of Vancouver—and I take it that is what we are talking about—is better on the DC-8 than it is on the turbo-props. The travelling public gravitates very solidly toward the jet.

Mr. PRITTIE: According to my time table the Vancouver-Toronto-Montreal route is using only DC-8's.

Mr. MCGREGOR: Yes, but he said out of Vancouver. And there are also turbo-prop flights out of Vancouver.

Mr. NUGENT: Does the mere fact the DC-8 is more comfortable have anything to do with this, as well as the speed?

Mr. MCGREGOR: I would not agree on the first assumption.

Mr. NUGENT: Well, I will not get into that at the present time. I just want you to know I have not dropped the question as to how comfortable the Vanguard is.

I am now looking at the capital expenditures down toward the bottom of that column:

Capital expenditures in 1962 total \$21,100,000, of which payments on the last three Vanguards and on five D.C. 8F aircraft, together with the cost of completion of the Halifax maintenance base, were the major items.

Did I understand you to say earlier four were in service now or are there five?

Mr. MCGREGOR: DC-8's?

Mr. NUGENT: DC-8F.

Mr. MCGREGOR: There was until three weeks ago four in service.

Mr. NUGENT: But there were five DC-8F aircraft purchased.

Mr. MCGREGOR: There is a fifth one under progress payments.

Mr. NUGENT: What does that mean?

Mr. MCGREGOR: That means that when you buy an airplane you sign an order and you pay 25 per cent or some percentage of the total; then you make progress payments throughout a given period and then make a final payment on delivery.

Mr. NUGENT: When is it to be delivered?

Mr. MCGREGOR: April next, about four months from now.

Mr. ADDISON: Mr. Chairman, if you have finished the financial section I would like to ask a question on the tariff section.

Mr. NUGENT: I have not finished.

Mr. GREGOIRE: Mr. Chairman, do we continue at 8 p.m. tonight? I have to leave now.

The CHAIRMAN: Yes.

Mr. NUGENT: As I indicated before, I am particularly interested in the Edmonton-Calgary run and am also intrigued by the Montreal-Ottawa-Toronto run. Now, the problem is a little different in respect of the Edmonton-Calgary run; you operate on a smaller load factor than you are accustomed to on the run through here.

Mr. MCGREGOR: Yes.

Mr. NUGENT: And you say both are losing a good deal of money?

Mr. MCGREGOR: I think that is correct too.

Mr. NUGENT: Is it impossible, in your opinion, to operate the Montreal-Ottawa-Toronto run and make money?

Mr. MCGREGOR: Yes.

Mr. NUGENT: No matter what aircraft you use?

Mr. MCGREGOR: Yes.

Mr. NUGENT: And is it impossible for you to operate the Edmonton-Calgary run and make money?

Mr. MCGREGOR: No.

Mr. NUGENT: It is impossible?

Mr. MCGREGOR: Impossible.

Mr. NUGENT: Then, do you have any objection to someone else taking over that run, if someone could be found?

Mr. MCGREGOR: There is only one thing; a fair amount of the traffic between Edmonton and Calgary is destined for trans-continental flight, particularly if the next departure of the next trans-continental flight out of Calgary fits in with a man's requirement more handily than the next departure through Edmonton. We do not want to depend on the regularity of any carrier to achieve these connections. We like to have jurisdiction over the scheduling.

Mr. NUGENT: In other words, this is part of the price you pay to feed traffic into your trans-continental routes?

Mr. MCGREGOR: Yes.

Mr. NUGENT: So you would have to apply the loss on those against the profit on the others? Certainly the loss is not a complete loss, and you would not want to give it up because it is revenue producing in respect of the other part of the run?

Mr. MCGREGOR: To a degree, yes.

Mr. NUGENT: I do not suppose you have any figures in respect of the Edmonton-Calgary run and what the drop has been in your load factor since P.W.A. started operating, or has there been any?

Mr. MCGREGOR: I do not know about load factor; there is a drop in traffic and I think it is compensated for by a drop in frequency.

Mr. NUGENT: Was the drop in traffic not also noticeable when you shifted operations from the municipal airport to the other airport?

Mr. MCGREGOR: I think there was.

Mr. NUGENT: Has there been a substantial drop in traffic since then?

Mr. MCGREGOR: Since the shift?

Mr. NUGENT: Yes. There was an initial drop.

Mr. MCGREGOR: Yes.

Mr. NUGENT: And has it dropped further since P.W.A. came in?

Mr. MCGREGOR: Yes.

Mr. NUGENT: Do you have some idea of the frequency of P.W.A. and the passengers carried?

Mr. MCGREGOR: Yes.

Mr. NUGENT: I have a feeling that a good deal of the passenger traffic they carry is not taken away from T.C.A. but by people who would normally drive their cars or take that very good train service down. Would you say now that your entire drop in passenger traffic since P.W.A. started to operate equals the amount of passengers they carry or do they carry more than you have lost?

Mr. MCGREGOR: Not that I know of. I do not know that they are carrying more than the apparent reduction in T.C.A.

Mr. NUGENT: I thought you told me you were familiar with this.

Mr. MCGREGOR: You asked if I was familiar with their flight frequency and the passenger load and I said yes to the first part. I could not give you the number of passengers they are carrying per day.

Mr. NUGENT: Then, you are not familiar enough to say?

Mr. MCGREGOR: I said I was familiar with their flight frequency.

Mr. NUGENT: You cannot give us any figures in respect of the passenger miles or anything?

Mr. MCGREGOR: No.

Mr. ADDISON: Mr. Chairman, are we finished with the financial section yet?

The CHAIRMAN: I believe Mr. Lloyd had a question.

Mr. LLOYD: Mr. Chairman, I was concerned with the general organization of T.C.A. and I was looking at the capital stock issued which, I believe, carries an investment by the Canadian National Railways. I also have noted that some of the directors of the Canadian National Railways are directors of T.C.A.

Mr. MCGREGOR: Five of them are, yes.

Mr. LLOYD: And that brings me to the next question. There are three appointed by governor-in-council; has this been the practice ever since T.C.A. was organized?

Mr. MCGREGOR: Yes, but the numbers have changed. The total number on the board at the present time is nine; there used to be seven and, prior to that, it may have been lower.

Mr. LLOYD: And are there directors' fees in connection with this paid to the incumbents?

Mr. MCGREGOR: No.

Mr. LLOYD: Do they act without compensation at all?

Mr. MCGREGOR: There is no compensation; their expenses are paid if they submit an expense account for attending the meetings.

Mr. LLOYD: I suppose there are conflicts of interests, as there usually is in such appointments?

Mr. MCGREGOR: I have nothing to do with the appointment of the directors. I suppose that Mr. Gordon has some problems associated with selecting which of his directors will be on the T.C.A. board.

Mr. LLOYD: Would there be any practical value in reporting directly to the Minister of Transport without going through the machinery of the Canadian National Railways?

Mr. MCGREGOR: Well, I do not report to the Canadian National Railways, I report to my board of directors. Admittedly, there are five that are the same.

Mr. LLOYD: When I said "you" I meant the board of directors.

Mr. MCGREGOR: Yes.

Mr. LLOYD: You are a member of the board of directors?

Mr. MCGREGOR: Yes.

Mr. LLOYD: Therefore, in that capacity you would be reporting to the Canadian National Railways?

Mr. MCGREGOR: No, I do not think that is correct.

Mr. LLOYD: Then, let us go back and look at your financial statement which said you had a deficit in 1961 in the amount of \$6 million.

Mr. MCGREGOR: Yes.

Mr. LLOYD: And, \$3 million in 1962, and your statement says: "payable by the government of Canada".

Mr. MCGREGOR: Yes.

Mr. LLOYD: This is the case of the deficit being paid direct from the treasury of Canada; is it paid directly to you from the treasury of Canada?

Mr. MCGREGOR: Yes, when it has been voted.

Mr. LLOYD: And it is treated as a budgetary loss in so far as the Canadian government is concerned?

Mr. MCGREGOR: I do not know how they are treated.

Mr. LLOYD: It says: "recoverable from the government of Canada".

Mr. MCGREGOR: Yes. I do not know how they account it.

Mr. LLOYD: Many similar agencies do not know. There is \$4,600,000 projected into the end of March, 1963 and some \$5 million in respect of 1962 and, I suppose, you would not know about this type of handling in respect of your deficit?

Mr. MCGREGOR: Yes.

Mr. LLOYD: How do you handle it?

Mr. MCGREGOR: If we need capital we prepare a capital budget which is considered by this committee and eventually we are informed it is approved. Sometimes it is approved before it is considered by this committee, particularly when it meets in December. We also advise the C.N.R., who are interested on the basis of their capital budget and they include this in their forecast requirements of capital to the government, and they earmark our capital requirements.

Mr. LLOYD: But, in fact, you go through the C.N.R.?

Mr. MCGREGOR: That is correct.

Mr. LLOYD: That is, for your funding and they, in turn, go to treasury.

Mr. MCGREGOR: Yes.

Mr. LLOYD: I just wondered whether this would result in unnecessary administrative expenses and that you might be able to effect some economies if you were to avoid going through the C.N.R.

Mr. MCGREGOR: I cannot see that possibility, although there might be some saving in duplication of effort. The C.N.R. charges us exactly the same percentage of service charges on the money as they pay to the government.

Mr. LLOYD: Do they charge you for management fees of any kind? Is any portion of C.N.R.'s management costs charged to T.C.A.?

Mr. MCGREGOR: We pay them \$50,000 a year for the various services they perform, secretarial, legal and medical.

Mr. LLOYD: So, the directors who are appointed by the shareholders might receive a remuneration from the C.N.R.?

Mr. MCGREGOR: No, they could not on behalf of T.C.A. without T.C.A. knowing about it.

Mr. LLOYD: But would this be weighted in the charges to your corporation?

Mr. MCGREGOR: No.

Mr. PUGH: I have just a few questions arising out of Mr. Nugent's questions. I understood you to say that next April there would be changes in respect of the charter flights.

Mr. MCGREGOR: I said there will not be what is known as a propeller differential applicable after next April by agreement of the international air transport association.

Mr. PUGH: In other words, the D.C. 8 will be charging the same as the propeller driven aircraft?

Mr. MCGREGOR: Yes, but it means propellers will tend to disappear on the Atlantic.

Mr. PUGH: Then will we be getting more than this one quarter?

Mr. MCGREGOR: Yes, as we did this year, very much more.

Mr. PUGH: Will we be able to service that with D.C. 8's?

Mr. MCGREGOR: Yes. At least, we were up until a week ago.

Mr. PUGH: You stated it was impossible to make money on this triangle route, Toronto-Montreal-Ottawa.

Mr. MCGREGOR: Yes.

Mr. PUGH: Is that in regard to passengers only or does it include everything such as mail, freight or express?

Mr. MCGREGOR: That is the total operation. We carry practically no mail over that route other than long distance mail that is being carried over that particular leg.

Mr. PUGH: Would that be a sizeable contract? You say "other than long distance mail" which is coming in on the leg.

Mr. MCGREGOR: Yes. Normally we would carry mail moving between Montreal and all points west of Toronto, and that is a sizeable amount, yes.

Mr. HAHN: I have a number of questions in respect of page 7. You stated that T.C.A. is not entirely satisfied with the present international tariffs and that you have pressed at the international meeting for lower fares. This is on the transoceanic flights.

In view of the fact that this is a profitable part of the service which apparently is satisfying or compensating some of the losses on the domestic route, and in view of the fact that T.C.A. is in an over-all loss position, why would you have pressed for lower trans-Atlantic fares?

Mr. MCGREGOR: Competition is not likely to lower the fares, because fares are agreed upon. But we pressed for it for two reasons: one, we believed that a net revenue increase to T.C.A. with lower fares would take place. With the increase in traffic which would be attributed to the rate, by lowering the fares there would be produced more in the way of net revenues. We also believed that the differential between first class and economy fares was something that should be reduced.

Mr. HAHN: On long distance flights the volume is quite sensitive to the fluctuation or dropping of fares, is it not?

Mr. MCGREGOR: Our experience is that it is very sensitive.

Mr. HAHN: I have a question on procedure. We have been dealing with financial operations. I have some questions I would like to ask on the auditor's report. Should I leave them until we have gone through the basic report, and then deal with the auditor's report afterwards?

The CHAIRMAN: We should proceed with the auditor's report after, I think.

Mr. HAHN: I think we could get an answer to a lot of the questions after we have gone through this first.

Mr. BALCER: Could Mr. McGregor give us a picture of the situation as far as the effort that T.C.A. has made to bring down fares? I understand from what I read that only the Americans and yourself are sold on the idea of reducing fares. Is there any hope of there being a change fairly soon?

Mr. MCGREGOR: Yes, I think there is. I do not know how well this was reported, but there have been traffic conferences held in Salzburg, Austria, beginning about three months ago. It broke up in complete disagreement with ourselves and one other carrier dissenting. We agitated for lower fares and the other agitated for higher fares. The rest of the carriers were pretty well in agreement at a midpoint position. A second conference—which was really a continuation of the first one—was also in Salzburg about a month and half ago when very much the same thing occurred. Although we compromised on our request for lower fares with respect to economy fares, we moved about half way to the level agreed to by the American carriers which was not very low, and it also failed to reach the unanimous agreement which is required by I.A.T.A. There is to be an extension of that conference beginning either this week or next week in Florida.

At the last reading we were hopeful that we were going to get our desire with respect to very much lower first class fares, and we might have some success with respect to our economy fares. So I think that the next two or three weeks could bring about an unanimous agreement in I.T.A.A., or failing that, an attempt to get one will be abandoned and the rates will be declared open.

Mr. ADDISON: Are there other air lines, from foreign countries actively seeking landing rights in Canada at the present time?

Mr. MCGREGOR: I would not be likely to know unless they were good enough to tell me, because the application would be made presumably to the air transport board.

Mr. PRITTIE: I have a question dealing with that.

Mr. BALCER: Do you feel that when the supersonic planes arrive it will force down your rates?

Mr. MCGREGOR: No, I think it would be the other way around. We are of the opinion that the supersonics will not replace the subsonic jets, as did the subsonic jets replace the propeller aircraft in a matter of two or three years. We think that the supersonics will be a sort of blue ribbon service, and that the subsonic jets will be carrying most of the traffic. The supersonic fare will be substantially higher than the subsonic fare. In other words, it will be a premium service and you will pay for it. I believe that to be the case.

Mr. MONTEITH: I understand it has a further disadvantage in the number of minimum flight that there will be.

Mr. MCGREGOR: There is no frequency restriction in any of the Canadian bilateral agreements.

Mr. MONTEITH: You suggest that you could get a better pay load by having more economy class?

Mr. MCGREGOR: Yes but we do not think it is a very good thing. To operate only one-class flights.

Mr. MONTEITH: What is the percentage of first class versus economy class on the Viscounts on an average trip?

Mr. MCGREGOR: The first class load factor, despite the small number of seats, is lower than in the economy section.

Mr. MONTEITH: Would you wish to make them all economy class?

Mr. MCGREGOR: No, I do not think so, because the availability, frequency-wise, of first class service would be destroyed. We think the figure will improve with the use of the DC-8F's, on some of which the forward end is available for cargo and all the rest is for economy.

The CHAIRMAN: We have covered the financial end with tariffs and fares. I wonder if we might go ahead now with service and traffic roads.

Mr. GRANGER: I would like to ask a question about insurance under this section, although it could be asked at a later date.

The CHAIRMAN: Why not ask it now?

Mr. GRANGER: I understand that your aircraft itself is insured by yourselves?

Mr. MCGREGOR: That is right.

Mr. GRANGER: Would you mind telling me to what extent your company is liable for the passengers you carry?

Mr. MCGREGOR: That depends. I am no legal expert, but it depends on a great many things. There is the international passenger, who comes under the limited liability which is represented by a thing called The Warsaw Convention which limits our liability to approximately \$8,000 U.S. per passenger unless we are proved to have been guilty of negligence.

In the event that the question of negligence arises, the attitude of T.C.A. in the past has been, where the loss of passengers has been involved, to consider the actual damage that has been done and to endeavour to reach a settlement on that basis. That is not talking about international.

Mr. GRANGER: Without a comparison of the amount involved, actually what I was leading up to was to ask what your opinion was of the desirability of having insurance the same as you get when you put a quarter into a machine at the airport. I realize that an individual has certain responsibilities as far as himself is concerned, but at the same time the air line carriers have to deal so intimately with the public that I wondered if consideration should not be given to having compulsory insurance perhaps included in your fare.

Mr. MCGREGOR: I can think of few things more horrible. The United States is studying legislation along this line and it is simply bristling with difficulties. Trouble will certainly arise if it comes in. I can think of no reason why a carrier should be invited to insure compulsorily its passengers.

Mr. PUGH: Does the company carry ordinary liability insurance on its installations, such as its passenger terminals and things like that?

Mr. MCGREGOR: No, they are not company installations. We have nothing to do with the operation of passenger terminals.

Mr. PUGH: As the passenger mounts into the plane, suppose something happens in the way of negligence through T.C.A. and its staff, you have liability, and do you carry liability insurance?

Mr. MCGREGOR: Yes.

Mr. PUGH: And it covers one while riding in the aircraft?

Mr. MCGREGOR: Yes, with a deductible clause.

Mr. ADDISON: Under advertising, could you tell the committee how much money was spent in 1962 on advertising and break it down as between domestic and overseas?

Mr. MCGREGOR: The total advertising charge for the year was \$4,862,862, oddly enough.

Mr. ADDISON: How was that broken down?

Mr. MCGREGOR: About eight different ways. Would you like me to give them to you.

Mr. ADDISON: No, just domestic and overseas.

Mr. MCGREGOR: That again is difficult. The figures which I shall read to you will not add up to the total which I have given for reasons which I will give you later. Our United States advertising agency was paid in 1962, \$711,311. Our British agency, \$871,848; our domestic agencies make a total of \$1,630,000.

The reason I might sound a little vague is that certain advertising activities such as the production of little models and window displays are in the hands of one agency, so it is difficult for me to say that this is United Kingdom, this is United States, and this is Canada.

Mr. ADDISON: Is your advertising broken down as between T.C.A. advertisers in Canada for overseas operations, and another agency which advertises only for Canada.

Mr. MCGREGOR: There is an agency which is just for Canada, and an agency which is just for Europe, in the United Kingdom, and there is an agency just for the United States in the United States.

Mr. ADDISON: I was trying to get a breakdown between the one in Canada and the one overseas.

Mr. MCGREGOR: I think I gave you that. I gave you roughly \$1,600,000 in Canada against \$871,000 for the United Kingdom.

Mr. PRITTIE: I have a supplementary question on advertising. You have to do a certain amount of advertising because you have two or three trans-Canada lines. Have you any idea how much you spend in getting your share of the business having regard to C.P.A.?

Mr. MCGREGOR: We have to do a certain amount of advertising for many, many more reasons. We have nine competitors on the Atlantic, and a competitor on every one but four of the trans-border routes. Also we have to do a certain amount of corporation advertising such as the fact that our pilots are experienced and so on. I cannot see any impact on our advertising bill which is due to the fact that C.P.A. is in operation.

Mr. PRITIE: Both you and C.P.A. have advertising directly aimed at the Toronto-Vancouver passenger route. One line emphasizes the economy, the other line emphasizes first class.

Mr. MCGREGOR: That is right. I am not sure that I finished. I do not think that our advertising bill would go down markedly if C.P.A. should disappear.

Mr. PUGH: On the basis of finances, with respect to your plan for "fly now, pay later"—is there much advantage taken of it?

Mr. MCGREGOR: Yes, very much.

Mr. PUGH: What proportion of the total is carried on finance?

Mr. MCGREGOR: There was revenue of \$3,900,000 in 1962 under the fly now—pay later plan, and since it started, the total has been \$20,000,000.

Mr. PUGH: It is a successful way to draw traffic?

Mr. MCGREGOR: Yes. I for one do not appreciate it, but there it is.

Mr. PUGH: I am glad to hear that last comment.

Mr. MCGREGOR: We were the last carrier on the Atlantic to put it into effect.

Mr. HAHN: Under this section we deal with route and route structure. In various periodicals in this country I have many times read the charge that Canada is not getting a fair shake on trans-border flights, that is, that we are not getting the right to go into private United States terminals, and that they are better than we are as bargainers. From the T.C.A. standpoint do you think that is true?

Mr. MCGREGOR: In general, I would say that depends on what is a fair shake. If we are going to say that we are a country that is exactly the equivalent of the United States, then we are not getting a fair shake. The United States approach to this is quite the opposite. They say "We are 190,000,000 people, while you are only 19,000,000, so you cannot have the same shake". It would depend, on the face of it, what a fair shake represents. I think it has been said by many people there are certain routes which have heavy traffic potential which are not being served at all, such as Toronto to Los Angeles, among others. No Canadian carrier goes into Miami; no Canadian carrier operates between Chicago and any point in western Canada. These are routes which in our estimation should have a carrier, whether it be a Canadian or a United States carrier. They should have service.

Mr. PRITIE: The question came up last year when Mr. Balcer was here and the point of view expressed was that they were dealing with other countries on bilateral agreements, and the government took into account other thing than merely the T.C.A. position. You were not too happy about it. External affairs people were here, and they were concerned with other aspects of the agreement than those purely having to do with the air line as a carrier.

Mr. MCGREGOR: I do not think it applies particularly to United States-Canada bilateral agreements. It has been in play in other cases.

Mr. HAHN: Are you represented at these negotiations? Is T.C.A. present at them?

Mr. MCGREGOR: Over the years various things have happened. At one time we were able to attend as observers. Then there was a period when we were not even invited to be present. I have not seen a bilateral negotiation for some time. At least there has not been one I know of for some time. The last one was the "horror" of Italy. What is going to happen from now on I am not sure.

Mr. HAHN: I wanted to ask about the Mohawk air line flight from Toronto to Buffalo. Could T.C.A. have serviced that route? Was T.C.A. interested in it?

Mr. MCGREGOR: Yes, but we never had an opportunity. The Toronto-Buffalo route is a device pure and simple. That bilateral route is a purely theoretical one. There is no air line in the world which would operate purely between Toronto and Buffalo, but by doing so, you if an American can carry out whatever your domestic route pattern allows you to do, and all you have to do to operate between Toronto and Dallas for example is to stop at Buffalo momentarily, having already cleared customs in Canada before you started.

Mr. BALCER: Might I ask the minister if there is a sign of any new attitude on the part of the Americans on this question? I remember when Mr. Pearson came back from the United States he announced that he had discussed the matter with the American authorities. But that was quite a while ago. I wondered if any meetings or any progress had been achieved in this field?

Mr. McILRAITH: There have been no direct negotiations as such yet. The preparatory work is and has been progressing. It involves some studies which were being made by the United States government by way of preparation, as well as some studies we were doing on this side preparatory to it.

Mr. BALCER: There is no change, I take it, on the part of the Americans, or no evidence of it?

Mr. McILRAITH: Yes, there is some evidence, but it would be wrong to evaluate it at this stage, because the evidence will only be put to the test when the negotiations take place.

Mr. BALCER: I knew that when I was Minister of Transport you carried it for two years, and we never achieved that thing with the Americans.

Mr. McILRAITH: I am considerably more optimistic because they have done some preparatory work, and from what I know of it, it is encouraging.

Mr. BECHARD: Is it still the intention of the board of directors to change the name of T.C.A. to Air-Canada, and if so, when would be the intention to do it?

Mr. MCGREGOR: That is a tricky one, when you say "Is it still the intention". T.C.A. had an amendment made to its act of incorporation several years ago to permit it to use the name of Air-Canada in addition to the name of Trans-Canada, and we have made good use of both. We use the two names indiscriminately in eastern Canada, and we rather thrust forward the name of Air-Canada overseas as being more descriptive and more in line with the general practice in Europe and elsewhere in the world where there are approximately a dozen air lines using the name "air" followed by the name of the country. I could reel off a whole string of them. So this duplex use of the name commercially seems to be most satisfactory. At the same time it avoids losing the value of a vast amount of money that has been spent over the years in publicizing the name Trans-Canada Air Lines with the initials T.C.A. We would give this up only with a great deal of regret. There have been suggestions made to use the two names on the aircraft, but we think to do so would create an operational problem and cause possible confusion.

Mr. BECHARD: Do you not think you could take advantage of the change with your new aircraft by putting Air-Canada on the new DC-9's?

Mr. MCGREGOR: I would not be very enthusiastic about that. For instance the control tower at an airport may look at an aircraft and find it sitting on the taxiway and obviously anxious to take off, and will say "Air-Canada prepare to taxi and to take off on runway 24 right and take off when ready". If the crew at the tower or anybody was in any doubt as to what the identity of the aircraft was, there might be some hazards, I am afraid.

Mr. BALCER: It could be just as easy if all planes were simply marked Air-Canada, and then there would not be any confusion as far as the tower is concerned.

Mr. MCGREGOR: That is quite correct.

Mr. RIDEOUT: I would like to ask the president if he has any figures regarding the Halifax airport on how many planes were turned back because of weather.

Mr. MCGREGOR: I could get them. It is nothing like what it used to be, I can assure you.

Mr. RIDEOUT: Could you get them for Halifax and for Moncton?

Mr. MCGREGOR: Yes. You mean the diversions due to weather?

Mr. RIDEOUT: Yes.

Mr. MCGREGOR: Over what period of time?

Mr. RIDEOUT: Oh, any period. I would think pretty well last year's figures would be all right.

Mr. MCGREGOR: Yes, we can get them for you.

Mr. DEACHMAN: Can you give us some idea of what portion of your revenue is represented by air freight, and what is the trend in air freight? Is it becoming more important, and if so, what are the things that make up your air freight?

Mr. MCGREGOR: It is definitely becoming more important.

Mr. MONTEITH: You will find it all set out in the auditor's report.

Mr. MCGREGOR: In 1953 \$3.7 million or our total gross revenue was for what we call commodities, freight and express. In 1962 it was \$10.46 million. The percentage of the total has not changed very materially.

In 1960 it was 5.3 and in 1962 it was 5.7. If we can look at this out of the context of this annual report, I think you will find that our commodity revenue growth in 1963 has been quite surprising and very encouraging.

Mr. DEACHMAN: What is causing it?

Mr. MCGREGOR: I think it is the higher speed of the planes, with less damage and loss in shipments by air, and somewhat lowering of rates with respect to specific commodities; less requirements for heavy packaging, that is cartons, crates and so on. I think all these things have played a part, plus a great deal of publicity and experience in the matter.

Mr. DEACHMAN: Mr. Chairman, we are all aware of the attempt to develop a system of flying lobsters into the markets by the use of light packaging, weight shifting and the like. Are you conducting any experiments in regard to packaging or are you involved in any way in developing air packages for the purposes of encouraging air freight?

Mr. MCGREGOR: Not beyond the palletizing of cargo for handling purposes as such. In respect of developing cartons of special construction, we are not doing any experimental work.

Mr. DEACHMAN: Do you advertise light cartons for air shipment to encourage air freight?

Mr. MCGREGOR: Yes, and we advertise these other advantages to which I have referred.

Mr. DEACHMAN: I should like to ask a question in respect of another aspect of air freight. Are you familiar with the steady shipments of freight going overseas by R.C.A.F. transports?

Mr. MCGREGOR: Yes I am very familiar with that situation.

Mr. DEACHMAN: Do you believe that some of this could be shipped profitably by a commercial air line such as C.P.A. or T.C.A. rather than be handled by the R.C.A.F.

Mr. MCGREGOR: You caught the right note when you said "profitably". It would certainly be profitable to T.C.A. but whether it would be cheaper for the government on the other hand, I do not know.

Mr. DEACHMAN: Do you think it would be cheaper for the government to use commercial air lines for this purpose rather than the R.C.A.F.?

Mr. MCGREGOR: I think it would look more expensive at the beginning because they would have to pay for it; whereas the service aircraft carrying these cargos are in fact in existence and manned. However, in theory it would not be more expensive if the policy had been to ship by commercial carrier throughout the piece.

Mr. DEACHMAN: In regard to passenger handling, are you familiar with the rotation of families in the armed forces overseas?

Mr. MCGREGOR: Yes.

Mr. DEACHMAN: Do you believe this could be handled by T.C.A. for example?

Mr. MCGREGOR: Some of this should be done by commercial carriers, yes.

Mr. DEACHMAN: Thank you very much.

Mr. MCGREGOR: We have made strenuous efforts in that direction, and have obtained some improvement here.

Mr. DEACHMAN: In regard to the subject of transporting personnel from all departments travelling abroad or travelling within Canada, do you get all of that traffic?

Mr. MCGREGOR: We do not get all of it, no.

Mr. DEACHMAN: Where does the portion of that traffic which you do not get go?

Mr. MCGREGOR: It goes to the other carriers. There is a general admonition, I would say, rather than regulation, in government that unless serious penalties are paid in inconvenience or times of arrival, Canadian commercial carriers should be used.

Mr. DEACHMAN: Do you think Canadian civil servants are not travelling on air lines who could have conveniently made arrangements to travel on Canadian air lines?

Mr. MCGREGOR: That has been the case, but I would not say it is the case currently.

Mr. DEACHMAN: Do you think this practice causes the seeping away of revenues?

Mr. MCGREGOR: It is not serious at the moment, I do not think.

The CHAIRMAN: Gentlemen, I was wondering whether, since there has been some indication that some of the members would like to adjourn, we could have a motion that the financial section of this annual report be carried so that when we reconvene after dinner we may quickly move to a consideration of the item on equipment and facilities? I had hoped that we could commence our consideration of equipment and facilities this evening. I would appreciate receiving a motion to carry all the sections up to equipment and facilities at this time.

Mr. PRITTIE: Mr. Chairman, I should like to ask one more question in respect of services and growth. I do not know the feeling of other members but I just have one further question on this section.

I assume that T.C.A. and C.P.A. are in the overseas business to stay. Has there been any more progress toward the development of a Canadian national service? There was some reference as to this prospect in past years. Have you any comment to make in that regard, Mr. McGregor?

Mr. MCGREGOR: T.C.A. have always believed that one offshore flag carrier would be very advantageous to Canada and to the cost of overseas transportation of Canadians. I cannot say more than that.

Mr. PRITTIE: Can you tell me if there has been any progress made toward the implementation of that idea within the last year?

Mr. MCGREGOR: I think I should say there has been no discernible progress in that direction.

Mr. DEACHMAN: Who do you think should operate such a service, C.P.A. or T.C.A.?

Mr. MCGREGOR: I do not think it will take me long to think up an answer to that question.

The CHAIRMAN: Gentlemen, may I have a motion to carry all the sections up to equipment and facilities?

Mr. GRANGER: Mr. Chairman, I should like to ask one further question in respect of this matter of growth. Has Mr. McGregor given consideration to the possible potential market in respect of shipping fresh fish from Gander to Europe? This is something which may well be developed in the future, but I imagine it will involve return cargoes of suitable merchandise from Europe; have you ever considered the possibility of carrying these cargoes to Europe and returning with acceptable cargoes from countries outside of Canada? It is my understanding the Pan American Lines has a department in their organization carrying out investigations in this regard. Does T.C.A. have a similar set up?

Mr. MCGREGOR: Indeed it does. T.C.A. has a cargo sales department which is extremely active with representatives in all the larger centres in Canada and outside of Canada. The effect of that organization has been to reduce the imbalance in cargo volume on the Atlantic which is extensively in favour of westbound cargo.

When we are talking about moving sea products to Europe, I should point out that we have moved several very large shipments of lobsters to Paris, although one shipment was turned down on the basis that the lobsters were no good because they were dark green.

The CHAIRMAN: Could I have a motion that these sections be carried?

Mr. LLOYD: Mr. Chairman, we do not have a quorum. I move that we proceed to a discussion of equipment and facilities when we reconvene at eight o'clock.

The CHAIRMAN: We have not got a quorum.

Mr. PRITTIE: There is not need for a motion.

Mr. LLOYD: I would suggest the adoption of the procedure outlined by the chairman.

The CHAIRMAN: I declare the motion carried.

—Committee adjourned.

## EVENING SESSION

TUESDAY, December 3, 1963.

8.00 p.m.

The CHAIRMAN: Well, gentlemen, we have a quorum. When we adjourned at 5.30 p.m. I think it was agreed that the section on finance, tariffs, service and growth had been dealt with and we were going to proceed with equipment and facilities. However Mr. Gregoire asked me, when he came in this evening, whether we would not hear him for a few minutes on the question of service, because he wanted to ask a few questions of Mr. McGregor. So I think with your consent we shall proceed.

Mr. GREGOIRE: My first question is this: how do you prepare your schedules? We have two schedules, a red one for Canadian routes and a blue one for international routes. How do you prepare your schedules? Do you have some kind of I.B.M. machine or a mathematician, or what? When I left Saguenay I had only one plane to take, and I arrived at Montreal at 5 minutes to 12 when the plane for Ottawa leaves at 12 o'clock, so I had to wait until 3 o'clock in the afternoon. I saw the Parliamentary Secretary to the Minister of Transport there, and he has to leave Quebec at 8.30 a.m. and to stay in the Montreal airport for two-and-one-half hours until 12 o'clock when he can make a connection for Ottawa. How do you explain all that?

Mr. MCGREGOR: I suppose this is the most difficult sort of job that there is in an air line. There are two or three things we have to do. We must get what we call good utilization of the aircraft. We must not allow an aircraft to remain on the ground for eight or nine hours out of 24; otherwise we would lose heavily. So we must plan to get good utilization. This means a large number of working hours in the air out of each 24 hours. We do our very best to line up all these connections. It does not always work. But there is a through flight from Quebec to Ottawa.

Mr. GREGOIRE: I know, but not at this time of day.

Mr. MCGREGOR: No, that is true.

Mr. GREGOIRE: The first one leaves at 1.30 p.m. from Quebec.

Mr. MCGREGOR: I think that is right. But we have the same problem right across the system.

Mr. GREGOIRE: For example, there is one through flight I would like to take as an example, because I know it. I know it happens to many lines, when there would be a wait for one or one-and-one-half hours at the airport in Montreal, coming from Quebec to Ottawa. I think you might lose lots of travellers with these waitings at the airport. For example, I shall cite only one example to show you how to manage it: we have a flight leaving in the morning at 10.10 a.m. from the airport at Saguenay, Bagotville, waiting for only five minutes at Montreal. Without details, could you prove to us how we could cut off 15 or 20 minutes without mixing everything up?

Mr. MCGREGOR: I know the case you mention, and it is an impossible connection. I am afraid that what you will find is this: one of the Quebec flights as shown carries a certain number of passengers from Quebec to Montreal, and it carries maybe from 15 to 20 passengers as a regular thing destined for New York, and maybe 3 destined for Ottawa if the house is not in session. The planners have to make a decent connection between this flight and the flight to New York.

Mr. GREGOIRE: Is that the only reason?

Mr. MCGREGOR: That is the sort of thing that works in a schedule.

Mr. GREGOIRE: In the last three of four weeks I have succeeded in making connections in five minutes. I must admit that the people at the airport and the pilot were very considerate and agreeable. He would phone to the other flight, and tell me which was the exit door.

Mr. MCGREGOR: And you ran across the ramp?

Mr. GREGOIRE: Yes. The last time they closed the door but opened it again and I got in.

Mr. MCGREGOR: I must admit that to miss a flight by five minutes is not good.

Mr. GREGOIRE: If you want to make a good connection, would it be bad if it was delayed about five minutes more?

Mr. MCGREGOR: No.

Mr. GREGOIRE: So?

Mr. MCGREGOR: So, we will not do it again.

Mr. GREGOIRE: What is that?

Mr. MCGREGOR: We will not make that mistake again.

Mr. GREGOIRE: Now you will not be able to change it.

Mr. MCGREGOR: We have to operate according to the timetable which is printed and published, but it will be changed again shortly.

Mr. GREGOIRE: I will give you an example. I am thinking of a special instance. I do not think you made a complete inquiry. On last Monday's flight from Bagotville coming to Ottawa there were seven people. The six others were mad because they had to wait three hours at the airport. They saw me when I arrived after they did at the airport. I said "I want to take the 12 o'clock flight and I will take my risk." When they saw I was doing it, they all wanted to do it. But I was the only one to do it with my trunk out of the seven from Saguenay.

And in Quebec about two weeks later there were about six or seven people from Saguenay. I think the time of Mr. Cantin is very precious, yet he had to wait two-and-one-half hours at the airport at Montreal.

Mr. MONTEITH: Why did you not leave the minister there?

Mr. GREGOIRE: I think that flight should be rearranged even if everything has to be changed in your schedule.

Mr. BALZER: Are you sure you are not trying to keep Mr. Gregoire out of the House of Commons?

Mr. GREGOIRE: Could you make some changes when you receive such information as that?

Mr. MCGREGOR: We would get into terrible trouble if we started to operate other than according to the timetable, because people would arrive and say "What is the matter? This flight has not gone yet?" And we would have to say "We held it for 15 minutes because we have changed our schedule."

Mr. GREGOIRE: And the people making reservations would have only five minutes more to wait and it would be perfect.

Mr. LLOYD: I think Mr. Gregoire has fully pointed up his particular problem and it would seem to me that it is an invitation to Mr. Gregoire to make direct representations. I think we should pass on to the next question.

Mr. MCGREGOR: I am sure we will investigate the possibilities with respect to the schedule being changed by five minutes, if you feel it would be acceptable.

Mr. GREGOIRE: The last four weeks I have not missed one.

Mr. RIDEOUT: Why do you want to change it?

Mr. GREGOIRE: Lots of times you make a reservation. You may call up the reservation desk and they will say "No, we are completely booked." All right, I go there and there are always seven, eight or nine empty seats. But when you call the office they say "There are no places in the economy, class" so I have to take a first class seat. You have to pay more yet when you arrive there are empty seats in the economy class. How do you explain that?

Mr. MCGREGOR: Let me tell you of an experience I had myself. Once upon a time, along while ago, when we operated the DC-3's, a gentleman you all remember, Mr. Howe, telephoned and said "I want to see you in a hurry. Can you come up?" I said "All right, the next flight leaves in about 45 minutes." I was just going to be able to get to the airport. So I called out to my assistant and said "See if you can get me a seat", and at the same time I was headed out the door. The answer was that the flight was full, but I could be carried on the flight deck. When I got out to the airport I was shown into the cabin, and there were three other people there. There was a man and his wife headed for Windsor, when we went from Montreal via Ottawa and Toronto to Windsor. I saw him looking down the cabin two or three times and eventually he said, "Did you have much trouble getting a seat"? And I said, "no". Which was true. He said, "It is darn funny that they could not take me on this flight up until the last minute. When they telephoned we had a terrible rush to get to the airport to get on this flight". I said, "Yes". He said, "Why is that"? And I said, "I do not know," and I did not. But I was sure I would find out as soon as I got to Ottawa.

So when I got to Ottawa I went to the station manager's office and asked to speak to the reservation branch in Toronto. I said "I was on flight so and so from Montreal to Ottawa, and there, were three revenue passengers, and one non-revenue. What is the answer?" And he said, "Oh yes, a flight was grounded in Moncton with a 'mechanical', and it had 19 passengers connecting to your flight at Montreal for Ottawa".

When this sort of thing happens we may have seven, eight, ten or a dozen empty seats. I do not know if that was the explanation in the case you described. But we do not hold seats. Naturally, we do not say we are fully booked, if we do not believe that we are fully booked. The Reservec system records the number of bookings that are applied for at different places right across the system, and it stores it in a mechanical memory. The number of bookings in the memory storage is equal to the number of seats, or nearly so, on the flight, and it will declare a "stop sold", as we say when the flight is fully booked. If somebody has made several reservations and if the passengers that intended going by that flight do not show up, those seats would then be open. That is the situation unless they have telephoned that they have changed their minds, which they often do not do.

Mr. GREGOIRE: Have you made any inquiries in regard to the average number of cancellations by people making reservations on two or three seats? Do you have that average and do you make reservations for an average flight and make a comparison?

Mr. MCGREGOR: There are certain operations, I do not know whether I should name them, where we have a chronic situation. On certain routes people are doing exactly as you suggest. They do not know when they are going to be finished with their business so they make reservations on three flights in succession. They never think of cancelling the ones they decide not to use. The one they usually use is the last one. This is a standard no-show problem. We keep a complete record of no-shows by routes and often by flights. However, we dare not assume that we are sure to get, for instance, eight or ten no-shows on a flight and therefore we are unable to sell the seats.

Mr. GREGOIRE: Do you lose much traffic because of people making reservations and not taking their seats?

Mr. MCGREGOR: Yes.

Mr. MONTEITH: Do you ever keep records of names in respect of no-shows?

Mr. MCGREGOR: We became so excited about this no-show problem once upon a time we started to triple check on the addresses which were given, mostly hotels or rooms in the Royal York hotel, for example, and we often found that the room in the Royal York hotel, which had perhaps two beds at the most, had ten or 11 reservations. We started to telephone these rooms and would say "look, we find that under your room number there are reservations for two on this flight, two on that flight and three on that flight; what do you really want?" These people would then decide on a flight which, as I say was usually the last one. We would say; "fine" and would then have the other seats open. Fifteen minutes later we would carry out another check and find that the same individuals had re-booked on the other flights. This is not an easy thing to handle, and this is one of the reasons why we sometimes have been criticized for our procedure in respect of reconfirmation.

As a result of using our reconfirmation system our no-show problem numerically is a small fraction of the problem faced by United States carriers. Those carriers are now in the business of assessing penalties for no-shows, but it is very nearly impossible to administer this system. There is always a certain amount of cheating between one air line and another. Someone will rush up to one air line and state that another air line is trying to charge \$5 for a no-show, and the air line employee will state that they would not attempt to do such a thing, and so the situation goes. The no-show problem is a serious one. It produces empty seats which could be used by legitimate passengers. This problem is of great concern to the air lines and a lot of thought has been devoted to it. As I say, the problem is perhaps worse elsewhere than with T.C.A.

Mr. GREGOIRE: Other air lines are faced with this problem?

Mr. MCGREGOR: Every other air line is faced with this problem to some degree.

Mr. GREGOIRE: Are you attempting to solve the problem?

Mr. MCGREGOR: We have never been able to find a solution. Three times in successive years this penalty system has been attempted in the United States, but it has never worked. Suppose a man comes along with a ticket for a flight that has already departed and he says: "I want my money back". We say "fine. We will give you your money back less \$5, being the no-show penalty". He says: "What do you mean I called your reservation office and told the girl—I don't know who she was—that I was not going to be on that flight". You cannot call the individual a liar.

Mr. GREGOIRE: I should like to ask another question in respect of services. Do you sometimes during the course of your duties travel by T.C.A.?

Mr. MCGREGOR: Yes, to the extent of approximately 40,000 miles per year.

Mr. GREGOIRE: Have you ever been on an aircraft during the lunch hour?

Mr. MCGREGOR: Yes, often.

Mr. GREGOIRE: What did you think about the meal served by T.C.A.?

Mr. MCGREGOR: I have no kicks.

Mr. GREGOIRE: What do you think about the meals served by T.C.A.?

Mr. MCGREGOR: I think they are quite satisfactory, Mr. Gregoire.

Getting back to your question in regard to no-shows, the percentage of boarding passengers is as follows, and I have these figures for four representative quarters and I will not bore you by reading them all, but I will give you the percentages for the second quarter in 1962 beginning in April. The industry averaged 10.2 per cent of boarding passengers that did not show. The American Air Lines averaged 8.5. We do not have a return for Eastern Air Lines although they usually send it to us. The average for Trans-World Air Lines is 10.9 and T.C.A. 5.8. The other quarters of the year are about the same in relationship.

Mr. GREGOIRE: I think Mr. Balcer suggested this afternoon that sometimes members of the government travelling from Paris to Canada, or from some other country use B.O.A.C., Air France or K.L.M. instead of Trans-Canada air lines. Have you made any survey in this regard?

Mr. LLOYD: Mr. Chairman, on a point of order, I do not know how much patience we are expected to have, but with the greatest diffidence to the member who is now asking questions, you gave him an opportunity to ask questions but when he asks for repeat information in respect of subjects that have been covered I suggest it would be a gracious act on the part of the kindly disposed Quebecker to recognize that this is repetition and read the answers when they appear in the Minutes of Proceedings and Evidence of this committee. Surely to goodness we must draw the line somewhere and get on with the business of this committee.

Mr. GREGOIRE: If my questions have already been asked and answered I am sure the Chairman will tell me and I will then read them in the Minutes of Proceedings and Evidence. If my questions have not been asked, then I feel I am entitled to go ahead and ask them, because that is my privilege.

Mr. LLOYD: Mr. Chairman, the privilege to which the hon. member refers is extended to every member of the committee, but I am sure the hon. member must be impressed with the patience we have shown, and the indulgence we have extended in allowing him to ask questions which I am sure could have been answered in a variety of more simple ways.

The CHAIRMAN: Mr. Lloyd, I appreciate your point of view and I do hope that Mr. Gregoire will follow the suggestion that questions in respect of this subject be kept to a minimum. Mr. Balcer did refer to this subject earlier in our meeting, but I was wondering whether Mr. Gregoire's question was related to this particular aspect.

Mr. GREGOIRE: My question was not at all the same as the question asked by Mr. Balcer.

The CHAIRMAN: Excuse me, Mr. Gregoire; please allow me to finish. Perhaps Mr. Gregoire's question is related to something entirely different from that to which Mr. Balcer's question was directed. I suggest we allow Mr. Gregoire to complete his question so that we will then be in a position to make a decision. I would like to maintain the spirit of this committee as it has been in the past. This spirit reflects the co-operation of the individual members of this committee rather than any direction on the part of the Chair, but I do hope this spirit will be maintained.

Mr. GREGOIRE: My question is not at all the same as Mr. Balcer's question.

The CHAIRMAN: Ask your question now.

Mr. GREGOIRE: Perhaps the reason for these government employees travelling on foreign carriers is that the service provided by T.C.A. is not equivalent to that provided by B.O.A.C., Air France and K.L.M. Have you made any comparison between the service on flights overseas provided by T.C.A. with the service provided by foreign carriers and, if so, what has been the result?

Mr. MCGREGOR: We make a survey of our own service standards twice each year and compare the results with the results of our survey for the corresponding period during the preceding year. We are carrying very much more than half of the traffic on these routes and I do not think we need worry about our standards of service.

Mr. GREGOIRE: I should like to know whether you make any comparison between the service provided by T.C.A. and the service provided by other air lines.

Mr. MCGREGOR: Yes. We have individuals travelling on these routes as often as practicable.

Mr. GREGOIRE: What has been the result of your inquiries?

Mr. MCGREGOR: We are quite satisfied with the standards of our own service as compared to service provided by other companies. We receive many compliments, some of them drawing odious comparisons against other air lines.

Mr. PRITTE: Mr. Chairman, I have only travelled on T.C.A. and United Eastern, but the service provided by T.C.A. is far superior.

Mr. MCGREGOR: Thank you very much.

The CHAIRMAN: I think we should now proceed to our consideration of the item on equipment and facilities. I should like to have a motion to the effect that we have now covered all the sections up to that section covering equipment and facilities.

Mr. NUGENT: Mr. Chairman, I should like to ask one or two questions. I am curious how you can oversell a flight.

Mr. MCGREGOR: I can explain that to you. Let us say that Mr. Harvey goes into an office and says he would like a seat on flight 123 for the following Tuesday. The girl pulls out a card and she then correctly fills it in, or she thinks she does, and puts it into the ReserVec transactor which then clunks back indicating that Mr. Harvey has a reservation. Mr. Harvey leaves the office quite happy but actually he has a reservation on flight 123 for the following Monday rather than the Tuesday. The seat that he will attempt to occupy on that flight is open, so far as the ReserVec machine is concerned. I may come along and ask for a seat on flight 123 on Tuesday, the girl asks the ReserVec system for a reservation and the ReserVec transactor indicates that I then have a reservation on that flight. On the Tuesday the two of us will be heading for that same seat.

Mr. NUGENT: Thank you, Mr. McGregor.

Mr. MCGREGOR: There are other ways that this can happen as well.

Mr. PRITTE: Mr. Chairman, I move the first two items be considered complete and that we proceed to equipment and facilities.

Mr. LLOYD: I second the motion.

Motion agreed to.

The CHAIRMAN: We will then proceed with equipment and facilities.

Mr. LLOYD: Mr. Chairman, I wonder if it would save a lot of questions if Mr. McGregor could brief us on the modifications that were made to the D.C. 8F aircraft as it compares to the D.C. 8 and what, fundamentally, is the difference in design of the equipment, as well as the service you expected to be provided by the D.C. 9 which you do not get now from the D.C. 8.

Mr. MCGREGOR: Mr. Chairman, I would like to say I very much appreciate this approach. I think sometimes a whole series of questions are asked and some of them take a fair amount of digging for the data, when the member

actually wants to be informed or develop, shall I say, a case for a certain position. This type of question is very helpful for that reason, because it is an invitation to say in your own words what the story is.

Now, I think I should begin by saying any time I say the wrong thing I would ask Mr. Seagrim to interrupt and correct me.

The D.C. 8F is not a modification of a D.C. 8 in the normal sense of the word; although this is the same basic airplane, built in the same jigs, it has a different undercarriage structure in respect of strength in certain places, which allows a greater permissible gross weight. Other basic differences are: there is a heavy cargo floor in the aircraft which will support a heavier weight per square foot as compared to the normal passenger deck; there is a wide double door on the port side of the aircraft forward of the leading edge of the wing; there are Pratt and Whitney fan engines used in place of the bypass engines; there is a moveable bulk head in one version of the D.C. 8F, which permits universal adjustment between the space available for cargo and the space available for passengers. That is about the size of it, unless you have anything to add, Mr. Seagrim.

Mr. SEAGRIM: No.

Mr. PRITTIE: Mr. Lloyd did bring up a point; he mentioned the D.C. 9, and it is not meant as a replacement to the D.C. 8, is it?

Mr. MCGREGOR: I am sorry but I thought he was speaking about the D.C. 8F and the standard D.C. 8.

The D.C. 9 is a different kettle of fish; it is a very much smaller airplane in every respect, actual size, passenger seating, gross weight and so on, and the engine position is entirely different. The engines of both the D.C. 8 and D.C. 8F are mounted on the wing and on the D.C. 9 they are mounted at the rear end of the fuselage, and there are only two.

Mr. BALCER: Are you going to have Pratt and Whitney fan engines?

Mr. MCGREGOR: On the D.C. 9 but a smaller engine than in the D.C. 8F with a slightly lower thrust.

Mr. RIDEOUT: Will they be interchangeable?

Mr. MCGREGOR: No.

Mr. ADDISON: A question was brought up in the house; the minister was asked why T.C.A. does not have flight recorders on all their aircraft. Could you answer that question?

Mr. MCGREGOR: Yes, I will. Flight recorders were developed originally three or four years ago and, like most developments of this kind, the first shot out of the bag was not entirely satisfactory. It was limited to about six or seven different elements of recording and I would not be sure I could name them all completely correctly, but there is latitude, heading of the aircraft, speed of the aircraft, G's—which is force of gravity in terms of G 1, which is 32 feet per second per second and, I think, attitude. However, there are many more things which it is desirable to know as to what is going on in an aircraft during a flight, and as is often the case with an early model it was not entirely satisfactory. There was a flight recorder which had something like 120 channels, and there is a compromise one with 75. We investigated these various recorders and came to the conclusion that the six channel one was far too restrictive in its scope for what we wanted. We put one into one of our aircraft to confirm this opinion and found this to be so. Now, we are quite certain that we will settle on one of the multi channel recorders and will install it in due course. But, this was a matter of not spending money on the kindergarten model when we were quite sure first year university was coming along.

Mr. ADDISON: When were the more sophisticated recorders available?

Mr. MCGREGOR: The first case I know of one being used was in the case of a B.A.C. 111 accident a few weeks ago in England.

Mr. SEAGRIM: If I may interrupt, we have had one of these sophisticated flight recorders installed on one of our airplanes since last April; the decision has been made between that time and now to install them on all our airplanes, and in our 1964 capital budget we have a program established for this purpose. At that time we will be the first airline to have installed this particular advanced type of equipment.

Mr. MCGREGOR: I would like to point out that I think this question in the house arose because of the accident last Friday. Even so, these things are not completely informative. If a flight recorder survived that flight—which I would doubt because of the way the aircraft broke up I do not think the semi-armour-plated recorder would have survived. In that case, and if it was not destroyed, it could very well have shown a normal takeoff, a normal development of power, a normal climb which, as I said this morning, went through 3,000 feet, and a sudden and violent descent and there would be no explanation as to why appearing on the recorder. So, it is quite conceivable in an accident of that particular type—which, thank heaven, is infrequent—that you would have little or nothing from the recorder.

Mr. RHEAUME: Could Mr. McGregor comment on whether or not noise abatement procedures which are required to be followed by crews are posing additional complications or additional hazards in respect of speeds of an aircraft making a takeoff and achieving the necessary flight altitude.

Mr. MCGREGOR: Are you a pilot?

Mr. RHEAUME: No, not exactly.

Mr. MCGREGOR: I see. I suppose you feel as I do in respect of noise abatement procedure. It is a shocking sensation to anyone who knows that it is bad when an aircraft is reduced in speed through the climb. On the other hand, I am quite sure the answer to your question is no, it has not increased the hazard because while there is a reduction in power during the climb out process of the takeoff this is never allowed to approach close to the normal stalling speed. But, I will admit that it is a very disquieting sensation.

Mr. RHEAUME: According to a report it seems that the 707 which went into the bay at Idlewild was trying to obey certain silence regulations, and that if it had not been for that fact, other procedures would have been followed and it might not have gone into the bay.

Mr. MCGREGOR: I do not think I saw that report.

Mr. MITCHELL: What do you do when you retire an aircraft such as a Super Connie? Where do they go?

Mr. MCGREGOR: We sold the last of them—first of all let me say in the matter of equipment planning we knew some years before they were retired that we were going to retire them. We also knew that we would require additional long-range airplanes, so when the last two Super Connies were bought we insisted on a buy-back agreement with the manufacturers. That would normally have disposed of two of them. As for the rest, we put them on the market and sold them as they were phased out of operations. They were sold at varying prices, and none of them completely discharged the book value of the aircraft, but we sold the last one about two weeks ago.

Mr. MITCHELL: They would not have been completely depreciated?

Mr. MCGREGOR: That is right, because they were overtaken by the sub-sonic jet.

Mr. HAHN: I have a question on the bypass engine. You also have the fan engine. From an operating point of view what is the difference? Is one more efficient than the other?

Mr. MCGREGOR: It is a matter of degree. The principle of the bypass and the fan is virtually identical. Rolls Royce was about the first with a bypass engine and maybe the last. It had a small passage for air passing through the engine. The American manufacturer said that the principle was for the birds, but later they decided it was a good thing, and that they were going to go into it. So they called it a fan. But there is no difference in principle. Both have a sheath of additional air passing around the engine proper, with the remainder of the air going through the engine in a normal way. The higher the bypass ratio, the better the economy in terms of the fuel consumed.

Mr. HAHN: In your report you said that the Rolls Royce Dart engine has developed a 4,200 hour service life. How does that compare with the service life you have with the DC-8's?

Mr. MCGREGOR: That is right. It has now gone up to 4,800 hours since I wrote that report. Neither the Tyne nor the Conway are as high as that, although both of them are satisfactory in their fields.

Mr. SEAGRIM: The Conway has 4,600 hours, with one intermediate shop check, and the Tyne has 2,200 hours at the moment.

Mr. HAHN: When the Vanguard first came in I understand there were some problems with it. How does the Vanguard stack up against the Electra? TCA took the Vanguard as opposed to the Electra?

Mr. MCGREGOR: You are perfectly right. The early model operations of the Vanguard were extremely painful. This had to do with the engine, the propellers, the synchrophasing and the airframe. In a way they were extremely troublesome even for a new airplane when you expect certain mechanical troubles to show up. We took the Vanguard because we knew they would have a longer life than the Electra. We were certain it would be a more satisfactory airplane. In our testing the engineering department found three or four very serious faults in it, I mean with respect to the Electra. But we did not have those problems with the Vanguard. This was a matter of engineering analysis of one structure against another.

Mr. HAHN: What about the ground support equipment across the country such as your air line systems use, in the way of radio and navigation facilities and so on? From the air line point of view are you happy with the facilities you have with which to operate across the country?

Mr. MCGREGOR: Again, speaking subject to correction from Mr. Seagrim, I would say that no air line is ever completely satisfied with the facilities and aids. But we think we are extremely well off in Canada.

Mr. HAHN: My last question is this: how do you fly and navigate trans-oceanic?

Mr. MCGREGOR: By Loran chiefly.

Mr. BALCER: A lot of members have questions concerning the DC-9. We do not know when to start with them. Before doing so I wondered if it would not be proper procedure for Mr. McGregor to give us his views on the whole question. This may be the way to ask the questions. I think it would be more sensible than if we should come one after another and ask a series of detailed questions without first having the whole story from Mr. McGregor. That might end the questions, if it is agreeable.

The CHAIRMAN: That is a very good suggestion except that I think maybe some other questions are coming up. I think the committee would agree that

if we came to the DC-9 before asking for a statement from Mr. McGregor, the situation would not be so good. Are there any other questions outside of the DC-9?

Mr. PRITTIE: My question has to do with the type of aircraft, the Viscount. Mr. Nugent mentioned it this morning. Does it make a difference if you cut five minutes off your Montreal to Ottawa time? It seems to me that it would not make much difference. Is there any aircraft now with small capacity available for short runs?

Mr. MCGREGOR: There are some twin turbo-props but I do not think that T.C.A. should be buying them. I think we have the wrong conception about what five minutes means between Montreal and Ottawa. The faster and more modern airplanes operating between Montreal and New York and Toronto and New York, even to Nassau or any of the inner Caribbean points, or it may be to Florida, in those cases the jet will pull the traffic over any turbo prop, even if the difference in travel time is comparatively small.

Mr. PRITTIE: You could probably answer this too. Would you then consider replacing the Viscounts and Vanguards with the DC-9?

Mr. MCGREGOR: As I mentioned this morning, the present operating plan calls for the ownership of 34 Viscounts through 1973.

Mr. ROCK: Are we on the DC-9's yet?

The CHAIRMAN: No, not yet.

Mr. ROCK: I would like to know if T.C.A. pays the same rate to the Department of Transport for use of airport facilities and services as do the other air lines?

Mr. MCGREGOR: Yes.

Mr. PRITTIE: You do not get a break because you are a government body owned by Canada.

Mr. MCGREGOR: If there were not ladies present I would tell you what I think we do get. But it is not in the matter of the landing fees, because they are standard and related to the gross weight of the airplane. Where we pay through the nose is for space in the terminals.

Mr. ROCK: What about the land around the airport or in its vicinity? Do you at times purchase your own land and build hangars, or do you always build hangars on land purchased by D.O.T.?

Mr. MCGREGOR: No, the normal arrangement is to have a long-term lease of the land from D.O.T., or from the other authorities that are owners of the property.

Mr. ROCK: I should like to ask one more question. Do you know the cost of the recorder to which we have referred?

Mr. MCGREGOR: I think the cost is somewhere in the order of \$75,000. Again I will defer to Mr. Seagrim in this regard.

Mr. SEAGRIM: The cost is approximately \$16,000 plus the cost of installation.

Mr. MCGREGOR: I thought it was much more than that. I am delighted to hear that.

Mr. SEAGRIM: This particular recorder will take up to 175 channels, and each additional channel costs \$100.

Mr. DEACHMAN: Referring to the DC-9 and T.C.A.'s program of purchasing new aircraft, does T.C.A. use some general criterion in this regard. Surely you must have some policy that you follow in the purchasing of aircraft? Before we approach this specific problem perhaps it would be useful to us to know your method of approach.

Mr. MCGREGOR: I would do exactly that in complying with Mr. Balcer's suggestion.

Mr. RHEAUME: I notice that T.C.A. at the present time has 22 Vanguards. Is the Vanguard in general use by other lines of the world to your knowledge, Mr. McGregor?

Mr. MCGREGOR: One other at the moment which has Vanguards in service and that is the British-European air lines.

Mr. RHEAUME: This is an exclusive aircraft.

Mr. MCGREGOR: It is very exclusive, much to the horror of the manufacturer.

Mr. BALCER: At the time you purchased the Vanguard, was there any medium jets available which you could have purchased?

Mr. MCGREGOR: We ordered the Vanguard in 1956. There was a Comet Mark I available. I am not sure whether the early version of the Caravelle was available at that time or not. Other than the Comet I cannot think of a jet that was available.

Mr. ADDISON: Was the Rolls Royce company producing an engine which corresponds to the Pratt and Whitney engine for sale at approximately the same price?

Mr. MCGREGOR: The only other comparable engine is the Spey engine which is just coming on the market.

Mr. ADDISON: If you have to replace the two aircraft recently lost in crashes and you anticipate the purchase of more DC-8F aircraft, would you give consideration to the possibility of purchasing a British engine for these aircraft?

Mr. MCGREGOR: I do not think so in these particular cases. Perhaps at some stage during our future acquisition of DC-8's this will be the case. We have two basic aircraft types, the DC-8 with a Rolls Royce engine and the DC-8F with the Pratt and Whitney engine. If we have to buy an aircraft to replace the one that was lost last Friday, it may be of the type that was lost, that is the DC-8F, but our next acquisition could be a standard DC-8 and each successive decision would be related to our need.

Mr. ADDISON: Is the Rolls Royce engine designed for the DC-8F?

Mr. MCGREGOR: I am afraid we are at cross purposes. I thought you were speaking of an engine for the small jet type aircraft.

Mr. ADDISON: No, I was referring to a comparable engine to that now used in the DC-8F.

Mr. MCGREGOR: Yes, there is one, the expanded Conway which is being put in the VC-10 which is a four rear engine type aircraft. Perhaps I should ask Mr. Seagrim to express his opinion as to how that engine would fit a DC-8 airframe.

Mr. SEAGRIM: It would fit the DC-8 airframe but it would not be advisable to install it. It would be the third engine within the rather small DC-8 aircraft fleet. The other difficulty is that that engine is not yet and probably never will be serviced on a DC-8. The installation of it calls for a whole engineering certification by the F.A.A., which is the certifying authority in the country where the airplane was built, and this would involve a very, very expensive undertaking. If this were done the engine would have no advantage over the DJT-3-D-3 Pratt and Whitney engine which is installed. Our experience is that this engine has been extremely successful.

Mr. NUGENT: I think Mr. Hahn mentioned the Vanguard, but there is the Electra and the Britannia. Is that not a comparable sized aircraft?

Mr. MCGREGOR: The Britannia is a basic long range aircraft; whereas the two others you have mentioned are basically medium range aircraft.

Mr. NUGENT: Does it have approximately the same passenger capacity?

Mr. MCGREGOR: I think it is somewhat larger.

Mr. NUGENT: I am not quite sure I understand the distinction between a long range aircraft and a short range aircraft. Would a long range aircraft be more expensive to operate on the shorter flights?

Mr. MCGREGOR: They tend to be more expensive. If you are using a long range aircraft it can fly any length of route up to its maximum range. Such an aircraft becomes uneconomical as soon as you commence using it for distances less than its minimum designed range.

Mr. NUGENT: Can you give me some idea of the minimum economic distance perhaps of the Britannia type aircraft?

Mr. MCGREGOR: I think if you operated a Britannia as a regular thing much below a thousand miles you would begin to suffer.

Mr. NUGENT: I have asked these questions for several reasons. I have ridden in the Vanguard on several occasions, in fact just the other day and I found the same old complaint in respect of vibration. It does not seem to be nearly as comfortable as the Viscount. The Vanguard has such vibration it would set you deaf on edge and it seems to be a fault generally of most Vanguards to this day, does it not.

Mr. MCGREGOR: I do not think this applies to most of them, but it varies between aircraft. It also varies between one flight of an aircraft and the next, and this is so because it depends entirely on the operation of what is called Synchronphasing which is a device that is supposed to keep the prop blades in a relative angular position so the blade of one propeller which is going in the opposite direction to the adjacent side tends to pass the gap between the other two. If this synchronphasing does not function, as you have suggested, you get a vibration because you are spinning these huge propellers.

Mr. NUGENT: That is a fault that seems to be peculiar to the Vanguard.

Mr. MCGREGOR: I think the Vanguard is the only aircraft in the world that is absorbing some 5,000 horsepower into each propeller.

Mr. NUGENT: I have heard the thought expressed that if T.C.A. purchased long range aircraft T.C.A. would be in the market for overseas chartered service.

Mr. MCGREGOR: Yes, and it would also have put T.C.A. into bankruptcy, if such a thing were possible.

Mr. NUGENT: C.P.A. is now using these Britannias, is it not.

Mr. MCGREGOR: I think C.P.A. has just withdrawn their Britannias. Perhaps we could have some indication in this regard from them.

Mr. NUGENT: They do still use them at certain times, is that right.

Mr. MCGREGOR: Mr. Hamilton, do you wish to make any comment in this regard?

Mr. JOHN B. HAMILTON (*Director, Canadian Pacific Airlines*): No comment. We are not being reviewed here.

Mr. MCGREGOR: Anytime you want to take over it is all right with us. We are very happy that we did not buy the Britannia, if that is your basic question.

Mr. NUGENT: I have seen the Britannia fly. I have never ridden in one, but I understand they are very comfortable in comparison to the Vanguard. I have always been consumed with curiosity in regard to the Britannia's service. The Vanguards are being phased out, are they?

Mr. MCGREGOR: I have said that by 1973 we will only have 12. The first reduction in the Vanguard fleet will take place in 1969, or thereabouts.

Mr. NUGENT: I suppose it is a little early to think of the resale market.

Mr. MCGREGOR: On the contrary we think of it all the time.

Mr. NUGENT: Is the fact that T.C.A. is about the only user and that the manufacturer itself has not been able to find any user or purchaser, going to affect the resale situation at all?

Mr. MCGREGOR: I do not know. All I can say is that I did have what appeared to be a very serious inquiry last week from a South American air line asking how many Vanguards we can make available, when and at what price.

Mr. NUGENT: This was a serious inquiry?

Mr. MCGREGOR: It was a serious inquiry.

Mr. NUGENT: There is sometimes a gap between the receipt of a serious inquiry and a serious sale?

Mr. MCGREGOR: That is often the case.

Mr. PUGH: In regard to this matter of passenger comfort, I know that you cannot get rid of the vibration in a Vanguard but can you get rid of the chatter inside the cabin?

Mr. MCGREGOR: In regard to the passengers, is that what you mean?

Mr. PUGH: No, if you could control the passengers you could probably control this committee. What I was getting at is the vibration which tends to loosen bits and pieces of equipment inside the cabin. It seems to me if you are going to keep these planes for any length of time something should be done in this regard.

The CHAIRMAN: Mr. Pugh, will you speak a little louder, please?

Mr. PUGH: I have flown in quite a number of these aircraft and I notice there is a chattering sound in the forward cabin.

Mr. MCGREGOR: Let us understand something; people are liable to be carried away for an endless length of time in respect of one experience they may have had.

The Vanguard vibration level has improved considerably during our ownership period of the aircraft, and will continue to do so.

We actually have bought and paid for 23 Vanguards; there are 22 shown on the record in service. We left the 23rd aircraft with the manufacturer, with an agreement with him that at his expense he would experiment steadily with that aircraft, developing and testing modifications basically designed for the purpose of reducing the vibration level of the aircraft. We have not seen this aircraft since construction was finished, and it is still at Weybridge. We have been given to understand that a very considerable amount of improvement has been achieved with fairly minor modifications. We propose to take delivery of this aircraft within the next six months. If the improvement is as great as we have been led to believe it is then we will apply these modifications to the rest of the Vanguard fleet.

Mr. PUGH: Will the company do that for you?

Mr. MCGREGOR: They will provide the parts under warranty, in all probability.

Mr. PUGH: How long have they had that aircraft now?

Mr. MCGREGOR: The construction of it was finished late last year.

Mr. BALCER: What is the cost of a Vanguard?

Mr. MCGREGOR: About \$3½ million.

Mr. HAHN: Why is it that T.C.A. and B.E.A. are the only two airlines operating Vanguards?

Mr. MCGREGOR: I think it is true to say that the Electra, being earlier in time, took up a lot of the market that would normally have gone to the Vanguard.

Mr. ROCK: Does T.C.A. do all the maintenance and overhauling of their aircraft?

Mr. MCGREGOR: Yes.

Mr. ROCK: In your opinion, is it cheaper by you doing this and better from a service point of view than having the company from whom you purchased the aircraft do this work from an overhaul base in different areas.

Mr. MCGREGOR: Yes, much cheaper.

Mr. ROCK: And, as far as your company is concerned, it is better from a point of view of service?

Mr. MCGREGOR: Yes, because anyone that is doing that sort of work on a contract basis wants to know when he is going to get the airplane, when he has to get it out, and so on, whereas this work can be phased into our own overhaul base without too much friction within the company schedule. When we do it we can choose the time when we can free the aircraft comfortably from our operations. The only thing that is perhaps slightly bad in respect of doing your own maintenance and overhaul is that you appear to have a lot of employees as compared with a company which is putting it out to lease. It is costing them more money but they do not have so many people working for them, and in this way it looks better.

Mr. GRANGER: I would like to ask a question in regard to all-weather flying. I understand considerable experimentation has been done with a view to making landings completely automatic with restrictive visibility by using what I will describe as a combination of a radar and a depth sonar locked in with the automatic control.

Mr. MCGREGOR: You are quite right; a great deal of work has been done on this. It is integrated with the automatic pilot. There have been claims made that an aircraft can be landed in virtually zero visibility. We have been inclined to treat these claims with some scepticism. But, it is true that what we call the permissible limits of visibility and ceiling have been reduced materially with certain installations. As you know, airlines are run on the basis of "fail safe"; if anything ceases to function there is some automatic backup device that prevents catastrophic results.

Various approaches have been made to us in respect of an automatic landing system and, so far, I think the most effective is the triplication of everything. I am quite sure that this will come about and will be improved regularly. But I think this system has to be so excellent that an airline will have absolute confidence in it. It is hard to believe that this will be achieved within a short length of time. Certainly, in the last analysis the pilot has to have complete ability to take over if he does not like the way anything is going in the final stages of the landing process, and his judgment is much better than any machine we have bumped into so far.

Mr. MITCHELL: Not too long ago I was advised by D.O.T. that they were putting the VOR in the Sudbury airport. I know what VO is but at the time I did not know what VOR was. I had to contact three or four people in D.O.T. before I got the right person who could explain it to me; it was called visual omni range. It is a fine thing.

The CHAIRMAN: Have you a question, Mr. Deachman?

Mr. DEACHMAN: I would just like to make a remark, Mr. Chairman.

I heard Mr. McNamara speak in Montreal about 1950 on this subject of automatic landing devices and the answer he gave them at that time was very much similar to the answer he has given now.

Mr. MCGREGOR: Yes. We had an installation some 13 years ago. An airplane so equipped apparently had arranged to wipe out its undercarriage but, of course, it was not allowed to do so. But, progress is slow in these complicated areas.

The CHAIRMAN: Could we at this time have Mr. McGregor make the statement to which reference has been made.

Mr. FORBES: First of all, may I ask this question: have you still these two D.C. 3's in service and, if so, on what routes are they?

Mr. MCGREGOR: No, we do not have them.

Mr. FORBES: What have you replaced them with?

Mr. MCGREGOR: Nothing; we do not have the route any more.

The CHAIRMAN: Will you proceed with your statement now, Mr. McGregor?

Mr. MCGREGOR: First of all, I realize there has been a great deal of controversy about this small jet selection by T.C.A. There has been a fair amount of exaggeration, one being that T.C.A.'s order is going to be for \$200 million for 50 airplanes; the order is for six airplanes, running to \$24 million. This is the sort of thing that has gone on and it has bedeviled many people.

We have a hope that at some time in the future we might be able to have an aircraft type which, with one large subsonic jet, would result in a two type fleet. Even people within the company laughed at this idea, but it is conceivable, and the economies to be derived from such a fleet organization are immense.

Anyway, we approached the problem of selecting a small jet aircraft—and I use this term in a relevant sense—with the idea of making a technically good economical selection which would integrate most satisfactorily with T.C.A.'s specific fleet of two turbo prop types and one subsonic long range jet.

Basically, we wanted one which had a long enough range to meet at some point, probably in the 1,200 mile area, the shortest economical range of the D.C. 8's.

This in theory made it possible for us to consider only two types in the fleet in the distant future. We also wanted one small enough in seating that it would not seriously depress the flight frequencies on the routes on which it would be operated. If it was too big we could only have a few flights a day. We wanted one which had the highest degree of mechanical integrity that we could possibly arrive at for obvious safety reasons. We wanted one as economical as it was possible to achieve in a subsonic jet aircraft. With these basic objectives in mind we decided to make a technical-cum-economic analysis of five different aircraft types. All but two were twin rear engine mountings. Two were tri motor, the Boeing 727, and the English de Havilland Trident. However three were twin motors, the BAC 111, the Caravelle, and the Douglas DC-9. These aircraft different in chronological life quite considerably.

A version of the Caravelle had been in service for nine years. The BAC 111 was scheduled for flight early last autumn, and the DC-9 was scheduled for flight in April 1965.

From there on it was obvious that the two bigger tri motors would fall by the wayside because of various inherent things that they had in relation to our fleet, but not to themselves. Anything that I say that appears to the detriment of any aircraft does not necessarily apply to aircraft (a), (b) or (c). But it does apply when stacked up against the T.C.A. fleet.

We also played into the same study the DC-8, not because it had any chance whatever of showing up satisfactorily over the type we looked for, but because we wanted to have a benchmark of known operating costs and conditions to which to relate these other aircraft. We flew each one of these aircraft on paper. That is not as simple as it sounds.

You know the range, the fuel consumption and the load you expect to have in it, and on paper you know the amount of fuel in it, and you take it off and you fly it over the route required against head winds which are forecast, quite satisfactorily, with the alternative fuel reserves you may need to have, and you arrive at the cost, unless there are very basic changes in the price of fuel, but this would affect all five aircraft virtually the same.

This was done for the full five aircraft and at the end we gave each aircraft a rank of first, second, third, fourth or fifth with respect to each of the six different categories which we had in mind, such as pilot acceptability, flight frequency, passenger acceptability, and so on, and economy.

The two aircraft that were similar in basic design and over-all size were the BAC 111 and the DC-9. I must say that in applying those two aircraft to T.C.A.'s requirements, the DC-9 came out substantially the leader, and it was on that basis that a recommendation was made to my board of directors based on the technical information we had acquired and on the economic study.

The board of directors naturally wanted to consider other things than pure economy and operational integrity of the aircraft. I gave them a list of some features which I thought merited consideration other than pure economy. These involved the Canadian labour content, deliveries, desirability of purchase to T.C.A. in removing rather than encouraging imbalance in trade, on the one hand in favour of the United Kingdom and on the other hand in favour of the United States—other than technical and economic considerations. These were drawn to the attention of my board and they listened to the presentation and came up with a unanimous decision in favour of the DC-9.

That is a rough thumbnail sketch of proceedings which covered two solid years of hard work by a numerous team of competent people.

The CHAIRMAN: Is that all?

Mr. MCGREGOR: That is all for the moment.

Mr. GREGOIRE: Are you going to publish the report? For example, when you speak of mechanical integrity, we are aware that one of the three planes, the Caravelle, has had experience, while the DC-9 has had none. So they must have taken a kind of judgment of these planes.

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: Could we have the report? Would you make public the report which you received?

Mr. MCGREGOR: I sincerely hope not because it is impossible to have a report of this kind without implying shortcomings of the losing aircraft. I think it would be rather unfair. No matter how fine we said that aircraft is, this is the one we like best. We do not want to say the other aircraft is no good. But you are correct in saying the Caravelle has had experience. Listen to this: in 1960, on January 19, the Caravelle had an accident in Ankara; on February 29, 1960, the Caravelle had an accident in Air Algeria at Orly; on August 26, 1961, the Caravelle had an accident in Swissair at Geneva, and on September 12, 1961 the Caravelle had an accident in Air France, at Rabat. I could continue on down to give you a total of 10 such experiences.

Mr. GREGOIRE: Was it due to mechanical failure or what?

Mr. MCGREGOR: I do not know what the causes of these accidents were. As a general rule more accidents are attributed to pilot error than to mechanical failure.

Mr. BALCER: When we look at the history of planes over the last 20 years we see that some planes for some reason or another have been very good, while others which should have been good turned out to be bad. Take the DC-3 and the DC-2, which were about the best planes that were ever built. I think you still will find 25,000 of them flying, and they have been flying for 30 years. That was a good plane. And the Viscount you bought is a good plane because they are still in operation and you say that they are going to be in operation until 1973. In other words, you have the DC-4, DC-5, DC-6 and DC-7B, which were duds. I know, for instance, that K.L.M. lost its shirt in respect of the DC-7B but, the DC-8 is a very good plane, as evidenced by the fact that most air lines are purchasing them. The Caravelle I think falls within the same category because approximately 15 or 20 air lines have been using this aircraft all over the world. It is my information that the other two are built under license from the design of the Caravelle.

Mr. MCGREGOR: No.

Mr. BALCER: That is my information.

Mr. MCGREGOR: Many bad things have been said in this regard, but that is not true.

Mr. BALCER: The fact is that some planes have been very good while others have been duds.

Mr. MCGREGOR: That is quite true.

Mr. BALCER: You have said that you had your computers given all the information available and got the answer that the DC-9 was the best, but the DC-9 is still only a paper plane; is that right? The BAC-111 was a very good plane on paper, but I understand that the people were making some experiments with that plane and developed a renewal of their plans as far as the BAC-111 is concerned. Would it be wiser for T.C.A. to wait until the DC-9 has been tested in flight and proved by performance? T.C.A. will be the first air lines to receive delivery of the DC-9; is that right?

Mr. MCGREGOR: No.

Mr. BALCER: I am not an expert, I am only giving you my impression.

Mr. MCGREGOR: Your argument is perfectly logical Mr. Balcer, but I certainly would be the last one to say that an aircraft being produced by an experienced manufacturer has not on occasion turned out to be sour apples, but this is less true of the Douglas company than any other company of which we are aware.

Mr. BALCER: Did you say this was less true?

Mr. MCGREGOR: Yes. There has been a long succession of satisfactory aircraft come out of that stable.

With respect to waiting, it is always desirable to know as much about the product which you want to buy as you possibly can; but there is almost the built-in assurance that you are going to have an aircraft that has already embarked on the process of becoming obsolete if you wait. T.C.A. must enlarge its medium range capacity in 1966, if our forecasts are right. This is one of the soundest arguments against delaying in ordering aircraft. If we wait until April 1965, when the DC-9 is to make its first flight, we certainly would not have any new airplanes to operate during 1966. If we bought an interim aircraft to fill in that gap this would be extremely expensive.

Mr. RHEAUME: Mr. McGregor, you have told us that the DC-9 proved out against T.C.A.'s flight regulations and is to be the No. 1 plane in choice. You suggested that the B.A.C.-111 was No. 2. Would you like to give us the rest of the list?

Mr. MCGREGOR: No, I do not think that would be fair. I can amplify your statement that the BAC-111 is No. 2. I should like to put a question mark beside that implication.

Mr. ADDISON: I should like to ask a question in regard to the DC-8. I understand when the DC-8 was first delivered it did not meet the speed specifications as originally put forward; is that correct?

Mr. MCGREGOR: I think perhaps the best way to say this is that they had a higher drag factor—the drag being the general hold back of the aircraft—than the specifications had indicated. That has been corrected, but it can be translated into the speed or range depending on how you look at the situation. You can push the aircraft at more power to get the specified speed but this automatically cuts down its range because the fuel consumption is higher. I think a proper criticism is that its drag ratio was higher than planned, originally.

Mr. ADDISON: This being the case, and as a result of the experience with the Vanguard which was unsatisfactory, or perhaps thought to be by certain members of this committee, do you have built-in safeguards in the actual contract with the Douglas company whereby T.C.A. is protected through a penalty clause if this aircraft does not perform according to the specifications presented to T.C.A.

Mr. MCGREGOR: This is always true and is true in the case of both the Vanguard and the DC-8. The first thing that has to be done in negotiating the purchase of aircraft is the provision of specifications to which the manufacturer agrees, and which the air line feels meets its requirement. These specifications form a huge book covering ramifications to an unbelievable extent. Having agreed upon the specification, then the warranties are thought out. What are the penalties for failures to live up to specifications in this area, and by how much? These are extremely complicated affairs, but the air line is protected up to that point. But the air lines cannot get protection against not having aircraft to carry the traffic it has to carry at the time delivery should take place.

I want to make sure my point is understood. Let us say that an aircraft is bought and it is bought against a requirement that it actually has to be put into service at a certain time. At that time perhaps there is a miserable failure against specifications. The air line can say to the manufacturer, "you owe us \$8 million"; that is fine, but that does not give the air line an aircraft to use, although the \$8 million is acceptable.

Mr. MONTEITH: What would the air lines do in this event?

Mr. MCGREGOR: The air line is then in difficulty unless it can provide capacity in some other way such as perhaps misusing long range aircraft on short runs.

Mr. ADDISON: Will there be provisions whereby a penalty is applied to the manufacturer if it does not meet the specifications other than voiding the contract?

Mr. MCGREGOR: Yes, and there has always been warranty clauses in all of our contracts.

Mr. BALCER: Is this the first time that T.C.A. has purchased an aircraft that has not yet had its trials?

Mr. MCGREGOR: We have always done so with one exception. We bought the DC-8 two years and eight months before it flew; the Vanguard two years and nine months before it flew and, although a type of Viscount had flown, not the type we bought. The only real exception I know of is the Super Constellation and that was probably the worst buy we ever made.

Mr. DEACHMAN: Mr. McGregor, I think one question has been left unanswered. Is this truly a paper aircraft you are buying or have you seen mock-ups on the ground?

Mr. MCGREGOR: Our technical people have seen mock-ups. It is not true to call this a paper aircraft. A great amount of the hardware has been cut, assembled and fabricated, because it is going to fly 17 months from now.

Mr. DEACHMAN: Your technical people have seen mock-ups and a certain amount of hardware and have had an opportunity to make a complete examination?

Mr. MCGREGOR: That is right.

Mr. GREGOIRE: Mr. Chairman, I should like to ask Mr. McGregor to answer the first question I asked.

Mr. MCGREGOR: I should like to state in respect to mock-ups that our technical people examined these mock-ups thoroughly and eliminated possibility of a mock-up being falsely made to look delicious. Our technical people examined with great care the detailed engineering plans in respect of the various components and systems that are going into the aircraft such as the hydraulic system, the electric system and generating system.

Mr. DEACHMAN: The practice which you follow is, I take it, also the practice followed by other air lines purchasing new aircraft?

Mr. MCGREGOR: That is the practice followed by other air lines except the small companies.

Mr. DEACHMAN: So you buy an aircraft today in much the same way as ship companies buy a ship, namely from the plans?

Mr. MCGREGOR: That is absolutely right. One determines the power going into the aircraft, the fuel consumption and the economics before purchase.

Mr. GREGOIRE: Mr. Chairman, I should like to repeat my first question in respect of the publicity report.

Mr. MCGREGOR: Mr. Gregoire, I would prefer not to, for the reason I mentioned. I thought I did answer your question. There is an implied criticism of the other contenders and I think this is unfair.

Mr. GREGOIRE: You have complained about the Super Constellation.

Mr. MCGREGOR: It is no longer on the market.

Mr. GREGOIRE: Do you not think that anyone could make the same survey as you have done with T.C.A.?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: And, they could come up with exactly the same answers.

Mr. MCGREGOR: No, I do not think they would have the same answers.

Mr. GREGOIRE: Maybe it would be because the interpretation of the report in respect of the statistics given by the five different companies would not be the same.

Mr. MCGREGOR: No. The route patterns would be different. There are so many routes of 500 miles; so many routes of 800 miles, and one of 1,200 miles. This sort of thing will differ between one airline and another.

One airline can do an analysis and say "this one aircraft meets my requirement much better than that one," and the choice may be reversed. Because we do not like, for our purposes, the 111 or the Caravelle as well as we like the D.C. 9 does not mean another airline must come up with that same answer.

Mr. GREGOIRE: But, in respect of all these preliminaries there would be nothing toward the four other companies.

Mr. MCGREGOR: This is quite right. I would hope that everyone understands that this is an aircraft analyzed against T.C.A. requirements only and it does not mean that aircraft B, C or D are not good aircraft themselves. But, it is my fear this will not be understood. I am sure if this was published the press would say the Caravelle is no good because T.C.A. does not like it; this would be unfair—not that I think it is any great shakes.

Mr. ROCK: Mr. Chairman, I hope the official stenographers do not mix up the two names, Mr. McGregor and Mr. Gregoire.

Mr. GREGOIRE: I would like to finish. I think we should insist on having the publication of that report.

Mr. MCGREGOR: I would doubt it, but I do not like to tempt you.

Mr. GREGOIRE: I do not think the reasons you gave for not publishing it are good reasons.

Mr. MCGREGOR: Can you give me any good reason why we should do it?

Mr. GREGOIRE: Yes. You have made a choice. Some people brought examples in respect of the economical integrity of a plane which had been accepted and one which had been tried, while the other had not been. As there are so many arguments about it I do feel, in a democracy like we want to have in Canada, it would be a good idea to publish the report.

Mr. MCGREGOR: You must not regard T.C.A. as a democracy.

Mr. LLOYD: Mr. Chairman I do not think this should be imposed on the committee and I would like to disassociate myself with these views.

As I see it, Mr. Chairman, my purpose on this committee is to direct questions and inquire into these matters so that I am fully satisfied that the persons with whom we have entrusted such major decisions in complex engineering matters have done so with integrity, good judgment and collective wisdom, in conjunction with other people behind them. I am satisfied this has been done.

Mr. ROCK: Mr. Chairman, I was going to put a question when I was interrupted by Mr. Gregoire.

Mr. McGregor, was there a Canadian content offered by all the other manufacturers of the other aircraft that you were studying as well?

Mr. MCGREGOR: We know about the Canadian content of the D.C. 9, which is approximately \$540,000 per aircraft of Canadian labour and material content for every aircraft built anywhere in the world.

Mr. MONTEITH: Would that constitute 25 per cent?

Mr. MCGREGOR: No, it is less than that. The price of the aircraft is about \$3½ million.

The B.A.C. organization has told us, and I believe every word they say—and this is a point I would like to make, if I might digress at this time; they have offered to spend in Canada \$400,000 in respect of every second B.A.C. 111 aircraft built after the first 60. Sud aviation, the manufacturer of the Caravelle, informed the press they were prepared to have the whole aircraft built in Canada, which was nonsense in the first place, because the engines were not going to be built by Canadair or anyone else in Canada. I know of no firm offer that was made by Sud aviation to Canadair or to any other manufacturer in Canada.

Mr. GREGOIRE: Is it true that Canada would not be able to build the Caravelle?

Mr. MCGREGOR: I doubt if they could. We were talking about 30 airplanes over 10 years, and I cannot avoid being insulting toward the Caravelle, but I know of no other potential North American customer. There have been only 20 Caravelles sold in North America over the past 10 years, and these were to United Airlines. They were the original ones.

For the information of the committee the owners of these aircraft, United Airlines, called me up about three weeks before the decision was made and offered to sell me the 20 airplanes at a reduced price. I did not accept the offer for various reasons, but primarily it had to do with the Canadian content and the fact we did not like the airplane as applied to our fleet. But, this is the sort of position, in my opinion, which the Caravelle is in in respect of North America. This is drawing a bit of a long bow but I would be surprised if there are many other sales of the super B Caravelle in the near future in North America.

Mr. FORBES: What is the passenger load of the D.C. 9, what is its speed and what service will it perform?

Mr. MCGREGOR: I do not think I can put them in order. The speed will be in the order of 560 miles an hour, the number of passengers the D.C. 9 will carry will be 72, and the service it will perform is to provide air transportation on the up to 1,200 mile routes, particularly where there is a competitive position and a fair volume of traffic.

Mr. NUGENT: You mentioned a price of \$24 million for six airplanes, which would be somewhere in the order of \$4 million per plane, and I wondered if you had worked out the passenger miles which each plane would fly in a year as compared to the Viscount, taking into account their speed which enables them to get there faster and maybe realizing more miles out of them. Is there an equivalent amount or less servicing on them and will each plane yield a considerably greater number of passenger miles per year?

Mr. MCGREGOR: Per plane I think it would be at least double or maybe more.

Mr. NUGENT: What is the present cost of a Viscount?

Mr. MCGREGOR: Well, if you could buy one of one type or another it would be \$300,000 or \$400,000.

Mr. NUGENT: I am referring to a new one.

Mr. MCGREGOR: There is no such thing as a new one. I am sorry, there is what they call the 800 series and I would think one would probably pay \$1,300,000 or \$1,400,000 each.

Mr. NUGENT: I was trying to get at the cost per passenger mile of the D.C. 9 as compared to the Viscount? When delivered and first being put into use there will be D.C. 9's and Viscounts on the fleet.

Mr. MCGREGOR: But not on the same routes.

Mr. NUGENT: You will be able to get a comparison of the cost?

Mr. MCGREGOR: We already have one.

Mr. NUGENT: Could you give us the cost of the Viscount in passenger miles? What is the paper cost per mile of the DC-9, if you do not object to that term.

Mr. MCGREGOR: I do not object to that word. Do you want the aircraft mile cost, or the seat mile cost?

Mr. NUGENT: Both if you have them handy.

Mr. MCGREGOR: What range would you like them for? Say 1,000 miles?

Mr. NUGENT: You gave us the others at two figures, so whatever you gave us before, give us the same now.

Mr. MCGREGOR: The figures I gave you before were our actual experience.

Mr. NUGENT: Very well, give them.

Mr. MCGREGOR: \$1.20 per aircraft mile, and 1.6 cents per available seat mile.

Mr. NUGENT: Does this cost include depreciation?

Mr. MCGREGOR: Yes, those are direct operating costs, but they do not include interest on the investment.

Mr. NUGENT: The interest on the investment is \$4,000,000. What is the life of the plane? Is it going to be appreciably down in passenger mile cost?

Mr. MCGREGOR: I have given you that in one of the figures.

Mr. NUGENT: Not for the Viscount.

Mr. MCGREGOR: It is a very small proportion.

Mr. NUGENT: I am a little puzzled. Maybe I am labouring the point. But on the short run there might be time saved if you had a very nice reliable plane such as the Viscount; I do not know how long they could be used. Did you not have some trouble with them in the past?

Mr. MCGREGOR: When we were left alone, for nine years we made a profit.

Mr. NUGENT: Any company worth its salt should be able to meet competition in the increase of passenger miles.

Mr. MCGREGOR: We have been in competition ever since we have been in business.

Mr. NUGENT: You were not present at the committee meeting two years ago. But it was obvious from the questions at that time that the reason there was not a better profit was that the company had planned, despite warnings to the contrary, to purchase on a basis that it would continue to get the complete growth of passenger traffic. So you made your aircraft purchases and plans on that basis, despite the fact that there was plenty of warning given that the situation might change, and as it actually turned out, you planned your purchase of airplanes on the basis of continuing to enjoy that monopoly, and of continuing to get the complete growth of passenger traffic. If that is what you would call being let alone, I can only say that that kind of treatment is something you should expect any time. I would think that any company which feels it can operate efficiently should not fear that kind of competition from an increase in traffic passengers, if you had made your plans knowing that fact.

Mr. MCGREGOR: Just a minute! I disagree with everything you have said. I would like to say that you do not plan your fleet capacity on the basis of making room for non-existent competition, according to my knowledge of the business.

Mr. NUGENT: When you made your plans you were warned that you were likely to have competition because C.P.A. had applied.

Mr. MCGREGOR: That is right, C.P.A. had applied but with a fleet in existence which was adequate for the traffic offering. But the findings of the hearing were clearly set out. It said there was no reason whatever for competition, and they were given one flight a day for only one reason, to connect their Pacific to their Atlantic service.

Mr. NUGENT: I am not talking about the air transport board hearing. I am talking about this committee hearing two years ago, and about the answers given.

Mr. ROCK: I think we have departed from the DC-9 subject.

Mr. NUGENT: I was trying to relate the experience we had at that time with the planning that went on concerning the DC-9 and the passengers to be carried. You said you did not make a profit because you were not left alone. I feel it is my duty to find out for what reason you have not made a profit? Was it because you made some mistakes in your planning?

Mr. MCGREGOR: That is not my opinion.

Mr. NUGENT: Continuing with the DC-9, my point is that with the extra speed, even with the short run, you are still not going to be able to give the extra number of trips or make the planes available for that extra number of trips and passenger miles.

Mr. MCGREGOR: No. First of all, it has half again the seating capacity, and it has about twice as much space.

Mr. NUGENT: Is it not much more complex in respect of servicing?

Mr. MCGREGOR: It is the simplest jet I have ever seen.

Mr. NUGENT: Is it simpler than the Viscount?

Mr. MCGREGOR: Yes, I would say so. It has only two engines.

Mr. NUGENT: Would your service cost be in proportion when compared to your passenger miles.

Mr. MCGREGOR: I do not think I quite understand your question.

Mr. NUGENT: Why? This is simply the matter of service, the replacement of parts. I am not sure what goes into maintenance and overhaul of planes. But your initial cost is higher. Are your maintenance costs proportionately higher, or are they more than proportionately higher?

Mr. MCGREGOR: I think that what you are trying to ask me is about the cost of the DC-9 over the routes in which it will be operating. Are they to be lesser or greater than the Viscount. Is that right?

Mr. NUGENT: Per passenger mile.

Mr. MCGREGOR: Yes, per passenger mile. But that will depend on whether there is a passenger in the seat or not. We can only talk about seat miles and know what we are talking about. The answer is no, it will not; it will be somewhat higher but not much. But it will be less high than any of the other small jets. Have you a list setting out those facts? It calls for 34 Viscounts to be in operation still by 1973.

Mr. NUGENT: Yes, I recognize that but it seems to me that your objective is whether or not the actual plane is ready to operate, and that you are taking a chance. You have admitted that your choice of the Constellation was a mistake.

Mr. MCGREGOR: Yes, that is what it was all right.

Mr. NUGENT: My opinion is that your company made a mistake with the Vanguard, or to put it another way, had you been prepared with another suitable airplane you would have been able to wait until the Vanguard had all those wrinkles ironed out. Yet you objected very much to my question whether the service of the Vanguard could be stretched out to cover such a period so as to give you that extra working time so that you could wait for the DC-9 until it had proved itself by testing and flights, and that it had no wrinkles in it to be taken out.

Mr. MCGREGOR: Let me come back to the remark you made that we were taking a chance.

Mr. NUGENT: Did you think you were taking a chance with the Vanguard?

Mr. MCGREGOR: No. We do not think we made a bad buy, in spite of your opinion.

Mr. NUGENT: You bought the Super Comet and you said you made a bad buy?

Mr. MCGREGOR: That is correct, if you mean Super Connie.

Mr. NUGENT: And you could make a mistake in judgment.

Mr. MCGREGOR: Yes; but the Super Connie was an aircraft already in being.

Mr. NUGENT: It does seem to me contrary to what I would expect. It would be more likely that you could make a mistake and error with an aircraft that is not finished and tested, and when you are working from paper only.

Mr. MCGREGOR: Mr. Nugent, I have never suggested that T.C.A. was incapable of making an error and I do not do so now. I say we have applied the best technical judgment at our disposal and I think our engineering department is as good as any in the world, and we have come up with this answer. I would also like to draw to your attention the fact that your despised Vanguard is .6 cents per seat mile cheaper to operate than the Viscount.

Mr. NUGENT: I want to be clear on one point. I have travelled by Vanguard on several occasions but have experienced this tremendous vibration on each occasion. Otherwise I think this is a wonderful aircraft.

Mr. MCGREGOR: Thank you very much.

Mr. NUGENT: That fact does not meet the objection I am trying to make in respect of the wrinkles being ironed out. You suggest the company is modifying the aircraft and getting rid of these objections, and it may be that in perhaps in a year or two it will completely cure this illness. My point is, would it not be safer to use the Viscount for a longer period of time?

Mr. MCGREGOR: If we did so we certainly would be short of capacity throughout 1966, and for as long thereafter as it took us to get the aircraft.

Mr. NUGENT: Do you feel it is necessary to have newer, faster and more modern aircraft in order to attract passengers?

Mr. MCGREGOR: That is correct.

Mr. NUGENT: Would there not be another difference in the operating cost permitting a difference in fare. There seems to have been quite a difference from the record you have shown of the fares suddenly jumping up or going down. Would a lower fare not compensate for the lack of newness of a plane?

Mr. MCGREGOR: I do not think so. We are not so much worried about the difference in operating cost per seat mile because it is normally only small fractions of a cent. The main question is, can we meet the traffic demand and I suggest that it is the function of T.C.A. to meet that demand.

Mr. HAHN: Mr. McGregor, you originally stated it was the objective of T.C.A. to work toward a new aircraft fleet. You will be phasing in the DC-9 while phasing out the Vanguard and Viscount, so that we will have four aircraft at least. Is it T.C.A.'s objective ultimately to replace the Vanguards and Viscounts with DC-9's sometime in 1973 and wind up with a two aircraft fleet?

Mr. MCGREGOR: We are now getting pretty far into the future, beyond ten years, but that is my hope. As I said before, I know of only one air line over the past 20 years that has operated with basically a two type aircraft fleet, and that was American Air Lines during a short period when they had record earnings. I am convinced that if we can work toward this goal we are heading in the right direction, and if we can achieve it our economic problems will be behind us.

Mr. HAHN: In your opinion does the DC-9 fit all the requirements of a second aircraft, and can it adequately replace the Viscount and Vanguard and do the jobs they are now doing?

Mr. MCGREGOR: It will fit these requirements with the exception of some very short and light traffic routes which we now have and which conceivably might be better served by regional type carriers.

Mr. RHEAUME: Mr. McGregor, I am intrigued by your statement in respect of the proof of loss figures and the fact that you suggested that Trans-Canada Air Lines could make a profit if it was left reasonably alone. I am wondering how your profit and loss annual reports compare with other air lines which

are also in the position of going into the jet age rather suddenly. In other words, there are all kinds of companies, it seems to me, which are not being interfered with, to use your own words, which also have the same kind of profit and loss configurations. You can check me in this regard, but it seems to me this results from the fact that all air lines have to face the problem of producing new type aircraft and are doing so without the interference of internal management.

Mr. MCGREGOR: Mr. Nugent was certain I was talking about C.P.A. when I made that remark about being left alone. I was not referring so much to C.P.A. as to the multiplication of trans-atlantic competition. There are nine different trans-Atlantic carriers operating into Montreal and/or Toronto today. We regard this as a multiplicity of competition which is rather difficult to be confronted with, which very quickly produces a deficit operation for a period of time. I think early this morning I forecast that we were not going to have a deficit this year. I still believe that to be the case in spite of recent happenings. I think we have survived that situation.

In an attempt to answer your question I should say certainly the advent of the subsonic jets has been expensive. I think in the case of some air lines it was more expensive than it needed to be because they superimposed new subsonic jets on their existing aircraft fleets and tried to offset the resultant huge increase in capacity against the comparative small increase in traffic. The results were extremely damaging in certain cases. I do not think our pains in this regard have been as intense as in the case of some other carriers. Basically I think your assumption is correct, that the profit and loss trend over the past ten years has been general.

Mr. PUGH: Do you have any idea of the number of firm orders at the present for the DC-9?

Mr. MCGREGOR: I would ask Mr. Seagrim to answer that question.

Mr. SEAGRIM: There are 18.

The CHAIRMAN: Gentlemen it is after ten o'clock, are there any further questions?

Mr. LLOYD: Mr. Chairman, I wonder what our next step should be. Will it be necessary to call Mr. McGregor back again?

Mr. GREGOIRE: We still have questions to ask Mr. McGregor.

Mr. PRITTE: Mr. Chairman, I have several questions to ask regarding equipment and facilities.

Mr. PUGH: Let us leave the subject open.

The CHAIRMAN: I am afraid we do not have an agreement in this regard, and I will entertain a motion to adjourn.

Gentlemen, we will meet tomorrow after orders of the day in room 371.

Mr. GREGOIRE: Mr. Chairman, would you ask our friend here to be a little more patient.

Mr. LLOYD: Mr. Chairman, my patience compared with the gentlemen's lack of appreciation for procedure is quite favourable.

## EVIDENCE

WEDNESDAY, December 4, 1963.

The CHAIRMAN: Gentlemen, we are a little late. Last night when we adjourned we were considering the section on equipment and facilities.

Mr. BECHARD (*Interpretation*): Mr. Chairman, might I be allowed to speak French? We have simultaneous interpretation and in any case this being a bilingual country we can speak French if we so wish. Mr. McGregor, it seems to me that there is a great deal of confusion and danger arising from the possibility of having two names for the air line. In this regard would you be able to tell me if you know of any company which has the same initials as Trans-Canada Air Lines?

Mr. MCGREGOR: You are referring to my statement that I was afraid confusion might exist if two names were used on the aircraft. If you do not mind me replying in English?

Mr. BECHARD: No.

Mr. MCGREGOR: I think this is valid if we are going to talk about painting one name on one side of the airplane and another on the other, so that only one name can be observed at one time. The business of printing both names on one side of the airplane is feasible but still can lead to confusion and would crowd up the names pretty solidly on a fairly small aircraft such as the Viscount. I would like to talk about this name situation because perhaps I did not make myself too clear yesterday.

Personally I regret the idea of a change in name or, shall I say, the exclusive use of the name "Air Canada", only on one account, and that is the loss of establishment of a pretty nearly world-wide reputation under the old name. Many of the older employees, among whom I might be considered old enough but have not had a long enough service, feel the same way about this point. I believe the course we have been following, which is one of almost an infiltration of the name Air Canada, has made progress and is successful, and the name "Trans-Canada" can perhaps some time in the future go out of use without any great pangs of pain on the part of either the public or the company.

May I show you two of our more recent time-tables? These are the domestic and the international time-tables. The initials T.C.A. are given great prominence, but after that, the name Air Canada is given more prominence than Trans-Canada Air Lines, which is across the bottom. It seems to me that this sort of thing will not go on very long before people refer to Air Canada or Trans-Canada Air Lines almost indiscriminately.

Mr. BECHARD (*Interpretation*): But you did not say, Mr. McGregor, if there was another company, as far as you know, who uses the letters T.C.A.

Mr. MCGREGOR: There is Trans-Caribbean Air Lines. That is a bit of an infringement, but it exists.

Mr. BECHARD (*Interpretation*): Is there no danger of confusion?

Mr. MCGREGOR: I do not know of any place where we operate from the same airport.

Mr. GREGOIRE (*Interpretation*): On the same matter, Mr. Chairman, I thought I understood yesterday that the main reason which would prevent a change of name would be the amount spent in advertising to strike out the

name Trans-Canada Air Lines which is a well known name. Have you consulted any advertising agencies in this respect, and is it not a fact that to have one name only, such as Air Canada, which is also perfectly English, perhaps would be better for advertising purposes. This would be preferable to having two names which you would have to put on letterheads, on planes, on advertising material and so on. Would not Air Canada be preferable rather than using the two names?

Mr. MCGREGOR: There are many advantages which I think exist with respect to the name "Air Canada". It is concise, it is a positive identification, and it fails to have any shortcomings in so far as the description of the air line's operations are concerned. I agree with all these things. As I say, I think it will come about. It is a question of whether it would be as well to do it suddenly.

In reply to the first part of your question, when I said "yes" to your question about having consulted public relations, this was done some years ago and it was done with respect to Air Canada. This, to use a horrible term, was the evaluation of the image. I would think the so-called image of T.C.A., if a sudden name change took place, would be some time in recovery because people would say "Is that the same old company under a different name, or is it not?"

Mr. GREGOIRE (*Interpretation*): Have you consulted any advertising agencies concerning the argument you have given now?

Mr. MCGREGOR: Not recently. I did three years ago.

Mr. GREGOIRE (*Interpretation*): I do not think the argument is a very good one. Would you consider changing the name?

Mr. MCGREGOR: Yes. It is a good idea.

Mr. CHRETIEN (*Interpretation*): Do you not feel it would be possible to bring an immediate change here, to change T.C.A. to Air Canada, and to continue using for a few years the letters T.C.A., not as the official name but for convenience? You are now using the name Trans-Canada Air Lines for official purposes and Air Canada for advertising purposes; could we not reverse this?

Mr. MCGREGOR: If I understand the situation, both names are official.

Mr. CHRETIEN (*Interpretation*): I am sorry, but the French name of Trans-Canada Air Lines is Lignes Aériennes Canadiennes.

Mr. GREGOIRE (*Interpretation*): This is a point which is very close to the heart of a number of people and on that subject I would like you to be able to assure us that a serious investigation has been made. I believe Mr. Chretien's suggestion is very good. It seems to me that gradually, in order to counter the argument he has just made, it would be possible to foster the use of the name "Air Canada", from T.C.A.

Mr. MCGREGOR: It is a very difficult thing to forecast for the future. It used to be Trans-Canada Air Lines, and then in small print Air Canada, now the reverse is true.

In a matter of two years it has developed into this sort of thing.

Mr. NUGENT: As long as it takes to phase out?

Mr. MCGREGOR: Exactly.

Mr. GREGOIRE: You mean it took two years to build?

Mr. MCGREGOR: Two years to get to this point.

Mr. GREGOIRE: How long will it take to complete the change?

Mr. MCGREGOR: I would like to hear the results of the study you suggested first before I make a forecast.

The CHAIRMAN: Will you proceed, Mr. Fisher.

Mr. FISHER: Mr. Chairman, I have a question I wanted to raise which relates to what seems to be a definite possibility, not a likelihood but a definite possibility, there may be some kind of arrangement worked out with our other

national carrier in the international field and it seems to me if such arrangement should develop—and I am not arguing for or against it—that would be the time to go forward with the name “Air Canada”. I think such a name would embrace both parts of such an arrangement. Has this been given any consideration?

Mr. MCGREGOR: Yes, to the point that 15 minutes ago I mentioned exactly the same thing to the Chairman.

Mr. FISHER: I am sorry.

Mr. MCGREGOR: That is all right. In my opinion, that would be the obvious time to let both the old names wither on the vine. I believe it would be conceivable that at that time we would arrive at one flag carrier which would carry the name Air Canada.

Mr. FISHER: I am sorry if I repeated myself.

Mr. MCGREGOR: Not at all; I am glad there are two heads with the same thought.

Mr. RHEAUME: Mr. Chairman, I have two short questions. Does Trans-Canada Airlines have any plans at the present time in respect of changing their symbols, as the C.N.R. did some 18 months ago, getting away from the maple leaf which, suddenly, somehow, has gone into disrespect. Has T.C.A. any plans to change this whole business of the advertising image?

Mr. MCGREGOR: No. We are afraid we might fall heir to a lazy 3 or whatever it is.

Mr. RHEAUME: Do you and T.C.A. feel you would be contributing greatly to the great leap forward in so far as biculturalism is concerned if you changed the name to Air Canada. Does the company feel one way or the other in respect of these arguments which are going on?

Mr. MCGREGOR: No. As a matter of fact, the idea of the use of the name Air Canada as well as Trans-Canada developed long before there was any apparent agitation in this field of biculturalism or bilingualism.

Mr. PRITIE: I wanted to say I think the course Mr. McGregor is following concerning the name of the company is the correct one. I would not want to see a sudden change made now. And, I do not know what is wrong with the maple leaf; I like it.

Mr. MCGREGOR: Yes. Are we about to embark on a discussion under equipment on the subject of names and bilingualism? If so, I would like to suggest, if I may, with the consent of the committee, that we have what might be called a presentation of the general picture from the standpoint of the airline first and then if I have not covered the waterfront you can direct further questions afterwards.

Mr. GREGOIRE: Mr. Chairman, my question is still on equipment.

The CHAIRMAN: But does it relate to bilingualism?

Mr. GREGOIRE: No, in respect of equipment covering an area which we were on yesterday.

The CHAIRMAN: All right.

Mr. GREGOIRE (*Interpretation*):

Mr. McGregor, you spoke yesterday on the question of security of aircraft and you mentioned ten accidents to the Caravelle.

You spoke of one that took place in Morocco; is it not a fact that in that particular case this was a matter of a bomb which had exploded in the wash-room of the aircraft and, in spite of that, the pilot managed to land with his aircraft. And, there was not one single death. This was an unprecedented occurrence. Is that not a fact?

Mr. MCGREGOR: You will remember, Mr. Gregoire, that I went through only part of that accident report and then stopped. I apologize, but there has been so much talk about accidents I wanted to make it clear that other aircraft also are prone to accidents. I have not the cause of these accidents, just the place, the date and the name of the operating company. As I said, I somewhat regretfully read from a list of 10, all classed major, during the period 1960-63.

I have no comments on this report of mine as to what the nature of the accident was. I do not blame an aircraft for being bombed because, obviously, this has nothing to do with the integrity of the aircraft and, in many cases I would not blame the aircraft for an accident that was attributable to pilot error.

Mr. GREGOIRE (*Interpretation*): But, at that time we were discussing the technical capabilities of these aircraft. We were talking about the security angle and the accidents which have taken place.

You mentioned another one which took place over the Orleans airport. This was a collision between a Caravelle Air Canada and a Piper cub. It managed to land with a single death. Then, again, there is some degree of insecurity in respect of any aircraft when it meets with another aircraft.

In the case of a Viscount a bird flew into the engine and the aircraft crashed. Does this not indicate that the Caravelle has a higher degree of security?

Mr. MCGREGOR: First of all, I know of no Viscount accident involving a bird strike. This is a bit confusing, but I brought up the question of what happened to the Caravelle and, to make it clear, no aircraft we know of today is immune from getting into trouble. Now, I will be perfectly frank; in three years the Caravelle seems to have had a fair amount of trouble, whether it is just bad luck or design, I do not know. But, generally speaking, the older an aircraft is the less chance there has been to take advantage of all modern design techniques and systems.

There was a suggestion made yesterday we should wait until an aircraft had flown and proven itself before we ordered it; this is an absolute assurance that an airline always would be using out of date equipment. If an aircraft is not ordered until it is in being and tried and if the technical people cannot assess the situation ahead of time from the design and systems point of view, that airline is always going to be away behind the parade in the attractiveness of its equipment.

Mr. GREGOIRE: You have mentioned a number of accidents which have befallen aircraft. There was such a thing as a Comet aircraft; and accidents happened to Comets when they were in the experimental stage. I have here a list of accidents which have taken place in regard to jet aircraft. This list shows that there were accidents in connection with 32 Boeings 707, 16 Comets, DC-8's, two DC-8F's.

How many DC-8F's are there in service these days? Do you know, Mr. McGregor?

Mr. MCGREGOR: I am not sure. I would think perhaps 10 or 12 .

Mr. GREGOIRE (*Interpretation*): Are there any others of the DC-8F type in other air lines? Are you sure? Are you sure there is only this number?

Mr. MCGREGOR: I would say three or four airlines.

Mr. GREGOIRE (*Interpretation*): I am speaking of those outside your own.

Mr. MCGREGOR: In other companies?

The CHAIRMAN: Mr. Gregoire is asking what is the total number.

Mr. MCGREGOR: I would guess 10 or 12, but Mr. Seagrim says 50. Mr. Seagrim believes it is in the order of 50 aircraft of the same type.

Mr. GREGOIRE: The magazine *International Flying* mentions there were only five DC-8F's flown by T.C.A. that were serviceable.

Mr. MCGREGOR: I do not think we are talking about the same thing.

Mr. GREGOIRE: I am speaking about the DC-8F.

Mr. MCGREGOR: That is the layout of aircraft which is exactly the same in fuselage and tail and everything as the DC-8F, but our DC-8F has a heavy cargo floor, and in the case of two of the four aircraft we had until recently it had a wide cargo door on the port side ahead of the wing. All of them have Pratt and Whitney JT3.D-3 engines.

Mr. GREGOIRE: There are only five operated now of that kind?

Mr. MCGREGOR: No.

Mr. GREGOIRE: The DC-8F?

Mr. MCGREGOR: Of the basic design and engine combination; Mr. Seagrim believes the number in operation is 50.

Mr. GREGOIRE: Operating now?

Mr. MCGREGOR: That is right.

Mr. GREGOIRE: Fifty?

Mr. MCGREGOR: Yes.

Mr. GREGOIRE: And you have had five in operation and you have had two accidents? Yesterday it was mentioned that there had been 10 accidents with the Caravelle. It is for this reason that I am asking you this question.

The CHAIRMAN: Mr. Lloyd?

Mr. GREGOIRE: Mr. Chairman, I have not finished my line of questioning.

Did you know when you received the report that the specialized magazine *International Flying* was suggesting this had the highest co-efficient of security to aircraft of that type?

Mr. MCGREGOR: I expect it was known to our engineers.

Mr. GREGOIRE: Did you send some engineers to France to see this aircraft? Did you send some engineers and pilots?

Mr. MCGREGOR: Yes, and I went myself.

Mr. GREGOIRE: You went yourself?

Mr. MCGREGOR: To Toulouse.

Mr. GREGOIRE: Mr. McGregor, how many of your staff went to the Douglas Company in Burbank, California? How many of your engineers went to Burbank for that purpose?

Mr. MCGREGOR: What were the last few words of your question?

Mr. GREGOIRE: How many pilots and engineers went to examine these aircraft at Burbank?

Mr. MCGREGOR: I heard that part of your question, but I am asking what were the last few words.

Mr. GREGOIRE: That is my question. How many pilots and/or engineers went to Burbank to examine these aircraft?

Mr. SEAGRIM: Approximately twenty.

Mr. GREGOIRE: How many went to Toulouse?

Mr. SEAGRIM: Over a period of time, I would think ten.

Mr. GREGOIRE: Over how long a period of time?

Mr. SEAGRIM: Two or three years.

Mr. GREGOIRE: In the last two or three years? Did they go especially for the purpose of examining this type of aircraft?

Mr. SEAGRIM: Yes.

Mr. MCGREGOR: Did someone not fly it?

Mr. SEAGRIM: Yes, we have flown the aircraft. It was demonstrated to T.C.A.

Mr. GREGOIRE: And all these things are contained in the famous report on which you based your choice?

Mr. SEAGRIM: The judgment is reflected in this report.

Mr. MCGREGOR: The record of the visits is not in the report.

Mr. GREGOIRE: Mr. McGregor, you said that one of the requirements of T.C.A. for their new aircraft was between 1,200 and 1,500 miles.

Mr. MCGREGOR: No, I said up to 1,200 miles.

Mr. GREGOIRE: Up to 1,200 miles? Was that the figure for the DC-9?

Mr. MCGREGOR: Twelve hundred miles.

Mr. GREGOIRE: Can it go as far as 1,200 miles?

Mr. MCGREGOR: Yes, it can.

Mr. GREGOIRE: Not 1,100 miles?

Mr. MCGREGOR: Mr. Seagrim, 1,200 miles is the range, is it not?

Mr. GREGOIRE: Not 1,100 miles?

Mr. SEAGRIM: Twelve hundred miles approximately, and this is considered to be sufficient to cover the routes over which we expect to employ the aircraft.

Mr. MCGREGOR: We have satisfied ourselves that we can economically operate the DC-8 aircraft down to 1,200 miles. In other words, we can operate the DC-8 down to the range of the small jet aircraft.

Mr. GREGOIRE: I would like to reiterate my request of yesterday because of all that has been said on this problem about these aircraft. I reiterate my request that the report be tabled in this committee. I think there is nothing secret in this report. There is nothing insulting to the companies which have not been chosen. I request this especially in view of the fact that Mr. McGregor has mentioned that 10 Caravelles crashed. I think it would be fair to every citizen in this country to see the published report, and I request that the report be tabled to the committee.

Mr. DEACHMAN: On that point, I think it would be a most serious precedent for a committee of the House of Commons to start calling for technical reports that are privy to crown companies for making judgments of this kind, and I doubt very much whether we have any ability to do it. It certainly would not be in the best interests of the crown corporations which we ask to serve parliament and to serve the country to place this burden upon them.

The CHAIRMAN: I will hear some arguments afterwards.

Mr. GREGOIRE: Mr. Chairman—

The CHAIRMAN: One moment please, Mr. Gregoire.

I will hear arguments if there are any. This document was referred to by you and by the witness yesterday. If you had a point of order and wanted to make a motion to lay this document, it should have been done at the time. If we are to follow the precedents, when the reference was made yesterday the motion should have been put forward at that time to have that document produced. It was not done at that time. On that account, the motion at this time would be out of order. However, I am willing to listen to any other arguments.

Mr. PRITIE: It has not been seconded anyway.

Mr. GREGOIRE: Mr. Chairman—

The CHAIRMAN: Are you making a motion?

Mr. GREGOIRE: No, I would like to require it from Mr. McGregor. I think it is normal. Maybe I did not express myself as well in English as I would have liked. It is not a demand. Now I know the meaning of the word "demand" in English! It is not the same as the word "demande" in French as we have seen from the provincial conference. I would like to ask Mr. McGregor if, in view of all the facts, he would be ready to table that document because we think some of the members have seen it, though not all of them. Would you be ready to deposit that document for the use of the members?

Mr. MCGREGOR: I am sorry to say no, Mr. Gregoire, I am not. So far as I know no members of this committee have seen this document. The minister was shown it, but that is all. I do not know what he did with it. I do not think he showed it to anyone else. I do not know of anyone who has seen it outside T.C.A. other than the minister. I am not trying to be difficult, but I must say I regretfully resist your request. It is simply that there is nothing in that document about accidents and there is a great deal of information as to our consideration of the aircraft which I think would be valuable to people in other engineering departments. I would protest parting with it.

Mr. FISHER: You actually gave this report to the government; is that correct?

Mr. MCGREGOR: To the Minister of Transport.

Mr. FISHER: So, in other words, you could not make the decision unilaterally in any event.

Mr. MCGREGOR: No.

Mr. FISHER: Have we any representative of the minister here who could indicate what the minister's point of view would be?

Mr. GREGOIRE: I think the parliamentary secretary is here.

Mr. CANTIN: I think this point of view was explained in the House of Commons a week ago.

Mr. FISHER: What was the point of view?

Mr. CANTIN: That it was not in the public interest to publish such a report.

Mr. GREGOIRE: When they do not wish to publish a report, they always say it is in the public interest. I do not think there is anything in it which is against the public interest.

The CHAIRMAN: You have made your request and I think that is about as far as we can go.

Shall we continue with the questioning?

Mr. GREGOIRE: On a point of order; I would like to point out there is a deficiency in this committee. I am the only member of my party in this committee. If I want to move a motion, I cannot find a seconder. All I can do is ask whether somebody would like to second my motion, to ask, request or demand of the Minister of Transport that this report be presented to the members of the committee.

Mr. LLOYD: Mr. Chairman, I think it is parliamentary practice to second a motion for the purpose of its disposition in order to save time. I am opposed to the disclosure of such a document, but to bring the matter to a head, I will second this motion and then we may have a vote taken.

Mr. FISHER: Question.

An hon. MEMBER: Question.

The CHAIRMAN: Gentlemen, I do not want to fall into the mistakes which at times have been made by hurrying. However, Mr. Fisher just said, and it is true, that the production of a document of this type should be requested in the

house. I do not think this committee has the power to request the production of a document, which is in the hands of the minister and which has been produced to him, from a witness here who is giving evidence on behalf of Trans-Canada Air Lines.

As I said before, the ruling is that such a motion is out of order.

Mr. NUGENT: On this point of order, our terms of reference specifically give us power to send for papers. Therefore, I cannot see that Mr. Fisher's point is well taken. I am opposed to the motion; but I do not see how this paper is any different from any other.

The CHAIRMAN: I am not going to belabour the point. If it is the wish of the committee to vote on this motion, I will follow the wishes of the committee. After all, I am only as good as my committee. I will put the motion, after having made the remarks which I did.

Mr. CANTELON: I believe Mr. McIlraith stated he was endeavouring to obtain a summary of this.

Mr. RHEAUME: That is a different report.

The CHAIRMAN: Mr. Gregoire, would you make your motion in writing?

Mr. FISHER: I do not know whether or not Mr. Nugent and you, Mr. Chairman, have the correct impression of what I said. I have moved in committees, and particularly in this committee, at various times, supported by members of various parties, to obtain reports which have been prepared, for example by the C.N.R. One was the De Leuw Cather report in connection with the new C.N.R. yard in Toronto. However, it was not on that point that I raised the matter. The point I intended to make is, it seems to me the government is seized of the report rather than the T.C.A., and we should make the request of the government rather than of T.C.A.

The CHAIRMAN: It has been moved by Mr. Gregoire, seconded by Mr. Lloyd, that this committee ask the Minister of Transport to disclose the report of T.C.A. on the choice of a new moyen-courrier to the members of this committee.

All those in favour?

Those against?

I declare the motion lost.

Mr. PUGH: What is the normal procedure of the air line itself in respect of these reports; are they sent automatically?

Mr. MCGREGOR: It has varied over the years, depending on the attitude of the Minister of Transport, and so on.

Mr. ROCK: In respect of the vote, you immediately stated "I declare the vote lost". I do not believe the secretary had an opportunity to count the names.

The CHAIRMAN: Would those against the motion please indicate again?

Motion negatived.

Mr. MCGREGOR: The attitude of the Minister of Transport in respect of T.C.A.'s technical selection of aircraft has changed over the years. Sometimes he is anxious to know beforehand, and sometimes not. In this particular case, the capital provision for the initial payment for the small jet aircraft had been included in the 1963 capital budget which had been approved by order in council in February, 1963. The recommendation of the company's operating department was extremely firm; the approval of that recommendation by the company's board of directors was unanimous. So, in theory there was nothing in the world to have prevented T.C.A. simply ordering the aircraft. It had the authority for the expenditure, all the technical information and the authority of its board.

On the other hand, there was a great deal of publicity in respect of this particular order. It had been grossly exaggerated. It was mentioned that 50 airplanes would be involved, and it was never suggested this would be a progressive acquisition. We realized that the number and strength of the mis-statements which had been developed probably justified consultation with the minister. That is why it was referred to the minister.

Mr. PUGH: I should imagine there was quite a bit in it in respect of Canadian content.

Mr. MCGREGOR: Not on the technical recommendation; but the board did consider Canadian content and included that in their decision.

Mr. PUGH: In terms of years, how far back has this been a policy between the government and T.C.A.?

Mr. MCGREGOR: The last major selection of aircraft types was in 1956; they were the DC-8 and the Vanguard. I am depending entirely on my memory here, but I think in both cases we prepared a capital budget with the required amount of money shown in it including the name of the type selection. The capital budget was approved by government with that specific designation of aircraft type, the number which it intended to purchase, and so on.

Later on, we decided that being specific about types in capital budgets was a little bit restrictive on the air line. This came about when we wanted to buy some DC-8F's under an authority which we had for the DC-8. At that time we were required to file, I think with questionable reason, an amendment to our capital budget. We had rather jealously guarded our reputation, and the fact that we never had had to amend our capital budget during the years. Although we simply were ordering a smaller number of a basic type, it had to be included in the revised capital budget. Basically that is the history of the thing.

Mr. NUGENT: On that same point, do I gather from what Mr. McGregor now says that this latest move of consulting or advising the minister is now part of company policy, and that in future we might expect to see consultation with the minister and the government?

Mr. MCGREGOR: I think the proper answer is no, in view of the experience we have just had.

Mr. NUGENT: Was it not on the suggestion of the minister, because of political pressure about the Canadian content and so on, that you were asked to advise before any decision was announced, or any step taken?

Mr. MCGREGOR: No, it was on the recommendation of the board of directors.

Mr. NUGENT: When was that?

Mr. MCGREGOR: On October 22 of this year.

Mr. NUGENT: Had this question not come up before about consulting the minister?

Mr. MCGREGOR: No.

Mr. NUGENT: You had no contact with any minister of transport about this?

Mr. MCGREGOR: No.

Mr. NUGENT: In connection with the choice of a new type of plane?

Mr. MCGREGOR: No.

Mr. NUGENT: Or about making an announcement about it?

Mr. MCGREGOR: The technical and economic report was delivered to me on October 15 the day after I got back from a trip to Rome. That was the first I had seen of it, and the first I knew what the recommendation was. That

recommendation was put to my board seven days later, on October 22, and approved. There could not be consultation with the minister or anybody else because I did not know what was in it.

Mr. NUGENT: I am not talking about a conversation with the minister, but about that record, and the general question of when T.C.A. is going to buy new planes, whether the government should be consulted on what planes should be bought?

Mr. MCGREGOR: I have never been told that by any minister of transport.

Mr. LLOYD: I am going to ask you a series of questions which have to do with the steps leading up to the final decision to make a recommendation for the purchase of equipment. I am interested in the activities of the aircraft industry when it finds that a potential customer is going to make a purchase. I presume you advise the trade beforehand through the development department of your organization and that you have constant studies going on.

Mr. MCGREGOR: That is correct.

Mr. LLOYD: I presume the aircraft industry is no exception in the matter of using aggressive sales effort, even before you may indicate the fact?

Mr. MCGREGOR: I think they are an exception in the degree of intensity that they apply, but certainly not in coolness.

Mr. LLOYD: You have had several companies making representations to you. Did you invite proposals from a selected group of companies, or publish a notice? How did you go about it?

Mr. MCGREGOR: Any action on our part was completely unnecessary. I think the sales departments of aircraft manufacturers are aware of the need of an air line for additional equipment even before the air line has become fully aware of it.

Mr. LLOYD: You say the sales department?

Mr. MCGREGOR: Of the manufacturers.

Mr. LLOYD: Is it the general practice for the manufacturer to have his own sales staff deal directly with you?

Mr. MCGREGOR: Yes, sir; that is correct, and these are what we call engineering salesmen.

Mr. LLOYD: Was there any exception to that practice in the recent purchase of equipment? Did any one of those who made proposals to T.C.A. act through an agent?

Mr. MCGREGOR: Not entirely, but certainly acting through an agent perhaps describes the more intense pressure to which we were subject with respect to one manufacturer.

Mr. LLOYD: What was the name of that manufacturer?

Mr. MCGREGOR: Sud.

Mr. LLOYD: They were different in their approach to selling equipment as compared to other manufacturers?

Mr. MCGREGOR: I must be entirely fair about this. They sent their North American representative to T.C.A. on several occasions, and on certain occasions he was accompanied by other members of the firm. They made a normal presentation and they asked us, as did the other manufacturers, for our requirements and specifications, and what ranges we wanted to operate over. We gave them that information, and it was played through their computer in New York. To that extent this was normal. But in addition there were approaches made at government level which were not indulged in, to my knowledge, by any other manufacturer.

Mr. LLOYD: What was that?

Mr. MCGREGOR: I said there were approaches made at government level which were not indulged in by other manufacturers, to the best of my knowledge. I do not say that this is irregular.

Mr. LLOYD: You say there were approaches made at government level.

Mr. MCGREGOR: That is right.

Mr. LLOYD: For what?

Mr. MCGREGOR: In the case of this company with respect to the aircraft—there were approaches made at government level that I do know were not made in that manner by any of the other manufacturers.

Mr. LLOYD: Is it the general practice with respect to T.C.A. to deal directly?

Mr. MCGREGOR: Absolutely.

Mr. LLOYD: This does not involve the payment of commission to any intervening agent?

Mr. MCGREGOR: No.

Mr. LLOYD: There was no intervening commission paid to an agent that you know of in connection with the sales by the Douglas corporation?

Mr. MCGREGOR: No, none whatever.

Mr. LLOYD: Thank you very much.

Mr. HAHN: May I ask a question in connection with aircraft selection. Are the reports which appear in the press today true that the BAC 111 crash did not have any effect on your decision?

Mr. MCGREGOR: That is entirely true. The report I referred to, part of the evaluation, was placed in my hands on October 15. This unfortunate accident to the BAC 111 occurred on October 22 which happened to be the very date of my board meeting.

Yesterday I said I wanted to come back to this point but I forgot and will do so now.

I think it is very much to the credit of the business ethics of British Aircraft Corporation that they went to a great deal of trouble to get me out of my bed quite early that morning to inform me of the crash. Although they were not certain what happened at that time, they said they had lost radio contact with their aircraft, which I had flown in twelve days before, and that wreckage had been reported on the ground. They were putting two and two together and they were much afraid the B.C.A.-111 prototype had in fact crashed. They knew I was having my board meeting on this subject that day and they wanted me to be certain that the board knew.

I should like to say one other thing which is perhaps irrelevant. The B.A.C. sales technique is as follows. Although there was an argument in respect of the balance of trade between Canada and the United Kingdom and the balance of trade between the United States and Canada, they did not discuss that fact. These are small points but they are matters of ethics which certainly appeal to what is no longer a prospective customer.

Mr. FISHER: Mr. Chairman, I think my remarks should be made during our consideration of the section on equipment and facilities. Mr. McGregor are you satisfied with the baggage handling facilities, the speed of handling the baggage and the transportation provisions provided at most of the airports in Canada for moving passengers from the airport into the communities?

Personally as a user I am quite dissatisfied in this regard. I feel there are too many delays; too many errors and a much too high price charged by the motor carriers. I think the whole system could stand some analysis and improvement. I wonder what contribution T.C.A. makes in determining whether these things are done properly and I should like to know whether you have anything under consideration at the present time with a view to effecting an improvement in these areas.

Mr. MCGREGOR: Mr. Fisher, your question is a perfectly good one. T.C.A.'s responsibility, when an aircraft lands and pulls up to the ramp, is to get the baggage out of it and get it into the machinery of the terminal as fast as possible.

Some four years ago, I think, we had what we might call a tremendous drive in this regard. Airport managers were scored on the average period of time between the delivery of the baggage and the arrival of the aircraft. I am not saying this unkindly, but the fact is that with the advent of the new terminals there has been a serious deterioration in this regard. I think I can give you some figures covering these times.

Mr. FISHER: I am particularly interested in the terminals at Montreal and Toronto.

Mr. MCGREGOR: If our experience in Montreal is a good example I am afraid the service provided at Toronto is now better than it will be within a few months when the new terminal is opened. I do not know whether this situation results from excess machinery or because of distance, but the fact is that as soon as the Montreal terminal opened our baggage handling time dropped seriously.

Mr. MITCHELL: Do you mean it increased? You said "dropped".

Mr. MCGREGOR: Yes. I mean that the time increased and the service decreased. I see what you mean and thank you for your correction.

Mr. GREGOIRE: Mr. McGregor in regard to this question of baggage, do you receive lots of complaints concerning the deterioration of baggage of travellers?

Mr. MCGREGOR: I do not know what "lots" means, but we have received some complaints. Some of those complaints are honest. I suppose most of them are honest, but some of them are not. Some of these complaints begin in this manner: "I flew from Montreal to Toronto, and my bag had a great big rip in it". Of course, this baggage has been in one airplane and two taxis and no one knows who ripped it, but as far as the passenger is concerned T.C.A. is responsible and we pay.

Mr. FISHER: Mr. McGregor, coming back to the point I have raised, I see no reason at this time in respect of Toronto why there should be such a waste of time between receiving your baggage at the airport terminal and being deposited by the transportation company at the base of York street. There is a 50 or 60 minute time element involved. I realize that in perhaps two hours during any given day there may be a disadvantage because of rush hour traffic. However, I am still concerned about the price charged for this transportation service. I should like to know whether there is anything you can do to improve this situation.

Mr. MCGREGOR: First of all let me deal with that part of the question in respect of price.

If I remember correctly the procedure followed is this. We make a selection from the available companies which are prepared to provide this service, and we recommend to the Department of Transport that company A be given the concession to operate the city to airport service. The Department of Transport normally agrees with this recommendation and enters into a contract with the company concerned, and exacts a levy on that company for that privilege. This company then must in most cases, obtain a licence to operate over provincial highways between the airport and the city. If we become exceedingly dissatisfied with that service, because of the actual form of service or the price, or for any other reason, I believe the normal procedure is for us to recommend to the Department of Transport that that particular agreement between that company and the Department of Transport be discontinued. As far as I know, when that has happened in the past, in fact the licence has been cancelled.

I think you are speaking primarily of Toronto, are you not?

Mr. FISHER: I am speaking of Montreal and Toronto. I do not see any reason for a 20 minute delay between the time you get off the airplane and receive your baggage and get under way.

Mr. MCGREGOR: I would say that such a case would be fairly unusual. This is the end of the procedure which is generally not too slow. I am certainly speaking from my own experience at Montreal because all my flights begin and end there.

The time of car travel, to which you have referred, is a problem. At one time we tried to quote in our timetables different times in respect of ground transportation based on rush hour traffic as well as other conditions and we found this was hopeless because the passenger would automatically remember the shortest time; at five o'clock in the evening he would try to apply that time and be unhappy.

We also decided at another time that something fairly close to the worst condition was the safest for putting in a timetable, and it involved a matter of approximately 50 minutes.

In respect of the airport to city time, that depends on how fast the vehicle can travel the distance. This is not of prime importance to passengers, but the time involved between the city and the airport, when a passenger is boarding an aircraft, is important.

Mr. FISHER: I just leave you with the suggestions that too much time is taken to transport passengers to and from the airport in Toronto; baggage handling is far too slow, and there is complete confusion around many of the baggage counters. At least in Montreal the baggage is identified as coming off a certain flight, which is more than is done in Toronto.

Mr. GREGOIRE: Mr. McGregor, in respect of the report regarding the Winnipeg overhaul base, will there be a summary report, and will it be published or become public knowledge?

Mr. MCGREGOR: Mr. Gregoire, the report we now have is in summary form.

Mr. GREGOIRE: Mr. Chairman, I should like to direct a question to the parliamentary secretary in view of the fact the minister is not present. Is the minister aware of the proposed agreement which will in effect mean that T.C.A. will be purchasing all new aircraft which have been manufactured in Canada?

Mr. CANTIN: I was not aware of that agreement.

Mr. RHEAUME: Mr. McGregor, in earlier discussions you indicated that it was not economic for an airline to operate on routes shorter than 500 miles. This statement was based on T.C.A. experience. I wonder whether by the acquisition of the DC-9, which is a medium range jet, up to 1,200 miles, it is hoped the economic situation in respect of shorter runs, as opposed to longer runs, will change or be improved as compared to the operation of the Viscounts and Vikings at the present time?

Mr. MCGREGOR: No, we do not hope that. Might I amend that answer? We do not hope it with respect to the DC-9 but as to the Viscounts, their economics will improve when they come out of depreciation, and that may influence my statement.

Mr. RHEAUME: From the figures given yesterday, and this is a rough and quick tally, Trans-Canada Air Lines lost some \$7,500,000 in 1962 on a variety of short runs such as in the maritimes, Quebec and the prairies. When you tally those up, it comes to \$7,500,000, which would have changed the deficit picture for 1962. Do you see this deficit picture for these specific runs changing next year as you depreciate your Viscounts and Vikings?

Mr. MCGREGOR: Yes, not as we depreciate them but as they come to full depreciation.

Mr. LLOYD: May I interrupt here on a question of procedure? I know that two of us here have another meeting, and there are four altogether who have a meeting at six o'clock. It takes a few minutes to get to the centre block. I am wondering what your timing of events will be.

The CHAIRMAN: I was hoping we could finish on equipment and facilities in the next ten minutes or so, and then we could adjourn until tomorrow morning.

Mr. GREGOIRE: As we have had a meeting of the steering committee, I should like to state here that I would like two men to be called to this committee on the question of equipment, the president or representative of Canadair and the president or his representative from the de Havilland company.

Mr. HAHN: On a point of order, for what purpose should these people come before the committee?

Mr. GREGOIRE: I would have some questions to ask them on the problems of aircraft.

Mr. NUGENT: I move we adjourn.

Mr. PUGH: While we are on that point of Viscounts, could I ask you whether you feel that possibly in eighteen months' time we can show a credit on the short runs, 500 miles and under?

Mr. MCGREGOR: No but the fact that the operating costs of the Viscounts may come down with the extraction of a substantial item in depreciation will improve the economics and the financial results of all the routes on which they are operated.

Mr. PUGH: I take it you will hang on to the Viscount as long as it is practicable to do so?

Mr. MCGREGOR: Till 1973.

Mr. NUGENT: May we have a motion for adjournment?

Mr. ROCK: Was there any decision arrived at on the request of Mr. Gregoire?

The CHAIRMAN: I was going to wait until the questions were finished on equipment and facilities. If there are no other questions we will deal with that problem.

Mr. NUGENT: I want to make one comment. Mr. McGregor said he had never told the minister in advance of the decision on change of planes. He seemed to regret that he had not advised him of it because of the amount of trouble. I let this drop although I did not mean to let it drop. I propose that this committee make a recommendation to the minister that T.C.A. make it a regular practice to advise the minister before making decisions. I certainly understand Mr. McGregor seems to resent ministerial interference in T.C.A. operations. The point is that whenever the public have complained about T.C.A., it is government which gets it in the neck and the minister who has to answer questions. If T.C.A. were more co-operative, this would take pressure off the minister.

Mr. MCGREGOR: Mr. Nugent has a gift for putting lots of implications into a question. I did not resent any action of the Minister of Transport and I did not say so. Let us be very clear. What I expressed regret about was the fact that T.C.A., having all the authority that it required in the matter of capital expenditure and approval of its board, had not announced its decision on October 23 rather than on November 22 because a whole month was used up with altercations and rumours as to what the selection was. All that could have well been avoided. That is what I meant.

Mr. NUGENT: This does not get around the point that you made an announcement before telling the minister. This whole month was taken up with political implications to satisfy the people of Canada who own that air line.

Mr. MCGREGOR: It did not satisfy anybody I know of.

Mr. PUGH: I have a question on the picture appearing on page 11 of the de-icer. Would you care to comment on its efficiency?

Mr. MCGREGOR: It allows airplanes to take off which they could not otherwise do. It costs about \$28,000 and it uses up vast quantities of antifreeze.

Mr. PUGH: Is it a very efficient machine? Is there nothing else that compares with it?

Mr. MCGREGOR: It used to be done by a long-handled broom and mop, and it was very much more expensive from the standpoint of labour and very much slower. This is excellent.

Mr. RHEAUME: The point is that it was built in Mr. Pugh's constituency.

Mr. PUGH: And Mr. Trump, the inventor, is an old friend of mine.

The CHAIRMAN: I was about to suggest that we are about through on equipment and facilities except that Mr. Gregoire wants to make a motion, which he is free to do. I think we should dispose of Mr. Gregoire's motion and then we can dispose of the paragraph on equipment and facilities, unless you want to proceed with it tomorrow.

Mr. LLOYD: If I understood Mr. Gregoire correctly, he made a suggestion that the steering committee consider this and make a report.

Mr. GREGOIRE: So that would leave open the question on equipment and facilities until my question has been dealt with. It is up to the steering committee to present a report on this and they have not met yet. I wanted to suggest that those two people be called to the committee.

Mr. ROCK: Did the president of Canadair or the president of the other aircraft company request this themselves?

Mr. GREGOIRE: No.

Mr. ROCK: Why do you request it then? If these people want to appear down here they could write to the Chairman of this committee.

Mr. GREGOIRE: I asked that two people be called to the committee, the presidents or the representatives of both Canadair and the de Havilland Aircraft Company.

The CHAIRMAN: Mr. Gregoire, will you make your motion so that we can dispose of this matter now?

Mr. GREGOIRE: Do I have to make a formal motion?

The CHAIRMAN: Yes, because we have meetings tomorrow and probably we could dispose of it now.

Mr. GREGOIRE: I so move.

Mr. NUGENT: I would like to see equipment and facilities left open for one more day. I thought evidence given on the changed position of Viscounts after depreciation has opened up some interesting vistas. I hope we can leave it for another day.

The CHAIRMAN: We should dispose of Mr. Gregoire's motion before adjourning. Would anybody second Mr. Gregoire's motion?

Mr. FISHER: I do.

Mr. HAHN: May I speak to the motion while it is being prepared? It would seem to me that we have little to gain by bringing these two men here. Neither of these companies has an aircraft of its own design that it put forward to T.C.A., so therefore T.C.A. was presumably dealing with those that had an

aircraft of their design, and made their decision on that basis. These two companies came in only after the fundamental technical decision was made, as the supplier of the Canadian content.

Mr. PUGH: I would suggest, Mr. Chairman, that if we are going to bring these people here by any strange chance, that all members of parliament should have access to top grade engineers, lawyers, and goodness knows who else, to advise them before we start questioning these people.

Mr. DEACHMAN: We have to deal yet with railroads, we have to deal with shipping, and if we unduly protract our investigations along one particular line, we are going to be compressed on another. I suggest we have done well enough.

Mr. MCGREGOR: If I may, I would like, in the hope that it might alter Mr. Gregoire's position somewhat, to announce that the Douglas company have been advised of T.C.A.'s selection in the placement of an order for the DC-9 aircraft.

Mr. GREGOIRE: I would like to say a word on my motion. I think that all members of the committee here would be interested in knowing what those two companies have to offer to our civil aviation in Canada, and not only today but in the future. I think that would be profitable to the committee, to Air Canada and to everyone to know what would be the prospectives. We have a chapter on projects for the future. I think we should hear those people in view of the fact that T.C.A. as well as ourselves are interested in knowing what the Canadian companies are able to offer.

Mr. LLOYD: Mr. Chairman, on that point I think the work of this committee is divided into different compartments. There is a reference to this committee. We have to do precisely what the house directs, and the reason I suggested that this matter be dealt with by the steering committee is that you could separate these matters of decision making and Trans-Canada Airlines, which covers a very large field of examination. As I said, it seems to me that this is a job for the steering committee. We have our terms of reference, the subject matter which we are to discuss and the witnesses we should call.

Mr. RHEAUME: Mr. Chairman, can we not refer this to the steering committee?

The CHAIRMAN: I think it might well be disposed of.

Mr. NUGENT: This is exactly the type of thing which should be handled by the steering committee.

Mr. Chairman, at the first meeting you stated the steering committee would be set up, called and consulted, and we have had no steering committee set up and no consultations to date.

I move that this motion be adjourned, to be considered later and, in the meantime, we can get the steering committee set up.

The CHAIRMAN: Mr. Nugent, I was quite prepared for what you said. I have not had an opportunity to speak as much as some of the members of the committee. However, this suggestion that you spoke of was made yesterday by Mr. Muir and I dutifully followed the suggestion and spoke to the whips of the parties. Of course, I cannot include Mr. Gregoire because he is his own whip. But, I did form a steering committee this afternoon after consulting the whips, consisting of Mr. Muir, Mr. Balcer, Mr. Gregoire, Mr. Fisher, Mr. Granger and Mr. Lloyd, and if these gentlemen would like to meet sometime tomorrow we could consider this. We could meet at 9 o'clock, but that is a bad hour.

Mr. RHEAUME: It is the middle of the night.

Mr. FISHER: That is agreeable.

The CHAIRMAN: I am willing to come here at 9 o'clock tomorrow morning to discuss these matters.

Some hon. MEMBERS: Agreed.

Mr. FORBES: Mr. Chairman, before you adjourn, I want to ask one short question. I do not expect to be here tomorrow morning because I have another meeting.

During the course of our conversation yesterday you referred to the fact that several personnel from Winnipeg would be transferred to Calgary, Medicine Hat and some other places; is this due to increasing your facilities at Medicine Hat and Calgary?

Mr. MCGREGOR: No. I do not think we mentioned these smaller places; I said Vancouver, Toronto and Halifax, where we do have maintenance bases. This would take place sometime in the future as the work requirement at Winnipeg decreased.

HOUSE OF COMMONS

First Session—Twenty-sixth Parliament

1963

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SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned and Controlled by the Government

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

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THURSDAY, DECEMBER 5, 1963

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Respecting

Trans-Canada Air Lines 1962 Annual Report; Capital Budget 1963 and Auditor's Report to Parliament, Year ended December 31, 1962.

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WITNESSES:

The Honourable George McIlraith, Minister of Transport, and from *Trans-Canada Air Lines*: Messrs. G. R. McGregor, President, H. W. Seagram, Senior Vice-President, Operations, W. S. Harvey, Vice-President, Finance and Comptroller, R. C. MacInnes, Director of Public Relations, André Gauthier, Area Manager, Government and Public Relations, H. D. Laing, General Auditor, H. S. Bowman, Finance Accountant and N. E. Taylor, Chief of Economic Research.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1963

SESSIONAL COMMITTEE ON RAILWAYS, AIR LINES AND SHIPPING

Chairman: Jean T. Richard, Esq.

Vice-Chairman: C. R. Granger, Esq.

and Messrs.

Addison	Granger	Muir ( <i>Lisgar</i> )
Balcer	Grégoire	Prettie
Bechard	Guay	Pugh
Cantelon	Hahn	Richard
Chretien	<sup>1</sup> Horner ( <i>Acadia</i> )	Rheaume
Deachman	Leboe	Rideout
Fisher	Lloyd	Rock
Forbes	Mitchell	Southam—26.
<sup>2</sup> Foy	Monteith	

(Quorum 12)

Maxime Guitard,  
Clerk of the Committee.

<sup>1</sup>Mr. Horner (*Acadia*) replaced Mr. Nugent as of Dec. 9, 1963.

<sup>2</sup>Mr. Foy replaced Mr. McNulty as of Dec. 9, 1963.

ORDERS OF REFERENCE

MONDAY, December 9, 1963.

That the name of Mr. Horner (*Acadia*) be substituted for that of Mr. Nugent on the Sessional Committee on Railways, Air Lines and Shipping.

MONDAY, December 9, 1963.

That the name of Mr. Foy be substituted for that of Mr. McNulty on the Sessional Committee on Railways, Air Lines and Shipping.

LÉON-J. RAYMOND

*The Clerk of the House*

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## MINUTES OF PROCEEDINGS

THURSDAY, December 5, 1963.

(6)

The Sessional Committee on Railways, Air Lines and Shipping met at 10:10 o'clock a.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Béchar, Cantelon, Chrétien, Deachman, Fisher, Granger, Grégoire, Guay, Hahn, Lloyd, McNulty, Mitchell, Monteith, Muir (*Lisgar*), Prittie, Pugh, Rhéaume, Richard, Rideout, Rock, (21).

*Also present:* The Honourable George McIlraith, Minister of Transport; Mr. Charles Cantin, Parliamentary Secretary to the Minister of Transport.

*In attendance:* From *Trans-Canada Air Lines*: Messrs. G. R. McGregor, President; W. S. Harvey, Vice-President, Finance and Comptroller; H. W. Seagrim, Senior Vice-President, Operations; A. C. MacInnes, Director of Public Relations; André Gauthier, Area Manager, Government and Public Relations; H. D. Laign, General Auditor; H. S. Bowman, Finance Accountant and N. E. Taylor, Chief of Economic Research.

The Chairman reported to the Main Committee the decision reached by the Steering Committee after consideration of a motion made at yesterday afternoon's sitting by Mr. Grégoire, seconded by Mr. Fisher, that the Presidents or their representatives of Canadair and De Havilland of Canada be called as witnesses to this Committee.

And debate arising thereon, the question being put on the said motion, it was resolved, by a show of hands, in the negative, Yeas: 2; Nays: 11.

The Committee resumed the examination of Mr. McGregor.

On motion of Mr. Mitchell, seconded by Mr. Rhéaume,

*Resolved:*—That the Section intituled Equipment and Facilities of the 1962 Trans-Canada Annual Report be adopted as read.

Moved by Mr. Balcer, second by Mr. Hahn,

*Resolved:*—That the Section intituled Board of Directors of the 1962 Trans-Canada Annual Report be adopted as read.

On motion of Mr. Grégoire, seconded by Mr. Rock, that the Committee seek permission to reduce its quorum from 14 to 10 members.

And debate arising thereon, the question being put on the said motion, it was resolved, by a show of hands, in the affirmative. Yeas: 7; Nays: 5.

And the examination of the witnesses continuing, at 12:30 o'clock p.m., the Committee adjourned until this afternoon at 3:30 o'clock p.m.

### AFTERNOON SITTING

(7)

The Sessional Committee on Railways, Air Lines and Shipping met at 4:10 o'clock p.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Cantelon, Chrétien, Fisher, Granger, Grégoire, Guay, Lloyd, Mitchell, Monteith, Muir (*Lisgar*), Nugent, Pugh, Richard, Rhéaume, Rock (16).

*Also present:* The Honourable George McIlraith, Minister of Transport and Mr. Charles Cantin, Parliamentary Secretary to the Minister of Transport.

*In attendance:* Same as this morning's sitting, plus Mr. J. A. DeLalanne, Chartered Accountant, Montreal.

The Committee resumed the examination of the witnesses.

On motion of Mr. Mitchell, seconded by Mr. Rock,

*Resolved:*—That the Section intituled Personnel of the 1962 Trans-Canada Annual Report be adopted as read.

Moved by Mr. Lloyd, seconded by Mr. Rhéaume,

*Resolved:*—That the Section intituled Outlook of the 1962 Trans-Canada Annual Report be adopted as read.

On motion of Mr. Lloyd, seconded by Mr. Pugh,

*Resolved:*—That the 1963 Trans-Canada Capital Budget be adopted as read.

Moved by Mr. Lloyd, seconded by Mr. Pugh,

*Resolved:*—That the 1962 Trans-Canada Auditor's Report be adopted as presented.

On motion of Mr. Pugh, seconded by Mr. Grégoire,

*Resolved:*—That the Quorum of this Committee be reduced from 14 to 12 members.

The Committee having terminated hearing the Evidence, the Chairman thanked the witnesses who retired.

At 5:50 o'clock p.m. the Committee adjourned until Thursday, December 12, 1963, at 9:30 o'clock a.m.

Maxime Guitard,  
*Clerk of the Committee.*

## EVIDENCE

THURSDAY, December 5, 1963.

The CHAIRMAN: Gentlemen, we have a quorum. I think there is a case to be made for reducing the number making a quorum because of our difficulty in getting a quorum. I think our number is slightly high at this time. Perhaps I should not raise this point this morning in view of the fact I feel we should get on with our consideration of the annual report.

At the close of last night's meeting a motion was made by Mr. Grégoire, seconded by Mr. Fisher, that the presidents, or representatives of Canadair and De Havilland be called as witnesses before this committee. A further motion placed this matter in the hands of the steering committee.

The steering committee met this morning and after some discussion it was recommended that these representatives from Canadair and de Havilland of Canada not be called at this sitting of the sessional committee. That is the recommendation of your steering committee. Of course, I suggest in order to avoid any misunderstanding, someone, probably Mr. Grégoire, put the motion formally before the committee, in spite of the recommendation of the steering committee.

Mr. GRÉGOIRE: Yes.

The CHAIRMAN: Do you still move that motion?

Mr. GRÉGOIRE: Yes.

Mr. BALCER: I will second the motion.

The CHAIRMAN: It has been moved by Mr. Grégoire, seconded by Mr. Balcer that the presidents or their representatives of Canadair and de Havilland be called as witnesses to this committee.

Mr. GRÉGOIRE: Perhaps I could just explain why I think it is very important that we hear from these people. We should hear from them and ascertain the possibility of these companies at sometime in the future producing aircraft for T.C.A. and thereby provide employment for this Canadian industry.

I think it would also be advantageous to know the proposals of these companies to T.C.A. regarding the construction here in Canada of aircraft under this contract which T.C.A. is awarding. I think we should know what the technical possibilities and facilities are in Canada for producing these aircraft.

Mr. LLOYD: Mr. Chairman, I should like to observe very briefly that that kind of an objective of a committee of the House of Commons is worth while, but not, as you have suggested and as recommended by the steering committee, at this particular time.

Mr. BALCER: Mr. Chairman, I should like to state that I am seconding Mr. Grégoire's motion for reasons not exactly the same as he has expressed this morning. I think the information which he is seeking is available and I am sure it would be very easy for any member of this committee to find answers to the questions he has raised.

As far as the present state of the aircraft industry in Canada is concerned, according to the newspaper *Le Devoir* this morning, it appears that the press is confused in respect of the issue. Many contrary statements have appeared in the newspapers recently and I think it would be a good idea to clear up this matter once and for all.

The CHAIRMAN: Gentlemen, are you ready for the question?

Some hon. MEMBERS: Question.

The CHAIRMAN: All those in favour of Mr. Grégoire's motion please signify? All those against please signify? I declare the motion lost.

Motion negatived.

Hon. G. J. McILRAITH (*Minister of Transport*): Give him a chance to count them.

The CHAIRMAN: What is the count?

The CLERK: Yeas, 1; Nays, 13.

Mr. GRÉGOIRE: Yeas, 2.

The CHAIRMAN: Yeas, 2, yes; Mr. Balcer voted for the motion.

We will now proceed with our examination of Mr. McGregor in respect of the section covering equipment and facilities.

Mr. GRÉGOIRE: Yesterday I asked the Parliamentary Secretary to the Minister of Transport a question and I should like to ask the Minister of Transport the same question now because the parliamentary secretary was not aware of the situation.

Mr. McILRAITH: What was the question?

Mr. GRÉGOIRE: Is the Minister of Transport aware of a letter written by the president of Sud Aviation to the Minister of Industry offering to completely build the Caravelle aircraft in Canadair in Montreal, and was there such an offer made?

Mr. McILRAITH: If you take a lot of the qualifications out of your statement I will agree. I am aware of some communications on the subject but I do not, for instance know and am not sure what the name of the president of Sud Aviation is.

Mr. McGREGOR: His name is Général Puget.

Mr. McILRAITH: I know he made a statement to the press.

Mr. GRÉGOIRE: Are you aware of a letter sent to the Minister of Industry, Mr. Drury?

Mr. McILRAITH: I would want to verify that. I do not think there was a letter. I would want to check that answer carefully, but I do not think there was any letter. I am aware of a statement he issued.

Mr. RHÉAUME: You will advise us later in this regard, Mr. McIlraith.

Mr. McILRAITH: Yes.

Mr. PUGH: You say you are aware of a statement; did he discuss the matter with you?

Mr. McILRAITH: No.

Mr. GRÉGOIRE: Did the Minister of Industry talk to you about such a letter he received?

Mr. McILRAITH: Just a moment, Mr. Grégoire. Are you going to ask me what the different members of the cabinet discuss with each other?

Mr. GRÉGOIRE: No, I am just asking about this point.

Mr. McILRAITH: No, I will not give you an answer to that question put in that way at all. That is quite an improper question and should not have been permitted.

If you ask me whether we discussed Canadian content of the various types of aircraft proposed; that is Canadian participation in their manufacture, the answer is, of course, yes, quite thoroughly.

Mr. PUGH: Did you discuss this subject with any member from that company producing the Caravelle?

Mr. McILRAITH: Mr. Downey, the North American representative from New York paid a courtesy call. He and the ambassador from France paid a courtesy call.

Mr. PUGH: You say they paid a courtesy call?

Mr. McILRAITH: Just a minute. Throughout this transaction I refused to discuss any technical matters having to do with the merits of any aircraft, with any of the companies. I was very careful and very meticulous in this regard.

Mr. GRÉGOIRE: Yes.

Mr. McILRAITH: I told them that this aircraft purchase was a purchase being made by T.C.A., and that the government would give no consideration to it until T.C.A. had made its recommendations based on technical and economic factors as they directly affected the air lines, and after that, the extent of the government's interest would be only to assure itself that T.C.A. had made a thorough, competent evaluation of that sort, and to look at any implications there might be in respect of Canadian labour content.

Mr. GRÉGOIRE: I do not think we are interested in the technical requirements, or whether T.C.A. is competent in that regard or not. We would like to have answers to the following questions after the technical factors have been produced to T.C.A. in respect of these aircraft. Were there offers made by companies such as Sud Aviation to build the aircraft in Canada, and having regard to the actual circumstances in Canada, did you compare both aircraft and try to reach a decision?

Mr. McILRAITH: There was an assertion on the part of Sud Aviation that it would build the aircraft in Canada, but there was no explanation regarding the United States engine in it. In any event there was this assertion. These assertions were checked. Although they were only assertions they were checked out to see what was involved. As far as the labour content is concerned, that question did not become relevant because here we were faced with a situation where T.C.A. had made the recommendation based on its criteria, that the DC-9 was the appropriate aircraft, and that company had already arranged Canadian production to a volume that was so far ahead of anything suggested by any of the others that the situation became self-evident.

Mr. GRÉGOIRE: Would you tell us whether you did receive a letter in this regard at some later time?

Mr. McILRAITH: Are you referring to the letter from Sud Aviation?

Mr. GRÉGOIRE: I am referring to a letter from Mr. Puget.

Mr. McILRAITH: Yes, I will check that up for you.

Mr. PUGH: Yesterday I asked Mr. Grégoire a question in respect of Canadian content. I think your answer indicated in approximately 1956 a decision was made regarding Canadian content. Mr. McGregor, I am wondering when the effect of that decision was first felt, as far as T.C.A. is concerned?

Mr. G. R. MCGREGOR (O.B.E., D.F.C., F.R.Ae.S., hon. F.C.A.S.I, President, Trans-Canada Air Lines): First of all, I think the year 1956 only related, in the statement that I made, to the last major aircraft selection that we had made. I think that date came up in that context. I think that it had to do with the relationship between the government and the company at that time in regard to this matter.

The matter of Canadian content has been alive as well as the matter of Canadian aircraft purchases since prior to my association with the company. The North Star I think was the first example of this, and the North Stars were delivered to T.C.A. in 1948, if I remember my dates correctly. The airframe was wholly built in Canadair. It was powered by British engines, and it had many other components that were required to be imported at that time. This matter

of Canadian content has always been alive as a matter of interest and desire on the part of T.C.A. in respect of its purchases of equipment.

Mr. BALCER: I should like to ask a supplementary question. Had the Douglas Aircraft Corporation used any Canadian content prior to the last deal in respect of the DC-9. In regard to any aircraft purchased from Douglas by T.C.A., has there been any Canadian content in respect of any of your dealings?

Mr. MCGREGOR: There was Canadian content, Mr. Balcer, but it had to do primarily with our purchase of interior materials. As a result of the Douglas design I would say no, but there was a substantial amount of Canadian content where we had direction of the purchasing of seats and fabric used in the interior, and that sort of thing, in the DC-8.

Mr. BALCER: There is a completely new arrangement in respect of this new aircraft?

Mr. MCGREGOR: That is correct.

Mr. BALCER: You have a new system that you are suggesting?

Mr. MCGREGOR: Yes. This arrangement between Douglas, and de Havilland was arrived at before our technical decision had even begun to jell and, as I mentioned, I think on Tuesday, it refers to all the aircraft of the DC-9 type that are built, and was made without regard to whatever the decision of T.C.A. was. In fact it was specifically stated that this agreement was not contingent upon a T.C.A. purchase.

Mr. PUGH: This arrangement would go back at least two years or more, is that right?

Mr. MCGREGOR: No, it was made earlier this year.

Mr. BALCER: It has been expressed in the press that there was, perhaps not a campaign, recommendation or pressure on T.C.A. to try to keep as much Canadian content in this contract as possible?

Mr. MCGREGOR: Yes, I think it has always been true, Mr. Balcer, that we have tried our utmost to do this.

Mr. BALCER: It has been a little stronger since Mr. Gordon became chairman of the air ministry of Canada?

Mr. MCGREGOR: We have very little actual contact with Mr. Gordon, but I dare say that you are right.

Mr. GRÉGOIRE: I should like to ask one further question to clarify the record. Some reports have indicated that United Air Lines has offered 20 Caravelles to T.C.A. They say that they made you this offer, and I quote: "If they . . . (meaning Caravelle) . . . become surplus at a future date" . . . then it was not as I understood it . . . they would not go for United Air Lines".

Mr. MCGREGOR: I think your impression is correct, but aside from that I will tell you exactly what happened in the conversation I had. United Air Lines, as a complete surprise to me, called and said: "You know we are beginning to take delivery of our Boeing 727's; as they come in we will have no need for our Caravelles, so we will have 20 for sale at depreciated prices. Are you interested?" I said: "No, there is quite a sufficient amount of trouble in respect of buying aircraft up here without buying aircraft that has no Canadian content."

Mr. GRÉGOIRE: The situation is just as they mentioned, they will not need them anymore, but when will they become surplus?

Mr. RHÉAUME: Mr. Chairman, I should like to ask two questions. My understanding is, and the evidence has been, that T.C.A.'s policy of conducting a rather extensive technical study in respect of several types of aircraft and weighing several other factors as well, including Canadian content was followed and T.C.A. arrived at the decision to purchase the DC-9. I understand in fact some kind of a commitment has already been made by the company to go ahead with its plan?

The CHAIRMAN: What is the answer to that question?

Mr. MCGREGOR: That is correct. There is a telegram of intent and acknowledgement.

Mr. RHÉAUME: The issue seems to have boiled down to a decision between buying the DC-9, as it meets T.C.A. projected requirements, and the Caravelle; is that correct?

Mr. MCGREGOR: That is right.

Mr. RHÉAUME: On the basis of your original studies, what was the rating of the Caravelle in relation to the DC-9 and the other four aircraft which I believe you tested?

Mr. MCGREGOR: Its position was fifth.

Mr. RHÉAUME: The Caravelle rated fifth?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Gentlemen can we carry the section on equipment and facilities and proceed now to a consideration of the next paragraph?

Some hon. MEMBERS: Agreed.

Mr. BALCER: Mr. Chairman, on a question of privilege, just before we leave this point, this morning, *Le Devoir* stated that no Quebec members were interested in this matter and that none appeared at the meeting. I read that statement in *Le Devoir* and I should like to say for my part that I missed yesterday's meeting, because the Minister of Transport was dealing with a bill before the House of Commons and I was taking part in the debate.

I should like to say that as far as the Conservative Quebec members are concerned, we are very much interested in all the affairs of T.C.A. and particularly in respect of this matter.

The CHAIRMAN: Mr. Balcer, I appreciate your question of privilege but I think you could have been generous enough to include members of all parties from Quebec who were here yesterday and took an interest. I think the record will show that they had an interest in respect of these questions. They were very active.

Mr. GRÉGOIRE: Mr. Chairman, if you put the situation on that basis, I should like to point out that the problem involves one of a choice between the Caravelle and the DC-9 and the construction of the Caravelle in Montreal at Canadair in order to take advantage of the technical knowledge required to construct aircraft and also to provide employment for our unemployed people. I should like to point out that those members to whom you have referred were not interested in that problem and none of them tried to understand the problem or find out what was in the report in regard to the decision to purchase the DC-9 instead of the Caravelle.

Mr. MCILRAITH: I think I can assure the committee here that the Quebec members certainly were interested in this subject and I do not draw any limitations or distinction as between parties in making that remark.

Mr. GRÉGOIRE: We were interested in that subject.

Mr. MCILRAITH: There is no doubt about that.

Mr. GRÉGOIRE: I think the report could be made public, resolving the problem. I am completely surprised that the Minister of Transport does not want to make that report public and satisfy the public of Canada. Surely there is no military secret in this regard.

An hon. MEMBER: He is out of order.

Mr. GRÉGOIRE: There is certainly no secret, and I am surprised this report has not been published.

The CHAIRMAN: Mr. Grégoire, we have disposed of this matter.

Mr. FISHER: Mr. Chairman, I should just like to clear up one or two points in connection with the manner in which this whole matter developed. I would like to ask the minister whether he could give us an explanation of the rather peculiar leaks of information in respect of this whole matter evidenced by certain statements which appeared in the press? I should like to approach the problem from this point of view. I think there was a great deal of unfortunate discussion relating to this whole matter of the selection of an aircraft, and I could see the turn of information that seemed to be coming out which indicated that someone on the inside with access to privileged information, either with T.C.A. or the Department of Transport, was leaking information in order to mislead and exaggerate pressure and particularly pressure relating to the choice of the Caravelle. I should like to hear your explanation, Mr. McIlraith, if possible. Perhaps I am completely wrong in my approach.

Mr. McILRAITH: I think you are wrong in your approach, but I can assure you as to your concern about the information that was printed that at some stages it was so far from the truth that it was very embarrassing to have to read these rumors day after day and know that they were not based on solid information and yet be unable to do anything about it. I think when the articles began to contain some comparatively accurate information this fact can be attributed to good newspaper work done by capable newspaper men who had simply gone to technical sources for information which is available in respect of this whole subject. I am sure they visited the transport department and T.C.A., but I want to point out why, Mr. Fisher, the transport department has nothing whatever to do with this matter. T.C.A. is a crown corporation incorporated by special statute and is answerable to the minister so that it does not in any way go through the Department of Transport, and that department did not have any of this information. As for my own office, I may say, and this can be readily established, it also did not have the information. In spite of what the articles have stated in respect of the Dixon, Speas report, I took the report and kept it sealed, and it was my own document exclusively within my own office. No one else in the office has even yet seen it or know anything about its content.

Mr. PUGH: What about the member away out west in Winnipeg?

Mr. McILRAITH: You are talking about the Dixon, Speas report and I said notwithstanding the articles about that report.

Mr. FISHER: Perhaps I could just complete my question. Perhaps I can reduce my point by simply saying that somehow the word got out, in spite of the fact that I would assume the information was confidential, that the DC-9 had been chosen by T.C.A. That information seems to have leaked out before T.C.A. made any public announcement and before the minister made any announcement. That is when all the pressure suddenly was focused. We are all aware of what was going on in the Liberal caucus, in the House of Commons and elsewhere.

Mr. LLOYD: Mr. Chairman, that is improper.

Mr. ROCK: What do you mean when you say "we know what was going on in the Liberal caucus?"

Mr. FISHER: I think you know what I mean.

Mr. ROCK: This is a surprise because I attended the Liberal caucus and there was no information of this type given to that caucus.

Mr. PUGH: You are going too far.

The CHAIRMAN: Order, please.

Mr. FISHER: I will withdraw that remark about the Liberal caucus. Let us put it this way. We were all aware that there were various pressures within the Liberal party by those members who support the government. Is that statement all right?

Mr. DEACHMAN: No, Mr. Chairman.

Mr. LLOYD: He is making suppositions.

The CHAIRMAN: Order.

Mr. RHÉAUME: The minister admitted that already.

Mr. DEACHMAN: We never heard that.

The CHAIRMAN: Order, order. Go ahead Mr. Fisher.

Mr. FISHER: I think the minister is able to follow my line of thought. How did the information that the DC-9 was chosen get out in the first place and, secondly, why did the minister, the cabinet or the government, whichever may be the case, not consider making an immediate response, or giving an immediate indication that this choice had been made, in order to stop all the conjecture and pressure developing by René Levesque and this aircraft institution, and all that sort of thing?

Mr. GRÉGOIRE: He does not like René Levesque.

Mr. ROCK: I object to one thing that Mr. Fisher has stated in respect of the Liberal caucus.

The CHAIRMAN: He withdrew that statement.

Mr. ROCK: I am a Liberal member here.

The CHAIRMAN: Mr. Fisher withdrew that remark.

Mr. ROCK: But he still implied an improper point in another manner which did not correct the situation. I must state one thing. As a member of the Liberal party, I did not know until the time of the announcement in the House of Commons and until the announcement by Mr. McGregor himself that T.C.A. was going to buy DC-9's. I had not information in this regard. If Mr. Fisher has information he must get it from a different source than the Liberal members.

The CHAIRMAN: Mr. Fisher, do you want an answer to your question?

Mr. McILRAITH: Mr. Fisher, I think the short answer to your question is, that the articles appearing in the newspapers were based on good and efficient work on the part of newspaper men who asked questions in the industry. This is a very large and highly competitive industry. It is not easy to gain this information, but a well trained newspaperman can get bits and pieces of information here and there, put them together and then come to some pretty sound conclusions. Because I was concerned with this publicity, as you can well imagine I was not very happy about it, and I want to make very clear that I satisfied myself that this information was not coming from a government department or from T.C.A.

Mr. FISHER: That is a sensible explanation. I would like to know now why, in view of all this talk, there was not some urgent consideration on the part of the government to make an announcement? Why was there a time lag?

Mr. McILRAITH: I do not know. I suppose the government has to take the responsibility for the timing of the announcement, as it always must, but to say there was not urgent consideration is to misrepresent the facts. This matter did receive urgent and careful consideration. If you wish you can criticize the government in respect of the time it made the announcement, but that is a matter of judgment and the government exercised its judgment. There was no time lag as a result of the lack of consideration.

Mr. RHÉAUME: You knew on October 22 that the DC-9 was recommended by T.C.A.?

Mr. McILRAITH: It would be October 22 or 23.

Mr. MCGREGOR: It was October 23.

I think probably I can supplement your answer to Mr. Fisher about the way this matter occurred. We have been in this game for a number of years.

I have never known what might be called a secret of this kind to remain a secret. There was a reception, to give it its polite name, put on in the Queen Elizabeth hotel by the Rolls Royce company just prior to October 22. I would think that anybody with any intelligence who looked at the beaming and troubled faces at that reception would have known the answer.

Mr. GRÉGOIRE: I have another question in respect of this report. When the announcement was made in the House of Commons we saw all the Liberal members applaud the announcement. We asked them why they applauded this announcement when it meant that there would be less employemnt in the province of Quebec than there would have been had the Caravelle been chosen and they said they had heard all the explanations and were completely satisfied. Can you give us those explanations which completely satisfied those members so that we can be satisfied ourselves?

Mr. McILRAITH: I did not make that announcement, by the way. The Prime Minister actually made it, but it is one announcement having to do with matters directly concerned with my responsibilities in respect of which we have received good reaction from the public, and a great deal of it, I might add.

Mr. GRÉGOIRE: I think you have false information in that regard.

Mr. McILRAITH: As for the members of the House of Commons, I think they were very glad the announcement was made. You may feel your assessment of the members of the House of Commons in respect of how they felt about this choice is as good as mine, but we could argue all day about it.

Mr. GRÉGOIRE: Have you given more explanations to the members at a Liberal caucus than you have given to us at the committee here or anywhere else? Did they receive more explanations than we have received?

Mr. McILRAITH: I would think that after the announcement they got more information, yes, because they came to my office—there must have been 20 members in and out of my office that afternoon—and asked dozens of questions and received answers.

Mr. GRÉGOIRE: Could we have those explanations now?

Mr. McILRAITH: There were members of other parties who came and asked questions as well and I gave the information that I properly could give to any member who asked for it, and to anyone else, for that matter, who asked for the information.

Mr. GRÉGOIRE: So if I come to your office I will be entitled to ask for those explanations which you gave to those other people?

Mr. McILRAITH: Certainly. As a matter of fact, many of my colleagues in the House of Commons think I gave too much information and suggested that when I answered questions I should not be too lengthy.

Mr. LLOYD: Mr. Chairman, not being involved in an area which produces aircraft competitively I shared the view of many Canadians, and it was certainly satisfying to me as a member of the House of Commons to find the weight of good judgment of a crown corporation being expressed in a decision of a government accepting that judgment. In the absence of any kind of solid or substantive information to the contrary, I think they made a good judgment which is appreciated by all Canadians who are not involved.

Mr. BALCER: Mr. Chairman, as the result of what I have heard this morning I should like to say that there is a certain implication on the part of people who may have been expressing opinions in this regard and should not have done so, but I can say for myself and many of my colleagues that we are very much interested to see work being provided for Canadians.

Mr. McILRAITH: That is correct.

Mr. BALCER: The members from Quebec naturally are interested in seeing work provided in the province of Quebec, just as the members for Ontario are interested in seeing work provided in industry in their areas. However, for my own part I am and have always been of the opinion technical decisions should be made by T.C.A.; on the other hand, very strong pressure should have been put on T.C.A. to make sure there is as much Canadian content in these aircraft as possible.

We were given information from the French embassy that the Caravelle was going to be wholly built in a plant of a Montreal firm. In view of the image many members of parliament were impressed by the situation, and the arguments which have taken place. However, if proof is shown that this is not accurate information and that the Caravelle was not technically the right plane for T.C.A. I think that will provide the reason for the decision as it has been made. However, the questions which have been asked so far have been asked in an attempt to find out whether this information is accurate and that the Caravelle is not technically the right aircraft for T.C.A. If the purchase of a different type aircraft will create as much Canadian employment, this will be a satisfactory situation.

Mr. McILRAITH: I would think the answer to your question is that for the particular routes and tasks to be performed by T.C.A., it is clear that the DC-9 is the right aircraft. It is not a question of whether the aircraft is necessarily the best aircraft, but whether it is the best aircraft for the particular task to be performed in relation to T.C.A. routes, and a decision was taken that it was made.

In regard to the question of Canadian content, I do not think the implication of Mr. McGregor's repeated answer here has been fully evaluated. He said that the Douglas contract involved this participation in all DC-9's made or manufactured, no matter where they are sold. This involves a simple matter of arithmetic. I cannot tell you how many sales there will be of that aircraft at this time, but I could have careful estimates prepared by the people who are familiar with the industry. It is a simple matter of arithmetic to multiply the cost by the number of aircraft to be sold. The answer to the question regarding Canadian content becomes so clear I do not understand why the matter is being pressed further.

Mr. MCGREGOR: Perhaps I could add something to what you have said.

I think this whole difficulty arises from the basic misconception regarding what, if any, would be the Canadian labour content if T.C.A.'s decision had been in favour of the Super B Caravelle. My own personal unbiased assessment of that is that it would be virtually none. The reason I make that statement, and I expressed my opinion on Tuesday, is that there would be few if any other Super B Caravelles sold in North America. I cannot believe that any air line will assess the Caravelle, other than as we did, and the relative merits of these five aircraft, and decide in favour of the Caravelle as we failed to do by such a wide margin; that it would go against the technical judgment in favour of the Caravelle. If T.C.A. had favoured the aircraft built by Canadair we would have ordered that aircraft; and on the basis of our forecast, which is 30 aircraft spread over a period of ten years, as I said before, and say again, I believe this would be ruinous to any manufacturer, to set up a production line for a trickle of three aircraft per year on an average, over ten years. This would just not be possible. I do not think there would be any other North American market for the Super B Caravelle. I would be most surprised if the situation turned out to be different.

Mr. BALCER: Mr. Chairman, I have one further question.

The CHAIRMAN: Mr. Balcer, I do not want to interrupt you, but Mr. Prittie is leaving for Vancouver and he has asked to be permitted to ask a question.

Mr. MUIR (*Lisgar*): Before you recognize Mr. Prittie, Mr. Chairman, I should like to draw your attention to the fact that I have been trying to ask a supplementary question to a question asked by Mr. Fisher, and I have been waiting to do so for some time.

Mr. PRITTIE: Mr. Chairman, what I wish to say will probably come under the heading of a question of privilege. I take exception to an article appearing this morning in *Le Devoir* written by Mr. Fournier. The article is entitled "La preuve du séparatisme". He recounts events which took place here yesterday and in the first paragraph of the article he refers to the fact that apparently the English speaking section of the country does not care about the economic development of French Canada. This has to do, of course, with the decision to purchase the Douglas.

Mr. LLOYD: Sheer rubbish.

Mr. PRITTIE: The article deals with the decision to purchase the DC-9 rather than the Caravelle.

I speak as a member who has taken the risk of becoming unpopular in my own province because of certain statements in regard to confederation and bilingualism. I do not get any votes on the stand I take in defence of matters regarding demands of French Canadians. I mention that fact to indicate that I certainly am not prejudiced in respect of this subject.

As far as I was concerned it did not matter whether the contract went to Montreal or Toronto, or any other country which was involved, and there was no question involving prejudice. I was satisfied that the company should make a technical examination of the aircraft it was considering, and I think the kind of thought expressed by Mr. Fournier as appears in this article is mischievous, and will only cause further trouble where further trouble is not necessary.

Mr. GRÉGOIRE: Mr. Chairman, on a question of privilege, I do not think Mr. Prittie has understood the exact meaning of this article. The article means in fact that many English speaking Canadian members were showing their impatience in regard to this problem. This article indicated the impatience shown by members, and this will be verified by the record, especially Mr. Lloyd who was not interested and he showed impatience in respect of problems.

Mr. LLOYD: Mr. Chairman, I will be very brief in speaking on the question of privilege. The only impatience I had was in regard to procedure. I was impatient with the procedure, as many Canadians have been, because I cannot comprehend why, when we are spending millions of dollars annually engaging skilled, competent trained people not involved in the political machinery of the country and yet not rely on their opinions and judgments. Canadian people expect the government and the committees of the government to rely upon such judgments, not denying members of parliament the right to question whether or not these individuals are competent, and whether they have done their jobs properly. I for many years have studied this problem and have been impatient, and I still am impatient because of a rather costly, although sometimes particularly vital, kind of questioning which has taken place not only in committees but in the House of Commons itself.

Mr. GRÉGOIRE: Mr. Lloyd has just given us example of what we mean. That is the best example we could find.

The CHAIRMAN: Mr. Balcer, you are next?

Mr. BALCER: Thank you.

Mr. PRITTIE: Excuse me, Mr. Chairman, for opening up this hornet's nest here.

The CHAIRMAN: Let us get on the track again.

Mr. RHÉAUME: Mr. Chairman, I should like to ask one technical question. I do not think this question has been asked before. Can these gentlemen give

us an estimate of the number of DC-9s that are likely to be sold both in Canada and elsewhere?

Mr. MCGREGOR: Are you referring to the total number?

Mr. RHÉAUME: Yes.

Mr. MCGREGOR: We have thought that 200 would be a conservative estimate.

Mr. PUGH: What is the liberal one?

Mr. MUIR (*Lisgar*): I should like to ask a question supplementary to Mr. Fisher's question, but before I do so I should like to preface this question with a question to the minister. Can we infer from your statement, sir, that the government does not put pressure on T.C.A. in regard to its choice of aircraft?

Mr. MCILRAITH: That is correct.

Mr. MUIR (*Lisgar*): Can we further infer from your statement in regard to the time lag that the government was giving consideration to a request to T.C.A. to change its decision to purchase the DC-9?

Mr. MCILRAITH: No, but the method, as I said in the House of Commons, was explored and checked out thoroughly with particular reference to the economic consequences to Canada and I am referring to employment as a result of Canadian content.

Mr. PUGH: Mr. McGregor, what was the date of that cocktail party?

Mr. MCGREGOR: It is too late now; I think, and this is just a guess, that it was during the last week of October.

Mr. PUGH: It was during the last week of October, and at that time had the Douglas Corporation been notified that it was going to get the contract for the DC-9s?

Mr. MCGREGOR: I do not think so. I know one other company had been notified that it was not going to get the contract.

Mr. PUGH: There is the 727, the Trident, the BAC-111 the Caravelle and the DC-9, and you considered them all. I am interested in these faces on the individuals at the cocktail party.

Mr. MCGREGOR: Yes.

Mr. PUGH: You said you could tell from the look of the faces what the situation was; is that right?

Mr. MCGREGOR: The B.A.C. representatives had been invited and they knew they were not going to get the contract, but just prior to that there had not been any question, as articles or editorials in many newspapers indicated the race had narrowed down to BAC-111 and the DC-9.

Mr. PUGH: When was this first mentioned and I am referring to the rumors as indicated in Mr. Fisher's question?

Mr. MCGREGOR: These aircraft were very similar in basic design, size and so forth and they were obviously well suited to fit into the integrated fleet we were contemplating, more so than are any of the other competitors, the two tri-motor aircraft and the Caravelle.

Mr. PUGH: When was the Douglas Corporation first notified that it would get the contract?

Mr. MCGREGOR: The Douglas Corporation was formally notified approximately November 24, actually November 22nd.

Mr. PUGH: In November?

Mr. MCGREGOR: Yes.

Mr. PUGH: Were the other companies at that time notified that they were not going to get the contract?

Mr. MCGREGOR: Yes, I believe so.

Mr. PUGH: So that as of that date this was pretty well public knowledge?

Mr. MCGREGOR: Yes, it was public knowledge. That fact had been announced by both the Prime Minister to Parliament and myself at a press conference in Montreal.

Mr. HAHN: In respect of this problem of Canadian content, I am not clear about the position of the DC-9. There is some confusion in my mind regarding Canadian content in respect of the Super B Caravelle. Mr. McGregor stated, I think at one point, that there was no specific arrangement made in respect of Canadian content regarding the Caravelle, and later I think he made the statement that there would be Canadian content on the part of Canadair. Was there any agreement arrived at by a government department with Canadair or by the Sud Aviation setting out regulations in respect of Canadian content?

Mr. MCGREGOR: Mr. Hahn, I can understand your confusion in that regard because I have been confused as well. There were numerous press articles stating that Sud Aviation was prepared to place the whole of the Super B Caravelle manufacturing for North America into Canadair. We knew that was impossible because there was no possibility of Canadair building engines, which represent about one half million dollars per aircraft, installed value. This fact put such a statement under suspicion immediately. No one told T.C.A. anything about any formal offers that had been made by Sud Aviation to Canadair. I got so exercised about this statement that T.C.A. was depriving Montreal of a tremendous amount of labour employment, I made it a point—I do not think there is anything particularly confidential about this—to call up Mr. Notman, and ask him whether there had been a firm offer made in this regard and his answer was in the negative. He said they had been approached by Sud Aviation and he said that he had made a tentative arrangement with B.A.C. and therefore could not make any arrangements with Sud.

The CHAIRMAN: Who is Mr. Notman?

Mr. MCGREGOR: He is the president of Canadair.

Mr. PUGH: I then ask whether there was any firm connection between Sud Aviation and the government in respect of the Caravelle.

Mr. MCILRAITH: I think I answered that question, but the answer is no.

Mr. RHÉAUME: You are going to check to see if a letter was received?

Mr. MCILRAITH: I am going to check to see if there is a letter. I do not think any formal document was received in respect of this point. In any event, the decision did not turn on this because, if you check the press announcements in respect of what they were going to do to work this situation out, you will see they were not very informed.

Mr. FISHER: Mr. Chairman, if the question I now intend to ask has already been answered please rule it out. I should like to ask both the minister and Mr. McGregor whether they received any representations which might be called official from any cabinet members of the provincial government with relation to this particular issue?

Mr. MCGREGOR: Perhaps I could answer so far as I am concerned. I have not received any representations of that type, although I read in the newspapers that the provincial government had interested itself in this problem.

Mr. MCILRAITH: I received one representation from—what do you call it in French—a departmental administrative officer, so I presume it was written on behalf of the government.

Mr. FISHER: Was there any formal representation made?

Mr. MCILRAITH: Yes, I would consider that it was formal.

Mr. GRÉGOIRE: Which department was concerned?

Mr. FISHER: Did this representative request for consideration, or was it a request to be given the opportunity of presenting supporting evidence?

Mr. McILRAITH: It is difficult to comment from memory. I think it was more in the nature of argument why the government should buy the Caravelle aircraft.

Mr. FISHER: How did you deal with this representation, Mr. McIlraith?

Mr. McILRAITH: I answered it by letter.

Mr. GRÉGOIRE: Which department was it?

Mr. McILRAITH: I should like to verify this, and I want to be free to correct myself.

Mr. GRÉGOIRE: Was the letter from Rene Levesque? I think that is what Mr. Fisher would like to know.

Mr. McILRAITH: The letter was not from the minister.

Mr. FISHER: I will ask my own questions.

Mr. McILRAITH: The letter was not from the minister, as I remember, but I would like to check this to make sure. The letter was perhaps written by the deputy minister of the department, but I would like to be free to correct myself in respect of the name of the department in question. I believe the department is called the Department of Industry of Quebec.

Mr. DEACHMAN: Mr. Chairman, I should like to refer to page 14 of the report, and specifically to the heading "Available Seat Miles and Revenue Passenger miles".

Mr. MCGREGOR: Yes.

Mr. DEACHMAN: If you look at the red curve which represents the available seat miles, you will see that goes up over a decade, from 1953 to 1962 in a sharp curve, and the passenger miles, which are represented in black have been ascending on a lower curve. If you look at the figure down below you will see that the passenger load factor for 1953 was 70.3 per cent, and that has declined, throughout its ups and downs, to 60 per cent, which is a decline of almost ten per cent or slightly over ten per cent. On the surface it looks as though you are becoming over-built. Can you explain these curves?

Mr. MCGREGOR: Yes. First of all back in the 1950's we had a high load factor, somewhere in the 70 per cent area. You know that the load factor is simply the percentage of seats occupied. This is an over-all annual factor. It is made up in respect of transcontinental flights with one or two open seats at most. A flight operating with a low density load on a low density leg will perhaps not have half the seats occupied. This is an over-all average, and must be treated with a great deal of care for that reason.

We came to the conclusion, as did many other air lines, that if the average annual load factor is 70 per cent we are giving poor service. This means a number of requests for specific flights on specific days are being denied. After a good deal of experimenting we came to the conclusion that 65 per cent, in respect of the average annual load factor, indicates that a reasonable proportion of the total requests for specific flights are met. If it was above that it meant that too large a proportion of the offered business was being turned away. We strive to get 65 per cent, but with the increase in size of the aircraft it became more and more difficult to engineer the total capacity to the predicted offered traffic. The reason being, if in an attempt to keep the load factor to 65 per cent you add one flight per day on a route that only had one flight per day, you double the capacity and you tend to have over capacity.

You can see the load factor we have been experiencing during the last two years, which has been 64.1 per cent, and 60.2 per cent. 1962 is substantially

below our basic objective of 65 per cent. This is a situation which I am glad to say is correcting itself. The 1963 load factor shows a recent tendency of coming back up again, but not to the 65 per cent figure.

Mr. DEACHMAN: Mr. Chairman, I should like to ask one or two further questions in respect of the section on equipment. May I ask them now?

The CHAIRMAN: Yes.

Mr. DEACHMAN: In regard to your shop facilities have you an excess of shop capacity, and are you doing any work for other air lines in your shops? At one time you did some overhaul work on some C.P.A. engines. Is that work still being done?

Mr. MCGREGOR: Yes, we overhaul the Conway engines on the C.P.A. DC-8s, and have been doing so since they first purchased them. That is about the only major piece of outside contract work that we are doing. We are bound to have, so far as actual buildings are concerned, an excess capacity primarily because the Dorval base is now completed and it was not built for only the immediately foreseeable requirement. It is capable of being expanded and is being expanded. Also, because of the continued retention of the Winnipeg base, in so far as actual buildings are concerned, we have an excess of base capacity. This excess does not extend to tools and personnel.

Mr. DEACHMAN: Are you renting any of your excess lower capacity to commercial or private air lines?

Mr. MCGREGOR: No.

Mr. DEACHMAN: Have you any space available for rent?

Mr. MCGREGOR: I would not think so. Our excess capacity involves a slightly loose occupancy, but we cannot put a partition down the middle of it and make it available to somebody else.

Mr. RHÉAUME: Do you do any Trans-Air work at Winnipeg?

Mr. MCGREGOR: We do work for Trans-Air on their Viscount.

Mr. DEACHMAN: Mr. Chairman, I still have several questions to ask. In respect of your flight simulators, have you excess capacity?

Mr. MCGREGOR: Yes, we have done outside training on our simulators, training C.P.A. pilots for DC-8s. We have made that service available to other people as well.

Mr. DEACHMAN: Is that a continuing business or is there still a demand for that service?

Mr. MCGREGOR: There has not been any new demand for the simulator that I know of.

Mr. DEACHMAN: Is there any demand?

Mr. MCGREGOR: The simulator is a device you can work 24 hours a day, or eight hours a day. It can always presumably be made available for use if people are prepared to hang around waiting for it.

Mr. DEACHMAN: Do you think that C.P.A. would buy a simulator for training purposes?

Mr. MCGREGOR: They may have bought a simulator for their Britannias. I do not know whether they have or not. I know all their pilot training and rechecking is done on our DC-8 simulator.

Mr. DEACHMAN: As you are training C.P.A. pilots on your DC-8 simulator are they participating in the capital cost of that equipment in any way?

Mr. MCGREGOR: No, but they are paying an hourly charge for it.

Mr. DEACHMAN: You bear the capital cost which otherwise they would have had to bear if they wanted to have a simulator of their own?

Mr. MCGREGOR: That is correct.

Mr. DEACHMAN: Have you made any approach to C.P.A. with a view to getting co-operation in areas where equipment can be used mutually in respect of which they would pay a share of the capital cost instead of just a rental charge?

Mr. MCGREGOR: There have been exploratory talks in this area, but because their base of operations and headquarters are in Vancouver and ours is basically in Montreal, these have proved fruitless.

Mr. DEACHMAN: Are talks continuing along that line at all in respect of the exchange of equipment and material?

Mr. MCGREGOR: We have always had, I think, a general arrangement in respect of the exchange of equipment and material at distant bases. That is, if one of our aircraft needed a part in say, Edmonton, or one of C.P.A.'s aircraft needed a part either air line would use the available part and then arrangements would be made for accounting or replacing the part, depending upon which was the most convenient.

Mr. DEACHMAN: There is no such thing as a general parts' depot?

Mr. MCGREGOR: Not specifically, but we are participants in what is called the over-all parts pool between international air lines.

Mr. DEACHMAN: Where is that pool located?

Mr. MCGREGOR: It is not located anywhere. It is simply a right to draw on other air lines' stores wherever there is the need.

Mr. DEACHMAN: There is no such thing as a physical joint pool?

Mr. MCGREGOR: No, because that would be just as unhandy as any of the older arrangements.

Mr. DEACHMAN: What about ground handling equipment such as starters, tractors, check-out equipment and the like, is there any joint usage here on arrangement or do you bear the cost on your own?

Mr. MCGREGOR: We bear the cost on our own and in some cases, we have servicing agreements both to and from. That is, we do use another air line's facilities at, say, New York, and other air lines have used our facilities in Montreal. This is always done on a straight contract basis and the charges are calculated in relation to the volume.

Mr. DEACHMAN: Do you feel there would be any savings to T.C.A. through a joint user arrangement with other air lines in Canada at air bases across Canada in respect of the use of hangars and other equipment, particularly ground handling equipment, parts and the like?

Mr. MCGREGOR: There might be apparent economies, but this is fraught with practical difficulties. Any overhaul organization almost always demands even within its own company, some policy of programming the work load. In other words, we act with our own overhaul organization almost as though it was a separate contracting company. We say we are going to put aircraft into its hands on such and such a schedule. If this was not the case they would be upset by peaks that would be extreme. There is nothing that an overhaul organization likes less than to be suddenly confronted with an aircraft they did not expect and have to do an engine change not on a time expired basis. There have not been a great number of cases, even in the experience of the big air lines in the United States operating on the same basis, making it possible for them to take advantage of what appears on paper to be economies in this area.

Mr. DEACHMAN: Thank you, Mr. McGregor.

Mr. RHÉAUME: Mr. Chairman, my question may be a sneaky one in terms of going back, but is it a fact that it is impossible to get to and from Ottawa

entirely on Canadian aircraft without changing aircraft because of the kind of equipment, and because of the uneconomical nature of the short hauls, or is this impossible because of the lack of traffic?

Mr. MCGREGOR: This is not so, particularly because of the lack of traffic. It is not impossible at all. There is one flight originating in the east in Quebec city, I believe, that eventually ends up in Ottawa. There are flights originating in Ottawa that pass through Toronto. As the traffic requirements for specific destinations grow, the number of flights are increased. Once upon a time there was a flight, using a small aircraft, if I remember correctly, from Ottawa to Windsor and then west. This flight was not very well patronized because it passed by the big traffic-generating centre of Toronto. As traffic requirements justify point to point flying we do it just as fast as we can, because it is obviously attractive and is economic.

Mr. FISHER: I want to ask Mr. McGregor a question relating to equipment and facilities as a result of an answer Mr. McGregor has already given us. I do not know whether he gave us his answer yesterday or the day before, that the government still has under consideration the request of the Manitoba representation either official or community. I have gone over this in my mind and I still find a doubt. Has T.C.A. arrived at its decision with regard to the Viscount, and is there a commitment in respect of Winnipeg facilities, or will further consideration be given to these Manitoba representations which might affect T.C.A.'s decision?

Mr. MCILRAITH: I do not know how thoroughly I should pursue this subject regarding the consideration we are giving to these representations, but let me suggest to you that if you consider the number of Viscounts in existence, and the number that will be in prospective use until 1973 you will find a slight difference.

Mr. FISHER: Yes.

Mr. MCILRAITH: What is going to happen to the Viscount? Where are they going to go? Where are they going to be serviced?

Mr. FISHER: You tell me.

Mr. MCILRAITH: I do not like crystal ball gazing, but I do like to be alert about what should be done at the appropriate time. If in the interval there are Viscounts used elsewhere I think the citizens of Winnipeg would feel very strongly with considerable justification that every step possible should be taken to assure them of the overhaul maintenance work.

There are 46 Viscounts in service now altogether owned by T.C.A.

Mr. MCGREGOR: That is correct, as to ownership.

Mr. MCILRAITH: There are 40 in operation.

Mr. MCGREGOR: There are 40 assigned to line duties.

Mr. MCILRAITH: Yes.

Mr. MCGREGOR: This fact is perhaps not necessarily interesting, but I believe that the six redundant Viscounts are at present on option to a South American carrier. I do not necessarily place a great deal of faith in the idea that that means a sale.

Mr. MCILRAITH: Since I cannot precisely foretell at this stage the use of the Viscounts which are not on T.C.A. route operations, I would expect that you could follow the implications without any further information.

Mr. FISHER: I wonder whether your communications and considerations might not relate to one of the requests from Winnipeg, and that is that the DC-9s, when they come into service, have certain operation maintenance carried out there because of the fact that the Winnipeg base would have some advantages in terms of its geographical location.

Mr. McILRAITH: That was not what was in my mind when I gave the answer. What was in my mind related primarily to the Viscounts.

By the way, I think I should probably protect myself in respect of an answer I gave a few minutes ago. It is possible that in the correspondence dealing with this type of work in Winnipeg there may be a reference from the Manitoba minister to have aircraft work done there, and I do not want to exclude that possibility in giving the answer about having received no representation from the provincial government.

Mr. FISHER: I would like to ask Mr. McGregor, in respect to the DC-9 matter, of the possibilities of Winnipeg being used for repair work. Is there any possible hope that there may be some adjustments made in your decision regarding the DC-9 and its maintenance and repair work in respect of Winnipeg, or is that die almost certainly cast?

Mr. MCGREGOR: Mr. Fisher, I am sure the only honest answer to your question is there is no possible hope. The Dorval base was built specifically as a turbine aircraft repair base. It can absorb the DC-9 in the forecast ownership. I am specifically talking about the overhaul work.

Mr. FISHER: Yes.

Mr. MCGREGOR: We draw a clear distinction between overhaul and maintenance.

The DC-9's will be operating through Winnipeg, and, as I said, they will receive any necessary line maintenance work there; as for any other aircraft overhaul job, it would be extremely uneconomical not to plan it into Dorval.

Mr. FISHER: Is there any possibility at all that the growth factor and the higher standard of living will give the kind of generation which will increase the number of transatlantic passengers and throw out the projections you have in respect of your aircraft acquisition and use at the present time and therefore have some ameliorating effect on the Winnipeg situation over a period of longer than ten years?

Mr. MCGREGOR: Mr. Fisher, it is quite possible our forecast of traffic growth will prove to be conservative. I think it is almost equally possible that it might prove to be optimistic. Certainly any changes in the forecast volume can be compensated by accelerating or decelerating the acquisition of equipment. I must say in all honesty I find it hard to conceive of any deviation of that kind having the effect of placing a substantial additional amount of aircraft overhaul which could work into Winnipeg.

Mr. MUIR (*Lisgar*): Mr. McIlraith, when the Prime Minister announced in the House of Commons that the operations at the Winnipeg base would be extended to the year 1973 he assured the people of Winnipeg and Manitoba that the employment at that particular base on an overhaul and maintenance basis would be maintained at the present level or even increased between now and 1973. I think the people of that province will be disturbed by statements made in this committee by Mr. McGregor that the actual work force at the maintenance base will be reduced at least by 200 before the year 1973, and that anyone who will not seek employment elsewhere or will not qualify to be transferred will be dropped. How do you reconcile those two statements?

Mr. McILRAITH: I do not find any difficulty in reconciling those statements at all. I think the Prime Minister's statement is accurate and it means exactly what it says. He went as far as 1973. The people of Winnipeg were very concerned and had the impression that this base was being closed in 1966.

Mr. MCGREGOR: It was to begin to be closed then.

Mr. McILRAITH: Yes; they had the impression the base was to begin to be closed in 1966. They had read the statement of the president of T.C.A.,

which was referred to a couple of days ago here in evidence. That statement was dated November 14, 1962. They had read that statement, but failed to read it correctly. In any event they had interpreted the part of it which referred to the phase out early in 1966 as meaning a closing in 1966. The change indicated in the Prime Minister's announcement referred to a change in plans by T.C.A. which involved the Viscount fleet, or part of the fleet being kept in operation rather than being sharply phased out early in 1966, as was indicated in the statement, which said it is quite possible that the Viscount fleet will start to dwindle in numbers, perhaps quite rapidly early in 1966. Instead of that happening, the projected plan, as has been mentioned in evidence, involves 34 Viscounts remaining in operation through to 1973. That is the basic change in the whole situation. This represents a reduction to 34 from 40, which is 34/40's. Mr. Fisher asked me some questions which were very relevant to this point, and I indicated to him certain ideas we had and hoped to be able to bring about concerning other Viscounts no longer in use in other than the T.C.A. fleet on regular routes during these years.

Mr. MUIR (*Lisgar*): I think that statement can be easily understood, but that is not the point I was trying to draw to your attention. The point I was trying to bring to your attention was the fact that the Prime Minister said there would be no reduction; in fact, even an increase in the number of employees at the Winnipeg maintenance base.

Mr. McILRAITH: I do not think the Prime Minister made any such statement. I think what you may have reference to is my answer to a question.

Mr. MUIR (*Lisgar*): I was just going to say as a matter of fact I thought you reiterated that statement, that this level of employment would be maintained with perhaps an increase.

Mr. McILRAITH: I think I said I would hope it would be maintained at approximately the same level.

Mr. MUIR (*Lisgar*): Until we see *Hansard* we will leave it that way and I will accept your interpretation.

Mr. McILRAITH: I think that is what I said, and I still hope that will be the situation.

Mr. MUIR (*Lisgar*): The fact remains that Mr. Seagrim and Mr. McGregor made statements before this committee that this force would be reduced by at least 200.

Mr. McILRAITH: They were asked to give correct information regarding the requirements of T.C.A. in respect of the operation of its fleet. Mr. Fisher was the only one who picked up the difference.

Mr. MUIR (*Lisgar*): I think we all realized that the number had dropped to 34. I believe Mr. McGregor corrected me on that statement when I said 35 by saying 34. I am not talking about aircraft; I am talking about people, and I have not received an answer in this regard.

Mr. MCGREGOR: Mr. Chairman, I think I have given this answer, but if I have not I would like to do so now. It is not T.C.A.'s intention in respect of the Winnipeg base to employ at any time any more employees than are required to carry out the work load presented by aircraft based there. As the number of Viscounts are reduced from the present 40, which are expected to be maintained through to 1966, when its starts downward toward the forecast figure of 34, it seems to me quite obvious that prudent management would call for a corresponding reduction in the number of employees. This reduction may not be directly related to the number of Viscounts in service at one time. It is related specifically to the work load which they present on an overhaul basis. As the aircraft get older, then the work load in relation to a specific number of Viscounts may go up, and I think this may be what the minister was refer-

ring to when he mentioned a possible increase. The work load may remain level, or it may go down if the number of Viscounts decrease, or if their life is short.

Mr. McILRAITH: There may be Viscounts not owned by T.C.A. in service there?

Mr. MCGREGOR: That is a possibility.

Mr. McILRAITH: The point I am trying to make here is that Mr. McGregor's remarks are addressed specifically to the T.C.A. operated fleet of Viscounts, and he knows precisely what these figures are. What I have been seeking to convey to the committee is that we are still hopeful that there may be other Viscounts in operation which will be required to be serviced in Winnipeg for overhaul.

Mr. MUIR (*Lisgar*): Would you say that perhaps the people of Winnipeg were misled inadvertently?

Mr. McILRAITH: I would hope not because I have been meticulously careful to try to bring reality to this matter.

Mr. MUIR (*Lisgar*): I am sure if there was any misleading it was done inadvertently. Do you not think there is a possibility that they may have been misled a little bit?

Mr. McILRAITH: There is always that possibility, because there certainly was misunderstanding on this subject in the early months. I can assure you of that.

Mr. FISHER: There is one Viscount at the present time which does not belong to T.C.A. Where is it being overhauled?

Mr. MCGREGOR: It is being overhauled at Winnipeg.

Mr. McILRAITH: Yes, it is overhauled at Winnipeg.

Mr. FISHER: Within the Viscount flight complex the situation may develop where the use of Viscounts is increased as the airport is developed; is that correct?

Mr. MCGREGOR: That is correct, and I hope that might be the case.

Mr. FISHER: The indications are, Mr. McIlraith that the redundant Viscounts of the T.C.A. fleet will be useful in a prairie ancillary air service and, therefore as mentioned by someone else would be serviced in Winnipeg; is that right?

Mr. McILRAITH: That is precisely the point.

Mr. MITCHELL: Mr. Chairman, I should like to ask a question in respect of the section on facilities. Mr. McGregor, have you any reciprocal arrangement with other air lines in Canada by which the air lines honour each others tickets for transportation?

Mr. MCGREGOR: Yes, in certain circumstances.

Mr. MITCHELL: In other words, if I were not able to get a flight from Vancouver to Toronto on your air lines, and approximately the same time I could get on an aircraft operated by C.P.A., would my ticket be honoured, and vice versa?

Mr. MCGREGOR: You would have to go through a small manoeuvre known as "endorsement" if you wanted to go by C.P.A. If you went up to the C.P.A. counter and said: "Here is my T.C.A. ticket to Toronto; I want to travel on your flight", the man at the wicket would tell you to take the ticket to the T.C.A. counter and get it endorsed. The agent there would sign it and you would bring it back to the C.P.A. wicket and vice versa.

Mr. MITCHELL: I asked this question specifically in relation to Canada, Mr. McGregor, because I know there is a reciprocal arrangement in respect of foreign flights.

Mr. MCGREGOR: Yes.

Mr. MITCHELL: I wondered if this arrangement applied in Canada.

Mr. MCGREGOR: It applies in Canada as well, as I recollect it.

The CHAIRMAN: Gentlemen, are there any more questions on equipment and facilities?

Mr. PUGH: Mr. Chairman, I would like to refer again to the letter sent out to the employees at Winnipeg on November 14, 1962. After that letter went out there was quite a bit of furore throughout the system. Did you send out another letter to your employees after that date?

Mr. MCGREGOR: No. The only communication that may be called a general communication to employees subsequent to this letter was a column appearing in the company house organ which is called "Between Ourselves". I endeavoured to interpret this letter at that time.

Mr. PUGH: What was the issue?

Mr. MCGREGOR: I do not know what issue it was, Mr. Pugh; I could check it out for you. This was not specifically addressed to the Winnipeg base personnel as a letter. This is a house organ in which I write a column from time to time, and I endeavoured to clear up the areas of doubt, misunderstanding and friction through that column.

Mr. PUGH: There was no doubt in your mind that these 34 Viscounts would be in operation through to 1973?

Mr. MCGREGOR: At that time there was considerable doubt in this regard.

Mr. PUGH: There was doubt?

Mr. MCGREGOR: Yes.

Mr. PUGH: Was there doubt at the time you wrote that letter?

Mr. MCGREGOR: Yes.

Mr. PUGH: When were you firm in your own mind regarding the 1973 retirement program?

Mr. MCGREGOR: I was sure this autumn. That is when the completion of the relationship between the new type and other turbo propeller aircraft was definitely established.

Mr. PUGH: Was this before you wrote the article for this magazine?

Mr. MCGREGOR: I think it was not before. I do not think the magazine referred to the 34 Viscounts through to 1973. As a matter of fact, I am sure it did not. I think there was an effort, as I say, through that column to interpret this letter and draw attention to the basic economic facts of the situation, and the fact that there were facilities at Dorval which could absorb the residual number of Viscounts, since the Viscount fleet might begin to get so small that the idea of duplicating the base at Winnipeg would become economically unsound.

Mr. PUGH: Perhaps I could put it another way. Up until this fall you felt it economically practical for the company to move out of Winnipeg and come down to Dorval?

Mr. MCGREGOR: Very definitely.

Mr. MUIR (*Lisgar*): I should like to ask one qualifying question. I do not understand your last statement, Mr. McIlraith, when you said that the people of Manitoba had been terribly misled.

Mr. MCILRAITH: I do not think I used the word "misled". I think I said they misunderstood the situation and I have repeated that several times. They

overstressed or drew too much from the president's letter on November 14. That has always been the difficulty. There was an excellent delegation here in June, and it was quite clear that their information was not as good as it should have been. I think I read that letter to them on that occasion, but they appeared to take it as if it was an indication of an absolute immediate close down at that time.

Mr. MUIR (*Lisgar*): I wanted to make sure that you are not referring to a certain telegram that was sent to a candidate at the previous election.

Mr. McILRAITH: I certainly was not referring to that telegram.

Mr. McGREGOR: I would like to point out the astonishing fact that this letter of November 14 was sent to the Winnipeg base employees, and there was a period of some three weeks or a month after the receipt of that letter when there was complete silence. It was not until—there is no other word for it—a labour agitator had gone to work that this began to create excitement.

Mr. MUIR (*Lisgar*): That is the first time I ever heard Mayor Juba called a labour agitator.

Mr. McGREGOR: I was not referring to him.

Mr. McILRAITH: I inherited this, you know. I hope I did not create it. I do not think I did.

Mr. RHÉAUME: You asked for it.

Mr. McILRAITH: I suspect my predecessor in the portfolio was very glad to pass it on.

Mr. BALCER: We enjoy very pleasant relations with the people of Winnipeg.

Mr. McILRAITH: I wonder whether I may take advantage of this opportunity to complete the record. I was asked about representations from the provincial government. The letter I referred to came from the deputy minister of a province.

The CHAIRMAN: It is from the deputy minister of the department of industry and commerce.

Mr. McILRAITH: The opening paragraph refers to the absence of the minister. My reply was sent to the minister.

Mr. BALCER: I remember reading in the press a statement that the provincial government had decided to make representations to the effect that no final decision should be taken without prior consultation with the provincial government. That is what I read in the press and I am wondering whether it is correct.

Mr. McILRAITH: That was not the point involved in the letter. The letter and memorandum attached to it had reference to employment in Quebec and the need for employment in the Montreal area, and specifically at Canadair and that this could be achieved through purchasing the Caravelle.

Mr. BALCER: Have you discussed the point with either Premier Lesage or Mr. Rene Levesque, or did you before making the final announcement in the House of Commons?

Mr. McILRAITH: I did not discuss the announcement, no. I wrote the minister and acknowledged the letter and informed him that I would be making a reply.

Mr. GRÉGOIRE: Could you table the letter?

Mr. BALCER: Did you talk to Mr. Lesage or Mr. Levesque?

Mr. McILRAITH: I saw Mr. Levesque on one occasion and there was a very brief reference to this subject. I told him I had received this letter, I was the individual who broached the subject.

Mr. BALCER: What was his feeling in regard to this matter?

Mr. McILRAITH: His feeling was that it was important to get employment in Quebec. He wanted employment for Quebec.

Mr. GRÉGOIRE: Could you table that letter?

Mr. McILRAITH: The letter was concerned with unemployment in areas for which they are responsible.

Mr. GRÉGOIRE: Could you table that letter so it will be printed in the record?

Mr. McILRAITH: I am afraid I cannot do that without the consent of the minister concerned.

Mr. GRÉGOIRE: Could you table it with his consent?

Mr. McILRAITH: I do not know whether it could be tabled in the committee. It could be tabled in the House of Commons. If you wish to ask that it be tabled in the house I could request the consent of the provincial minister in the normal way.

Mr. GRÉGOIRE: Could it be printed in the record of this committee?

Mr. McILRAITH: How could you include it in the record without holding up the printing while consent was being requested?

The CHAIRMAN: Mr. Grégoire, I think the rule is well established that if you want the production of a memorandum of that type, or letter, you should move it in the House of Commons.

Mr. GRÉGOIRE: All right.

Mr. BALCER: Mr. Chairman, I would like to ask the minister whether he has received any comments from either Mr. Lesage or Mr. Levesque since this decision was made to purchase the DC-9?

Mr. McILRAITH: I do not think I have heard from either of them. I met Mr. Lesage very briefly at the commencement of the provincial-dominion conference, but I did not have the opportunity of doing anything more than extending the normal courtesies.

Mr. BALCER: He did not mention this subject?

Mr. McILRAITH: I did not have an opportunity to discuss the situation. I was not closely connected with that conference. In any event, we have not discussed this subject.

Mr. FISHER: I am rather puzzled by the whole business in connection with Canadair and B.A.C., and I would like to ask the minister a question. I should like the minister to express an opinion. If there was great pressure from Quebec members of parliament, from the provincial government and agencies of Quebec, I cannot understand why this was not in relation to B.A.C. as distinct from Caravelle, since Canadair seem to have a working agreement with B.A.C. rather than Caravelle. I wonder whether the minister could give us his opinion as to how this illogical inexplicable situation developed?

Mr. McILRAITH: Mr. Fisher, I cannot give you my opinion on that subject at all, but I can tell you that I gave that answer a great number of times in the period between October 23 and whatever the dates were when this matter appeared for final decision.

Mr. BALCER: Did you receive any representations from Mr. Grégoire in favour of the B.A.C.-111?

Mr. McILRAITH: I am sure you were in the house when I answered a question in that regard.

Mr. GRÉGOIRE: I did not make representations in favour of the Caravelle or the B.A.C., I only asked that the aircraft be built in Canada.

Mr. McILRAITH: I do not recall any such reference to this subject.

Mr. FISHER: I should like to make one point clear. I am a bit of an Anglophile myself and I would like to have seen the B.A.C. chosen and built in Canada, perhaps even in Montreal. I think the record should indicate that there is a bit of irony involved.

Mr. McILRAITH: Some of the representations were addressed thoroughly and specifically to employment in Canadair, and they did not seem to care which aircraft was to be obtained. Others specifically dealt with the purchase of the Caravelle and these were the ones which got the most public attention. You will notice that inherent in some of the exchanges with me during the question hour as they appear in *Hansard*.

Mr. RHÉAUME: This remains a mystery to you, does it Mr. McIlraith?

Mr. McILRAITH: I do not know whether I should comment.

The CHAIRMAN: Gentlemen, I think we have pretty well covered the ground in respect of equipment and facilities. May we now proceed to the section on the board of directors?

May I have a motion to carry the section covering equipment and facilities?

Mr. MITCHELL: I so move.

Mr. RHÉAUME: I second the motion.

The CHAIRMAN: It has been moved by Mr. Mitchell, seconded by Mr. Rheume that we carry the section on equipment and facilities.

Some hon. MEMBERS: Agreed.

Motion agreed to.

The CHAIRMAN: We shall now move to the section covering directors. I presume Mr. Grégoire you will have some questions.

Mr. GRÉGOIRE: Mr. McGregor, I see that among the board of directors there are four appointed by the governor in council, the Hon. Leslie Frost, G. R. Hackett, G. R. McGregor and R. S. Misener. There is not one French Canadian appointed by the governor in council. I suppose this situation results from the fact that the preceding government appointed these directors up until 1962. Are there may renewals to be made, and when they are made will they be English or French Canadian appointments, and I refer to the directors appointed by governor in council?

Mr. McILRAITH: I must say that the board of directors were all appointed prior to my assuming responsibility as the minister, but of the board of directors as indicated on page 2, the first four are appointed by the governor in council, and the other five are appointed by the Canadian National Railways. The report states that they are elected by the shareholders which in effect means the Canadian National Railways.

Mr. GRÉGOIRE: My question refers to the first four particularly.

Mr. McILRAITH: Yes. What are you asking in that regard?

Mr. BALCER: Mr. Chairman, I should like to point out that Mr. McGregor is bilingual.

The CHAIRMAN: I think Mr. McIlraith had his ear piece on.

Mr. GRÉGOIRE: Mr. McIlraith, my question concerned the first four directors of the board who were appointed by the governor in council. They were appointed to December 31, 1963. Is it the intention of your government to see that there will be French Canadians among the first four directors of the board, or at least one?

Mr. McILRAITH: There must be vacancies before we can make any appointments at all.

Mr. MCGREGOR: They are named three different years so as not to have a wholesale replacement of the board at one time. In the case of Mr. Hackett, for instance, he is serving a part of a term replacing Mr. Ross, so I think his total term will run to something like five years before he works out Mr. Ross' unexpired portion and his three year term after that.

Mr. McILRAITH: Perhaps it would be useful to place on the record the expiration dates of these appointments.

Mr. RHÉAUME: I should like to ask a question, Mr. McIlraith.

Mr. MCILRAITH: Just a minute. We will place the expiry dates on the record.

Mr. MCGREGOR: I can give you the dates of appointment right away. Mr. Frost was appointed on October 11, 1962. Mr. Hackett was appointed on May 26, 1960, and I have explained that this was a replacement of a retiring director. Mr. Misener was appointed on July 11, 1962. Those are the governor in council appointments other than my own.

In respect of the elected-by-shareholders directors, Mr. Brown was appointed on November 2, 1961; Mr. Levesque was appointed on November 2, 1961, and in connection with that to which you referred, Mr. Gregoire, I should point out that prior to that we had Mr. Wilfred Gagnon on the board. Mr. Price was appointed on November 2, 1961 and Mr. Stewart was appointed on April 2, 1959. Basically speaking, add three years to those appointment dates to get the dates of expiration.

Mr. MCILRAITH: That would bring them to 1962. You have gone too far back.

Mr. MCGREGOR: Yes. Several of these were reappointments.

Mr. MCILRAITH: The dates you have given are not the latest dates, so the period is more than three years.

Mr. MCGREGOR: Yes.

Mr. MCILRAITH: Have you got the expiration dates?

Mr. MCGREGOR: I have not got them here but I can get them quite quickly.

Mr. GRÉGOIRE: Is it the intention of your government in respect of the board directors appointed by the governor in council, to see that when the next vacancy occurs there will be a French Canadian appointed?

Mr. MCILRAITH: Mr. Grégoire, there is a perfectly obvious answer to that question and that answer is to be found in appointments made by this government so far.

Mr. GRÉGOIRE: If you want me to be content with that answer, that is fine.

Mr. MCILRAITH: The answer to your question as you have asked it cannot be given. Your question cannot be answered because I cannot indicate the intention of the government at this time. The intention of the government will be clear when the appointments are made. In order not to limit myself to that somewhat unenlightening answer I suggest you look at the appointments this government has made. I think that would make you quite happy.

Mr. BALCER: You will notice that they are about the same as ours.

Mr. GRÉGOIRE: That is not such a good answer.

Mr. PUGH: Let us stick to a consideration of T.C.A. and complete our examination of this report.

Mr. MCILRAITH: I think you will have a very satisfactory answer if you check the appointments this government has made.

Mr. GRÉGOIRE: Mr. McGregor, I see that among the officers, and in the report that is covered at page 2 under the English heading "officers" there are nine, the president, two senior vice presidents, four vice presidents, a secretary and the general counsel, and there is not one French Canadian.

Mr. MCGREGOR: I think we covered that point thoroughly last year. I explained that T.C.A. is fortunate in having a very small turn-over of its senior officers, and there have been no vacancies occur since the retirement of Mr. English about six or seven years ago. He was the vice president, operations. If and when a vacancy does occur we appoint an experienced man preferably

with a long service record with the company, and we have endeavoured to stick to that policy.

If we are going to talk about T.C.A. employees being bilingual, I can give you some information in this regard.

Mr. GRÉGOIRE: I should like to deal with the directors and officers first.

Mr. MCGREGOR: Yes.

Mr. GRÉGOIRE: As I said, there are nine officers.

(*Interpretation*): There are nine officers mentioned in this report. As you have said, there have been no vacancies for some time. Do you consider it likely that you will be able to find French Canadians to fill these positions in T.C.A.?

Mr. MCGREGOR: I think it would be very wrong to commit the management to any declared program. We will appoint the very best man that we can obtain in respect of any of these jobs if or when they become vacant. I think that as a matter of general company policy we would appoint a man who had worked immediately under the officer who was leaving who would be well informed as to his methods and his long term plans.

Mr. GRÉGOIRE (*Interpretation*): Do you have a list of the immediate assistants under these officers? Can you tell us whether it is likely, since you normally appoint the immediate assistants who know something about the work of each official, that you will appoint French Canadians?

Mr. MCGREGOR: In certain departments that is true. I would have to get a list of what we might call deputy chiefs and assistant chiefs.

We are getting into a fairly tender area because people are involved and I would not want to make any commitment. I think there is at least one department where the apparent logical step-up would involve an individual whose mother tongue is French.

Mr. GRÉGOIRE: Does that mean that at least one department out of nine will have a French Canadian assistant, while the other eight are English? Do you understand my question?

Mr. MCGREGOR: I think I understand that.

The CHAIRMAN: The other eight assistants would probably be English; is that right?

Mr. MCGREGOR: Yes, probably.

Mr. GRÉGOIRE: Therefore there are eighteen senior officers out of which there is only one French Canadian?

Mr. MCGREGOR: Yes, that is correct. Just a minute. I cannot understand how you arrive at the figure eighteen. Yes, I see now, you have multiplied the nine by two.

Mr. GRÉGOIRE: Yes.

Mr. MCGREGOR: There are a great many more than that. For instance, if the head of a major department fell dead, or retired, or did anything else that took him out of business he might be replaced by one of what we call our regional managers, and there are approximately 9. As I say, Mr. Grégoire we are interested in, shall I say, bilingualizing the company to the greatest possible extent, but we are far more interested in obtaining the best man we can for the job.

Mr. GRÉGOIRE: I agree with you in the matter of the principle involving the best man for the job, but I am very much convinced that if you consider the nine best men you must be able to find French Canadians. Do you not think there are French Canadians with some knowledge of the situation who could be appointed to top official positions?

Mr. MCGREGOR: You will understand, Mr. Grégoire, that the management of T.C.A. has nothing whatever to do with the appointment of directors.

Mr. GRÉGOIRE: I was referring to the officers.

Mr. MCGREGOR: Yes, I understand what you mean.

Mr. GRÉGOIRE: In the French copy of your report you have the directors as "Conseil d'administration" and the officers as "direction" and I think that should perhaps be corrected in the English report. When I refer to the direction I mean officers as well.

Mr. MCGREGOR: Yes, I think there is hope in view of the earlier statement I made, but the man must be right for the job.

Mr. GRÉGOIRE: I am convinced you could find some French Canadians to fill these positions.

Mr. MCGREGOR: That is not as easy as you might think.

Mr. GRÉGOIRE: Do you have some kind of—

(*Interpretation*): Have you got any kind of selection office which takes care so that everybody has an equal opportunity for advancement?

Mr. MCGREGOR: Indeed we do have such a department. That is one of the functions of our personnel department. We also do something else on the lines we are discussing. We have what we call a bilingual committee within T.C.A., which has been in existence for some time. I do not think anyone, on the grounds of racial background or anything else is going to have a better or worse chance.

Mr. HAHN: Mr. Chairman, I gather from this conversation that we have now reached a consideration of the section covering personnel?

The CHAIRMAN: I take that to be the case. I think we have moved to personnel.

Mr. MCGREGOR: We have done so, Mr. Hahn, under the item headed "Board of Directors".

The CHAIRMAN: I think we have carried the section on the board of directors.

Mr. PUGH: Is there a share qualification in respect of directors?

Mr. MCGREGOR: No.

Mr. PUGH: All the shares are held then by crown corporation?

Mr. MCGREGOR: That is correct. You are referring to the Canadian National Railways?

Mr. PUGH: Yes.

Mr. MCGREGOR: That is correct.

Mr. GRÉGOIRE (*Interpretation*): Mr. McGregor, the shareholder is actually the Canadian National Railways. Does that mean that the president of the Canadian National Railways is the man who appoints the five directors who are shareholders?

Mr. MCGREGOR: So far as I am concerned he is the man who names them for me. What consultation he has within his own organization I do not know. He informs me that it is his proposal to name a certain five of his directors to the T.C.A. board of directors.

Mr. GRÉGOIRE: I should like to ask a supplementary question directed to the Minister of Transport. Has the minister been consulted with respect to appointing representatives of shareholders on the board of directors of T.C.A.?

Mr. McILRAITH: Unfortunately this question has never arisen because there have been no vacancies since my appointment.

Mr. BALZER: I was involved in consultation both in respect of representatives of the shareholders and directors appointed by the governor in council.

I should like to ask Mr. McGregor, as the Canadian president of a great government owned corporation, whether he feels it would be good for Canada and for the corporation to do the utmost to try to create a proper proportion between French and English Canadians in the company, either by recruiting methods, or promotion methods, so that every Canadian has an equal opportunity as far as T.C.A. is concerned?

The CHAIRMAN: Mr. Balcer, I think that question has regard to the section on personnel. I should like to have a motion that we carry the section on the board of directors.

Mr. GRÉGOIRE: I would like to have an answer to that question with particular reference to the board of directors and inbetween officers.

Mr. BALCER: When I was the minister of transport Mr. McGregor and I had a long discussion on this subject. I remember at the time that the T.C.A. president and many of the senior officers launched a crash bilingual program among themselves, and that is why I thought it would be a good idea for this committee to hear Mr. McGregor's opinions on this subject.

Mr. MCGREGOR: Mr. Balcer, I would very much like to give you my opinion in this regard, but the Chairman has suggested that in as much as this refers specifically to personnel rather than to the board of directors, we should wait until we are considering that particular section.

The CHAIRMAN: Can we now move to the section on personnel? Shall we carry the section on the board of directors?

Some hon. MEMBERS: Carried.

The CHAIRMAN: Moved by Mr. Balcer, seconded by Mr. Hahn that we carry the section covering the board of directors.

Some hon. MEMBERS: Agreed.

Motion agreed to.

The CHAIRMAN: We will now consider the section on personnel.

Mr. RHÉAUME: Mr. Chairman, perhaps if Mr. McGregor made the statement he indicated he could make in this regard we might find it unnecessary to ask many of the questions we have in mind.

The CHAIRMAN: Mr. McGregor, perhaps you would deal with the question asked by Mr. Balcer.

Mr. MCGREGOR: I will now answer that question, yes.

In reply to Mr. Balcer, I must say that I entirely agree that in a company, regardless of whether it is crown owned, it is to the advantage of the organization to have substantial representation by French Canadians both in its staff and at the work level, as well as in its supervisory organization. This very subject was discussed at considerable length last November or December when the counterpart of this committee was sitting. At that time there was placed on the record a list of T.C.A.'s Canadian employees in the supervisory capacity whose mother tongue was French. That list has now been supplemented, and it may be an indication of what has happened in the 12 month period if I read this supplementary list into the record. The names and positions are as follows: Mr. E. L. Vermander, Superintendent, Economic & Production Analysis, Dorval; Mr. P. J. Jeannot, General Supervisor, Operational Research, Dorval; Mr. E. J. Gallant, Sales Promotion Manager, London, England; Mr. J. S. Cormier, Public Relations Officer, Halifax; Mr. J. A. Lauzon, Chief Planner, Ground Equipment and Facilities, Dorval; Mr. E. G. Dupuis, Supervisor, Employment Services, Montreal; Mr. A. D. Bertoia, Manager, Labour Relations, Montreal; Mr. A. G. Boivin, District Manager, Antigua; and Mr. J. Lecavalier, Engineer—Structures, Dorval.

In the 12 month period, since the list was given to the last meeting of this committee in 1962, the list has been supplemented by that number of supervisory personnel.

Mr. Chairman, would you like me to make a sort of statement in regard to this general subject?

The CHAIRMAN: I think perhaps you should.

Mr. McGREGOR: I do not think there is any question about the basic intent of the company. It would be very foolish on the part of management to take any other stand than that it is anxious to bilingualize, if I can make a verb out of an adjective, the company to the greatest possible extent, always keeping, as everybody agrees, the basic standards of performance which we must have throughout our personnel, particularly in supervisory capacity.

Including that list, which I have read, there is quite a long list of promotions of people which have occurred in the last 12 months to more senior jobs, in respect of whom French is their mother tongue. I will file this if I may.

The CHAIRMAN: Do we have leave to file this document?

Some hon. MEMBERS: Agreed.

The list follows:

Trans-Canada Air Lines  
Senior French Speaking Employees  
Representative List—1961

Mr. R. C. Baudru, Assistant to Senior Vice President, Operations,  
Montreal

Mr. R. M. Giguère, Flight Operations Manager, Winnipeg

Mr. E. Patrault, Regional Maintenance Superintendent, Toronto

Mr. A. Bruneau, Regional Maintenance Superintendent, Moncton

Mr. P. E. Lamoureux, Materials & Process Engineer, Dorval

Mr. L. C. DesBois, Assistant Solicitor, Montreal

Dr. J. Violette, Medical Officer, Dorval

Mr. A. J. Gauthier, Area Manager, Government and Public Relations,  
Ottawa

Mr. C. Grégoire, Area Manager, Public Relations, Montreal

Mr. J. Lepottier, Public Relations Representative, Dorval

Mr. G. R. Perodeau, District Commercial Manager, Montreal

Mr. P. L. Jérôme, District Commercial Manager, Paris

Mr. H. Dansereau, District Commercial Manager, Quebec City

Mr. G. H. Lesage, Station Operations Manager, Dorval

Mr. R. J. Alain, Airport Passenger Office Manager, Dorval

Mr. J. A. W. Lalonde, Manager, Job Evaluation, Montreal

Mr. W. R. Larue, Employment Interviewer, Montreal

Mr. F. R. Laflamme, Cargo Sales Manager, Montreal

Mr. F. St. Hilaire, Chief Purser, Overseas Region, Dorval

Mr. L. G. Corbeil, Security Officer, Dorval

## TRANS-CANADA AIR LINES

## French Speaking Employees Promoted

<i>Name</i>	<i>Promoted to</i>	<i>Date</i>
A. G. Boivin	District Manager, Antigua	July 15, 1962
E. J. Gallant	Sales Promotion Manager, London, England	April 15, 1963
A. J. Gauthier	Area Manager, Government & Public Relations, Ottawa	October 19, 1962
P. J. Jeaniot	General Supervisor, Operational Research, Montreal	June 13, 1962
P. L. Jérôme	District Sales Manager, Paris	October 1, 1962
F. R. Laflamme	Manager, Air Freight Sales, Montreal	August 15, 1962
J. A. Lauzon	Chief Planner, Ground Equipment & Facilities, Montreal	January 1, 1963
J. F. Lecavalier	Engineer, Structures, Montreal	February 1, 1963
J. A. W. Lalonde	Manager, Personnel Services	May 1, 1963
J. E. L. Vermander	Superintendent, Economics & Production Analysis	June 13, 1962

Mr. MCGREGOR: The activity of the company has perhaps quite naturally in this area intensified quite materially. We are represented on the government's committee on bilingualism, or biculturalism. We also have our own bilingual committee. We also made fairly widely publicized announcements a few months ago that we were working rapidly toward the situation in which the Dorval flight attendant organization would be completely bilingual as far as that can be achieved. I must say that unfortunately Mr. MacInnes, the chairman of the bilingual committee was here until just recently but had to leave this morning in order to attend a memorial service arising out of last Friday's accident in Montreal. I would like to have had him present his report. He has left his documents with me and I will just read the preamble, which are the terms of reference we gave to the committee when it was formed. The terms of reference are:

## TRANS-CANADA AIR LINES

## BILINGUALISM

## Formation of Company Committee re Bilingual Policies &amp; Practices

## Terms of Reference

- (a) To re-study the existing policies and practices regarding bilingualism, particularly with respect to the departments of the company whose personnel work in fields of public contact.
- (b) To make recommendations respecting the degree of bilingualism which the Committee feels is appropriate to this company, in the light of its widely spread geographical operations.
- (c) To make recommendations to management with respect to any indicated changes in policy and practices which would, without impairment of the company standards of service, accelerate the rate at which the company would approach the degree of bilingualism which the Committee considers to be appropriate.
- (d) To make recommendations respecting any indicated changes in current hiring and training policies and procedures.

There then follows a considerable amount of detail as to what has been done toward these objectives.

The CHAIRMAN: Do you want to read that in?

Mr. MCGREGOR: I will turn it over to the reporter, if you wish.

The CHAIRMAN: Is it the wish of the committee to have Mr. McGregor read into the record what has been done?

Mr. GRÉGOIRE: Perhaps it can be printed.

The CHAIRMAN: Do we have to print this report?

Some hon. MEMBERS: Agreed.

## TRANS-CANADA AIR LINES

### BILINGUALISM

#### Formation of Company Committee re Bilingual Policies and Practices

##### Terms of Reference

- (a) To re-study the existing policies and practices regarding bilingualism, particularly with respect to the departments of the company whose personnel work in fields of public contact.
- (b) To make recommendations respecting the degree of bilingualism which the Committee feels is appropriate to this Company, in the light of its widely spread geographical operations.
- (c) To make recommendations to management with respect to any indicated changes in policy and practices which would, without impairment of the company standards of service, accelerate the rate at which the company would approach the degree of bilingualism which the Committee considers to be appropriate.
- (d) To make recommendations respecting any indicated changes in current hiring and training policies and procedures.

##### Progress to Date

**Flight Attendants**—Recent agreement reached with Canadian Air Line Flight Attendants' Association includes a provision to make Montreal a completely bilingual English-French base for flight attendants. By May 1, 1965, all pursers and stewardesses based at Montreal will be proficient in both English and French.

To institute this, T.C.A. will begin French-language courses in January, 1964, for English-speaking attendants based at Montreal. They will take an extensive course, five days a week, at company expense while continuing to receive normal salaries. Those not achieving reasonable proficiency in conversational French during the company course may continue lessons on their own time, at company expense, until May 1, 1965. At that time the changeover to complete bilingualism at Montreal will be accomplished.

Unilingual flight attendants who wish to move to another base may do so at company expense. While Montreal will be a totally bilingual base, bilingual flight attendants who are entitled to bid for other bases will be free to do so.

Bilingual Montreal-based flight attendants will continue to fly essentially the same routes flown by Montreal personnel today: trans-continental, trans-border, and to the Atlantic provinces and the Caribbean. All flights within the Province of Quebec and to continental Europe will be staffed by bilingual personnel only.

**Sales Personnel**—There are 2,728 employees of the Sales Dept. throughout the system and 500 are bilingual. Others have some knowledge of French, and approximately 100 are now taking lessons in the French language.

In Montreal, 73% of the District Sales staff are bilingual, and at all other locations in the Province of Quebec the Sales personnel are completely bilingual.

In Toronto there are 20 bilingual employees and the objective is to have 2 French speaking employees on duty in Reservations, one in each Ticket Office, and one at each of the airport Check-in, Information and Ticket counters.

At Ottawa there are 25 bilingual Sales employees or 33%, and the objective is 50% so that there will always be French-speaking employees on duty for public contact.

There are smaller numbers of bilingual Sales employees at virtually all other locations in Canada.

*Headquarters*—A Headquarters French conversation course is conducted for senior management personnel and eleven officers are enrolled. There are also six other courses involving 62 employees in middle management.

*Other*—The company will defray 75% of the expenses of any employees who elect to take instruction in the French language and successfully complete such a course.

November 27, 1963

Mr. MCGREGOR: I have here some information in respect of payroll data by provinces and/or countries for the year 1962. These figures represent the average for 1962.

The total number of employees in Canada was 10,844, in the United States 461, and in all other countries 414, making a total of 11,719.

This is subdivided by provinces. The two largest ones are, Quebec, 4,970 and Ontario, 2,358. The next largest province is Manitoba being 1,861. The amount of money paid on payrolls is about in the same relationship. In Quebec it was \$32,202,000; in Ontario it was \$14,900,000, and in Manitoba it was \$10,701,000.

The percentage of total Canadian payroll by provinces is: Quebec, 44.2 per cent; Ontario, 20.4 per cent and Manitoba 14.7 per cent.

Sorry, those figures represent percentages of the total payroll. In respect of the Canadian payroll the percentages are slightly higher. They are; Quebec, 47.2; Ontario, 21.8 and Manitoba 15.7. The percentage of Canadian employees are as follows:

Quebec, 45.8 per cent; Ontario, 21.8 per cent and Manitoba, 17.2.

I think from these figures it is quite clear that the majority of our employees, and the greater amount of our payroll goes to employees hired and paid in Quebec.

The CHAIRMAN: Would you like to file that sheet?

Mr. MCGREGOR: Yes.

The CHAIRMAN: Do we have leave to file this information?

Some hon. MEMBERS: Agreed.

#### TRANS-CANADA AIR LINES

##### PAYROLL DATA BY PROVINCES AND/OR COUNTRIES—YEAR 1962

Location	Number of Employees*	Payroll	% of Total Payroll	% of Cdn. Payroll	% of Total Emp.	% of Cdn. Emp.
§						
CANADA						
British Columbia....	726	4,861,328	6.7	7.1	6.2	6.7
Alberta.....	316	1,936,307	2.6	2.8	2.7	2.9
Saskatchewan.....	106	569,521	.8	.9	0.9	1.0
Manitoba.....	1,861	10,701,528	14.7	15.7	15.9	17.2
Ontario.....	2,358	14,900,308	20.4	21.8	20.1	21.8
Quebec.....	4,970	32,202,382	44.2	47.2	42.4	45.8
Nova Scotia.....	271	1,566,694	2.1	2.3	2.3	2.5
New Brunswick.....	124	703,330	1.0	1.0	1.1	1.1
Newfoundland.....	112	790,758	1.1	1.2	1.0	1.0
Total.....	10,844	68,232,156	93.6	100.0	92.6	100.0
UNITED STATES.....	461	2,985,985	4.1		3.9	
ALL OTHER COUNTRIES	414	1,667,596	2.3		3.5	
Grand Total..	11,719	72,885,737	100.0		100.0	

\* As at December 31, 1962.

Mr. MCGREGOR: I have some further figures in respect of the degree to which our employees have achieved bilingualism. I do not want to bore the committee with a lot of statistics, but of almost 11,000 Canadian employees, 2,868 speak French fluently.

Mr. RHÉAUME: And English as well?

Mr. MCGREGOR: Not quite so fluently in some cases.

Mr. GRÉGOIRE: Does that mean they are French Canadians?

Mr. MCGREGOR: In most cases, yes.

Mr. LLOYD: That would represent French Canadians from all over Canada?

Mr. MCGREGOR: Yes, but bilingual people who speak French fluently are basically French by family succession.

Of the 2,868 employees who speak French fluently, 2,507 are in Quebec. The Quebec personnel are 47.6 per cent bilingual.

Mr. GRÉGOIRE: What is the bilingual percentage of the total personnel in Quebec?

Mr. MCGREGOR: 47.6 per cent.

Mr. GRÉGOIRE: That means the other 52.4 per cent of Quebec personnel or the majority are not bilingual?

Mr. MCGREGOR: That is correct.

Mr. RHÉAUME: Do some speak French only?

Mr. MCGREGOR: No. It is a requirement of T.C.A. that all employees speak English.

Mr. GRÉGOIRE: You require all employees to speak English?

Mr. MCGREGOR: That is correct.

Mr. GRÉGOIRE: You do not require that they all speak French?

Mr. MCGREGOR: We require all new cabin employees to also speak French.

Mr. GRÉGOIRE: You require them to speak both languages?

Mr. MCGREGOR: That is correct.

Mr. GRÉGOIRE: Previous to that you required that all employees speak English but not that they speak French?

Mr. MCGREGOR: We have always required that our employees speak English because of the fact that many companies' instruction manuals are printed in English only. A mechanic on the floor of a shop who could not read and understand English would be useless.

Mr. GRÉGOIRE: When we consider the figures you have given us we will have to make an adjustment because of this situation. Perhaps you were giving us the geographical situation in respect of employees when you mentioned 4,900 in Quebec and 2,300 in Ontario. You might have been referring to a geographical situation rather than a bilingual one.

Mr. MCGREGOR: Yes I was, I can give you the bilingual figures by provinces. I think perhaps this statement should be placed on record:

## TRANS-CANADA AIR LINES

EMPLOYEES—FACILITY WITH FRENCH LANGUAGE—APRIL 30, 1963

Province	Total Employees	Speak French Fluently	Percentage
British Columbia.....	539	31	5.7
Alberta.....	313	8	2.5
Saskatchewan.....	94	4	4.3
Manitoba.....	1,720	90	5.2
Ontario.....	2,262	180	7.9
Quebec.....	5,259	2,507	47.6
New Brunswick.....	126	21	15.9
Nova Scotia.....	290	18	6.2
Prince Edward Island.....	—	—	—
Newfoundland.....	104	9	8.6
	10,707	2,868	26.7

NOTE: 1961 Census of Canada indicates 12.2% of the Canadian population and 25.4% of the Quebec population speak both official languages, English and French.

Both the number of employees and the degree of bilingualism are quite low in the western provinces. Manitoba is the first province that has any significant size being 1,720 employees, 90 bilingual, or 5.2 per cent.

Is this the type of information you wish?

Mr. GRÉGOIRE: Yes.

Mr. MCGREGOR: In Ontario there are 2,262 employees, 180 bilingual, or 7.9 per cent. In Quebec, there are 5,259 employees, 2,507 bilingual or 47.6 per cent. New Brunswick has 126 employees, 21 bilingual or 15.9 per cent; Nova Scotia 290 employees, 18 bilingual or 6.2 per cent. The total is 10,707 of which 2,868 are bilingual which is the figure I think I gave you before, or an over-all percentage of 26.7

Mr. GRÉGOIRE: In other words 74 per cent of the total cannot speak a word of French?

Mr. McILRAITH: Mr. McGregor did not say that at all.

Mr. MCGREGOR: That is correct.

Mr. GRÉGOIRE: 72 per cent of all employees do not speak French?

Mr. MCGREGOR: That is true of the system across Canada.

Mr. GRÉGOIRE: They cannot speak French?

Mr. MCGREGOR: That is correct.

Mr. HAHN: Mr. Chairman, I should like to ask a question on a different subject, but I would like to ask it now because I will not be here this afternoon. I would like to ask Mr. McGregor about the flight deck crew on the various aircraft. On the Viscounts and Vanguarders I understand there are two crew members up forward, the pilot and co-pilot. What is the situation in respect of the DC-8 and what will be the situation in respect of the DC-9 as far as flight deck crew are concerned?

Mr. MCGREGOR: DC-8s flown by us have a crew of three pilots, very often of captain status.

Mr. HAHN: What is the function of the third man who is not sitting at the controls? Does he navigate?

Mr. MCGREGOR: No. I will ask Mr. Seagrim to supplement this answer. He basically is performing the functions of a flight engineer.

Mr. HAHN: Do you have difficulty in interesting a pilot in sitting away from the controls not actually used in flying the aircraft?

Mr. SEAGRIM: I think not. He rotates his pilot's status and does not spend all his time sitting in the flight engineer's position.

Mr. HAHN: What crew would the DC-9 carry?

Mr. SEAGRIM: Two.

Mr. GRÉGOIRE: Mr. Chairman, may we have a copy of the figures given to us this morning; may we have these before we reconvene this afternoon?

Mr. MCGREGOR: We can make copies over the lunch hour.

Mr. RHÉAUME: I think it would be helpful, unless we start with certain assumptions. When you say bilingual you mean French and English, but that does not mean that the remainder speak only English.

Mr. MCGREGOR: No. We cope with many languages in total, and have 25 who are multilingual. We have people who can speak French and another European language, other than English.

Mr. GRÉGOIRE: You do not compile this list to show those who speak Italian, Spanish, in addition to English and French?

Mr. MCGREGOR: No, but our records show this.

Mr. GRÉGOIRE: You compile it only according to the two official languages of Canada?

Mr. MCGREGOR: Yes.

Mr. FISHER: I was interested in knowing how closely the number of people who speak French and English go along with the actual population ratio; it is approximately the same. I am wondering whether the company has made an analysis of the requirements in terms of meeting the objection which seems to come up in respect of the French speaking personnel, in an effort to determine whether the company has been slow in moving towards the policy of providing service personnel who can speak to French speaking people in their own language, or something which explains your intensive policy which the company now has underway in this particular area. Was the company slow to respond, or was the fact that they cannot respond a reflection of the fact that they do not have that many people who are French speaking using the service?

Mr. MCGREGOR: Those whose mother tongue basically is French do not take too readily to air transportation. Some of this is due to a natural tendency, I think, on the part of the average French Canadian not to be a traveller, perhaps, within Canada. It is possible he may have a little language difficulty when he gets substantially far afield in Canada. Because of these and other reactions on the part of the French Canadian population, the total of French Canadian passengers is nothing like the proportion of population. So, as you perhaps suggested, there was not much pressure on the company in the economic sense to make a higher proportion of its public contact personnel bilingual. I do not think the response of the company was slow, but our ability to achieve what we were aiming to do in certain areas was surprisingly difficult.

We have put on a fantastic campaign in an effort to interest persons who are basically bilingual, which means basically with French as the mother tongue, with the idea of becoming stewardesses. We ran a long series of help wanted newspaper advertising in the province of Quebec in this area with really very disappointing response. We thought perhaps our approach was poor and we developed a video tape which is the most seductive thing, so far as attracting prospective stewardesses are concerned, which depicts the life of luxury led by an international stewardess who climbs on a plane and finds herself walking down the streets of Paris in the next scene. It is all very delightful. We were so sure this would produce a deluge of applicants that we put two hostesses on the ground floor of the Place Ville Marie to receive the crowd when they arrived. Fourteen arrived. So, in that sense our response has been slow; but it is not for want of trying.

I admit our standards are quite high which I think they should be in respect of cabin personnel; but it has proven surprisingly difficult to produce the proportion of bilingual cabin service personnel we want and need. I must also say the result has been that quite a proportion of our bilingual cabin personnel who are French are Europeans of an entirely different mother tongue. Like many Europeans they are able to speak both English and French but you are apt to encounter some fairly guttural English from some of our cabin personnel.

Mr. FISHER: Are you aware of any attempts by the other major Canadian air line to meet this particular problem?

Mr. MCGREGOR: No, I am not. I do know, however, that at least one U.S. carrier is buckling itself very strongly into this particular problem, and is reducing our chances of getting good people, I guess, by so doing.

Mr. FISHER: I was interested in whether you are encountering competition.

Mr. MCGREGOR: Yes.

Mr. FISHER: In Canadian air lines. From what you have seen, can you say whether there is any indication that your in-service training program is going to be effective?

Mr. MCGREGOR: Yes, I think so. We have put out a general offer to our employee group to pay 75 per cent of the costs of any bilingual training they will undertake. We also put on classes of our own for both supervisory and other personnel. These are being fairly well patronized.

Mr. FISHER: Has the response been, let us say, a relatively happy one or an optimistic one?

Mr. MCGREGOR: You are asking me to express an opinion in regard to the frame of mind of an employee. I would say the attendance either is based on a selfish interest in that they feel their prospects would be better if they are bilingual, or it is a genuine desire to be conversant in another language.

Mr. GRÉGOIRE: In respect of this program you have for bilingual hostesses, and these advertisements, if you had the same television film program in Toronto asking for bilingual staff, do you think you would have much more reaction there?

Mr. MCGREGOR: I think the answer to that is no. Specifically in the program I was describing to you, we were after bilingual personnel and we stipulated this.

Mr. GRÉGOIRE: But do you get more applications from Toronto?

Mr. MCGREGOR: Mr. Seagrim, we advertise for bilingual staff in Toronto?

Mr. SEAGRIM: Yes.

Mr. GRÉGOIRE: Do you get more applications from Toronto in respect of bilingual air hostesses?

Mr. SEAGRIM: We do not get more response from bilingual people. We get more total response; but all the way across Canada our advertisements stipulate the requirement is for bilingualism.

Mr. GRÉGOIRE: The answer is not that there are fewer air hostesses interested in the province of Quebec—there are fewer girls interested—but when you ask for bilingual air hostesses in Montreal it seems there are fewer who present themselves than when you ask for non-bilingual hostesses in Toronto.

Mr. MCGREGOR: I understand we ask for bilingual right across the country when we are seeking hostesses.

Mr. GRÉGOIRE: Yes, but when you ask for bilingual hostesses, where you receive the most answers is from the province of Québec?

Mr. SEAGRIM: I think we probably get the most favourable reaction from cities in Europe.

Mr. BALCER: Is your policy that all new air hostesses have to be bilingual?

Mr. MCGREGOR: Yes, that has been the policy for some time now. We will keep it up if it is possible, but it might be that we may not be able to get enough.

Mr. GRÉGOIRE: When you do that you understand they speak English and not only French?

Mr. MCGREGOR: Yes.

Mr. GRÉGOIRE: Is that not discrimination?

Mr. MCGREGOR: Quite the contrary. They have to be able to read the English manuals, and 80 per cent of our passengers are English. So, if we are really right up against it, and the supply of bilingual personnel dries up—and as you know, our turnover is heavy—then we will be forced to use English only.

Mr. GRÉGOIRE: Even on the routes in the province of Quebec.

Mr. MCGREGOR: We hope not.

Mr. GRÉGOIRE: You see them in Quebec.

Mr. MCGREGOR: I know. You always tell me about it.

Mr. GRÉGOIRE: Not only between Ottawa and Montreal, but also between Quebec and Montreal when you have two hostesses. We do not complain when there is one who can speak French, but sometimes neither can speak French. I do not think it is fair, when you cannot find enough who are bilingual, to require they speak English,

Mr. MCGREGOR: Three-quarters of the passenger load is English. What would be the object in putting a French girl in a load, three-quarters of which speak English?

Mr. GRÉGOIRE: What about the opposite situation?

Mr. MCGREGOR: If or when that happens, I think we can have French only cabin attendants, but it is a long way off.

Mr. GRÉGOIRE: It has happened.

Mr. RIDEOUT: Are these jobs chosen in the order of seniority?

Mr. MCGREGOR: You mean the bidding by routes in respect of cabin crews? Yes. I see you wish me to make this point with Mr. Grégoire.

Mr. RIDEOUT: Yes; that it is not the management's fault. It is done through negotiation with their organization.

Mr. MCGREGOR: For example, we have a multilingual stewardess operating on the Vancouver-Victoria-Seattle route. In our agreement with the association of air hostesses, and so on, they have the right to bid into the base at which they want to be stationed. We cannot deny them without starting a war. So, we are not able to concentrate all our bilingual cabin personnel at the Montreal base. If we did, we would be violating the terms of the employment agreement.

Mr. MUIR (*Lisgar*): There does not seem to be anybody here who is willing to speak for the five or six million people who do not fall into these two ethnic groups. The questioning in the committee certainly leads me to believe we are trying to become involved in what I would call hyphenated Canadianism. Until we get away from hyphenated Canadianism, I do not think this country can consider itself fully grown.

Mr. BALCER: I thoroughly disagree with your opinion.

Mr. MUIR (*Lisgar*): If there is any discrimination being practised by T.C.A., it involves the five or six million people who are descendants of people who have a different language, and they are now required to learn two more.

Mr. MCGREGOR: Mr. Muir, I hope you do not confront the company with the problem of having air hostesses who speak in ten or 12 languages.

I have a note from Mr. Seagrim which I would like to read into the record. All hostesses hired in 1962 were bilingual.

Mr. MUIR (*Lisgar*): I am sure Mr. Rhéaume, for instance, is concerned about his Eskimo people. If you are going to hyphenate Canada, I represent German-Canadians, Norwegian-Canadians, Ukrainian-Canadians. When are we going to get away from this sort of nonsense?

The CHAIRMAN: Gentlemen, it is just about 12.30. Are we through with personnel?

Mr. GRÉGOIRE: No.

The CHAIRMAN: May I have a motion to adjourn?

Mr. GRÉGOIRE: May I move that the quorum be reduced to ten so that we will not lose any more time?

Mr. LLOYD: I second that motion.

Mr. GRÉGOIRE: We lost three-quarters of an hour this morning because of that.

The CHAIRMAN: There is a motion by Mr. Grégoire, seconded by Mr. Rock, that the quorum of this committee be reduced from 14 to 12.

Mr. GRÉGOIRE: To ten.

Mr. MUIR (*Lisgar*): This committee decided the other day that we would have 14 as a quorum. One of the reasons you are not having 14 members attend is the turn the line of questioning has taken in this committee. Busy people just are not going to come here to listen to a lot of nonsense in respect of whether you can speak English, French, or what have you.

Mr. BALCER: Mr. Chairman, Mr. Muir is a good friend of mine, but just the same I think—

The CHAIRMAN: Gentlemen, are you ready for the question?

All those in favour?

All those opposed?

Motion agreed to.

Mr. FISHER: I might point out that will not receive unanimous consent in the house and is not likely to be successful for this particular period. I just wanted to let you know. You have to present this in the house and ask for unanimous consent.

Mr. RHÉAUME: The committee is its own master.

The CHAIRMAN: I do not have a motion for unanimous consent, and I am not going to ask for it.

Mr. FISHER: You will have to ask in the house.

Mr. McILRAITH: No. You give notice in the regular way.

—The committee adjourned.

#### AFTERNOON SESSION

THURSDAY, December 5, 1963.

The CHAIRMAN: Gentlemen, we now have a quorum. At adjournment time we were discussing the section on personnel. Are there any more questions?

Mr. MCGREGOR: Mr. Chairman, this morning I was asked to produce copies of a document which we had read into the record entitled "Employees—

Facility with French Language, April 30, 1963". I believe it has been distributed and turned over to the reporters. It reads as follows:

TRANS-CANADA AIR LINES  
EMPLOYEES—FACILITY WITH FRENCH LANGUAGE—APRIL 30, 1963

Province	Total Employees	Speak French Fluently	Percentage
British Columbia.....	539	31	5.7
Alberta.....	313	8	2.5
Saskatchewan.....	94	4	4.3
Manitoba.....	1,720	90	5.2
Ontario.....	2,262	180	7.9
Quebec.....	5,259	2,507	47.6
New Brunswick.....	126	21	15.9
Nova Scotia.....	290	18	6.2
Prince Edward Island.....	—	—	—
Newfoundland.....	104	9	8.6
	10,707	2,868	26.7

NOTE: 1961 census of Canada indicates 12.2% of the Canadian population and 25.4% of the Quebec population speak both official languages, English and French.

Another question was asked this morning concerning the date of termination of the present board appointees. I have turned this over to the reporter as well. It reads:

Trans-Canada Air Lines  
Board of Directors

Appointed by governor in council	Expiry date
The Hon. Leslie M. Frost, Q.C., LL.D., Toronto	September 30, 1966
G. R. Hackett, Vancouver	September 30, 1964
R. S. Misener, Winnipeg	September 30, 1965

Elected by the shareholders

With respect to C.N.R. directors assigned to the T.C.A. Board, their appointments to the C.N.R. board terminate as follows:

R. A. Brown Jr., Calgary	September 30, 1964
J. Louis Levesque, Montreal	September 30, 1964
H. I. Price, Toronto	September 30, 1964
W. G. Stewart, Q.C., Moncton	September 30, 1964

The dates of termination are normally the same dates as the termination of their period of duty as directors with the C.N.R. Mr. Gordon I believe is doubtlessly dealt with separately. There is some other term of office for him.

Mr. GRÉGOIRE: It is 18 months, I think.

Mr. McILRAITH: I have forgotten how the act reads, but whatever the terminology is in the act. I think it is for an indefinite period.

Mr. RHÉAUME: Did the Prime Minister not say it would be a maximum of 18 months?

Mr. McILRAITH: Yes, but that had to do with how long he would continue in office.

Mr. GRÉGOIRE: Mr. McGregor said the term of office would terminate in 1964.

Mr. McILRAITH: September 30, 1964.

Mr. GRÉGOIRE: Yes?

Mr. MCGREGOR: That was their term of office in the railway. They are appointed to the T.C.A. by virtue of the fact that they are on the C.N.R. board, so presumably if the term actually expires on the C.N.R. board, they would simultaneously cease to be directors of T.C.A.

Mr. GRÉGOIRE: Would the Minister of Transport take into consideration the appointment of some French Canadians among the board of directors at that time?

Mr. McILRAITH: I think I answered that question this morning. I hoped I had given you an effective answer when I made reference to the government record, and I referred to the statistics which I gave in the House of Commons in connection with my own office showing I had 16 on the staff of whom 11 were French-English speaking one Italian-French speaking, and the other four English speaking only.

The CHAIRMAN: Let us proceed with the personnel section.

Mr. MUIR (*Lisgar*): To what do you attribute the increase in staff? What activity over the past year, has contributed to making that possible?

Mr. MCGREGOR: Is there an increase? Oh yes, 1962 over 1961.

Mr. MUIR (*Lisgar*): Yes.

Mr. MCGREGOR: The answer is simply additional work.

Mr. MUIR (*Lisgar*): Are you talking about the additional work of each employee.

Mr. MCGREGOR: Oh, I beg your pardon, you mean productivity.

Mr. MUIR (*Lisgar*): Yes.

Mr. MCGREGOR: I think some of this is due to improvement in supervision, but mostly I think it is due to improvement in equipment, the introduction of such items as ReserVec which cuts down our reservation employment materially. In other words, automation. I suppose that is the answer.

Mr. MUIR (*Lisgar*): Have you had any recent labour problems?

Mr. MCGREGOR: Yes, as recently as two weeks ago we thought we might be confronted with a strike by the International Association of Machinists but I am glad to say since then the situation has been resolved subject to confirmation by the membership. The result of that confirmation I would expect to hear tonight or tomorrow.

Mr. MUIR (*Lisgar*): Have you had other strikes involving pilots or maintenance people or any of the categories?

Mr. MCGREGOR: No, we have never had a strike. We have had what I might call a temporary cessation of enthusiasm for their work on the part of the cabin attendants at one time, I mean the stewardesses, to put it shortly.

Mr. MUIR (*Lisgar*): In other words, your labour relations have been fairly satisfactory?

Mr. MCGREGOR: I think to go 26 years without a strike is the answer, and it is yes.

Mr. BALCER: What is the salary of your hostesses. Are they paid by the hour?

Mr. MCGREGOR: No, they are paid by the month. It varies with the type of route they are on, their status, and so on. I think I may be able to get you some figures on that.

Mr. BALCER: Assuming that they are paid approximately from \$350 to \$500 a month, that would be dependent on the routes?

Mr. MCGREGOR: It is not that which keeps them away.

Mr. GRÉGOIRE: I asked this to reconcile two statements you made this morning at the end of the sitting. First you said that there was an equal chance for all, and a little later you said you required from all your personnel that they speak English, but not from all that they speak French.

Mr. MCGREGOR: I said that all flight attendant intake now must be bilingual.

Mr. GRÉGOIRE: You would no longer engage those who were not bilingual?

Mr. MCGREGOR: That is correct. I am informed in 1962 we hired no stewardesses who were not bilingual.

Mr. GRÉGOIRE: It was the policy of the company then. Now you are giving a fair deal, but before there was a little discrepancy?

Mr. MCGREGOR: I do not know if it was, no. We operated many routes where we never hear a passenger speak French.

Mr. GRÉGOIRE: Sometimes people do not complain to you.

Mr. MCGREGOR: I think that may be so.

Mr. GRÉGOIRE: That might be, but I can show you lots of letters from people who have written to me or Mr. Caouette, giving us some examples, and the fact remains that the two languages are official, especially for employees who are in contact with the public.

Mr. FISHER: I would like to ask if Mr. Grégoire would table those letters. I have something in front of me, an editorial in today's *La Presse* entitled "Un joyeux farceur: M. Gordon McGregor" and it is signed by someone of stature in the newspaper world, one Gérard Pelletier. I think it is full of nonsense, and is just a nasty interpretation of the evidence that we have had before this committee. I think the line of questions which Mr. Grégoire has been carrying along only reinforces or complements this. I feel that we should go to the degree that Mr. Muir mentioned this morning get this whole relationship of Trans-Canada Air Lines to French Canadian culture and society and the rest of it nailed down once and for all in some fair way. I am sick and tired of it all.

Mr. RHÉAUME: There would be many types in T.C.A. who would not be refused. Suppose a person who had only one of the official languages, even it only happened to be English?

Mr. MCGREGOR: That is right, engineering and similar branches.

The CHAIRMAN: Are there any other questions on personnel?

Mr. GRÉGOIRE: I have one. Mr. McGregor mentioned this morning some people who received some jobs as supervisors or district managers. How many employees do you have at this level in supervision?

Mr. MCGREGOR: I provided a split list this morning. One was the list basically which you received last year, and the second part of it on the second page comprised additional supervisory positions which were fully French speaking people since that last meeting which was about 12 months ago.

Mr. GRÉGOIRE: How many employees in Canada do you have at this level of employment, that is, supervisors?

Mr. MCGREGOR: I do not know that I can answer that. It would take some digging, I think.

Mr. GRÉGOIRE: What percentage of French Canadians would there be at this level?

Mr. MCGREGOR: Yes, I understand the question but I do not think I have the information. But I can try to get it for you. I would like to make clear one thing: that when we are going through the list of people in supervisory jobs we do little more than determine their mother tongue from the identity of the name. We do not attempt to contact the individual and ask him if he speaks French, English, or both.

Mr. GRÉGOIRE: I would like to make a statement concerning what Mr. Fisher has just said. I realize it would be tedious for him to listen to all these questions, but I would like to him to admit that sometimes members are speaking, and we agree with them, and they speak at length amid the other subjects. For example, western members may speak concerning wheat and

we do not bother. We understand their point of view and realize that they wish to express their ideas. I would like Mr. Fisher to be as broad minded in connection with this problem, and let us have the explanations that we require.

The CHAIRMAN: For my part I think the members of the committee have been fair and very honest. But I think an awful lot of this could be avoided if you would just proceed with your questions and not have so many opinions, unless they follow as a result of the questions.

Mr. GRÉGOIRE: I congratulate you on your fairness. It was just a rectification of what Mr. Fisher said.

Mr. LLOYD: I have a question on personnel. May I say to Mr. McGregor in a spirit of harmony that I am trying to get a proper evaluation of how you manage your operations. That is really what we are concerned about, and I have all the patience in the world when a question is pursued to show there is no discrimination being practised by accident or by design. When you see a list of names at the top, and, as one member pointed out you do not see French Canadian names appearing, it is obvious on the face of it that it would engender, having in mind the proportion of population that is French Canadian, surprise that there are not more of them appearing. On the other side of the column though surely there are many non-French Canadians who hold positions who would like also some assurance from your personnel promotion schemes or appointment schemes, and that they will not reach over backwards to operate to their disadvantage. Can you give us some statement on that score?

Mr. MCGREGOR: Yes, I believe I can. I think I said this morning that the company desires to increase the degree of bilingualism in the company, and that as time passes it will be working towards that end, but having in mind our primary objective, which is to have the best obtainable man in each job. I think I have the law on my side.

Mr. LLOYD: To some degree in the process of education and in the process of awareness, as you start in the lower reaches of the organization, you gradually acquire trained people for promotion. But some of the difficulties are inherent in the problem which you yourself have mentioned, and you have to fight against discrimination in the matter of colour, race or creed in your organization. Surely no one could ask for more, when you are stepping up that machinery over the past.

Mr. MCGREGOR: I can assure you there is no wilful discrimination practised at any level of the organization. Perhaps in the first two years of the company's inception there were virtually no bilinguals, but we have come away from that trend to reach the high percentage which I recorded this morning. I would like to hark back to this basic thing, a reiteration which is to be found in T.C.A.'s act of incorporation in which three major clauses stress the requirement of the company to operate "efficiently". I think I can give you the references if you like, but this is a direction that goes back to the inception of the company. I mean this requirement for "efficient" operation which is repeated again in the T.C.A. contract, which is the document between the government and the company. This has to be our prime objective throughout. I do not think becoming to a greater extent bilingual will deter efficiency. I do not think that is the answer. However, an effort will be made not to have it happen. In any case, if we can avoid it, it will not happen. I would like to point out that the laws of the land say that the company shall be operated as efficiently as management can achieve, and this will be our prime objective.

The CHAIRMAN: Gentlemen, are you through with your questions on personnel? Will somebody move that the section be carried.

Mr. GRÉGOIRE: What about the employees at your offices in New York or anywhere else? Are they Canadians?

Mr. MCGREGOR: In some cases the senior supervision is, but most of the normal working staff are United States citizens.

Mr. GRÉGOIRE: And this is the same with other companies which have offices in Montreal, for example, such as Eastern Air Lines? Do they employ Canadian citizens?

Mr. MCGREGOR: Yes.

Mr. GRÉGOIRE: They employ people whose homes are there?

Mr. MCGREGOR: Yes, the people are living there, and they employ them.

Mr. CHRÉTIEN: Do you think that of two men normally qualified, one being bilingual and the other not, the bilingual man is more efficient than the one who is not?

Mr. MCGREGOR: I do not know if he is more efficient, but he is more useful to T.C.A. if he is a bilingual man.

Mr. CHRÉTIEN: Then he is the one who would get the job?

Mr. MCGREGOR: Yes, if it were a nip and tuck affair.

The CHAIRMAN: Does the section carry?

Motion agreed to.

It was moved by Mr. Mitchell and seconded by Mr. Rock.

Now we come to the last section which has already been pretty well covered through discussion, namely "outlook". Do we need to have any discussion on this section? Perhaps Mr. McGregor would like to make a statement concerning "outlook".

Mr. MCGREGOR: Whatever the committee would like. As you say, it has been very well covered in previous sessions, and also this outlook has become a thing of the past to a considerable degree inasmuch as we are eleven months through the immediate year which was forecast at the time this report was written. I do not think anything in the way of the general commercial picture that has occurred in these past eleven months of 1963 has varied in any appreciable degree from the forecast that is shown. Deliveries of aircraft have taken place as planned; the traffic growth, I am delighted to say, has been slightly better than forecast. The unit operating expenses have come down, again much to my delight and surprise because I did not think, on the basis of the 1961-62 figures, that that could happen. The result is, as I mentioned in one of the earlier sessions, that although I have not the November net results yet, I have a revenue figure but not the results, I feel confident in forecasting that we will not have a deficit operation in 1963.

Mr. GRÉGOIRE: I have some questions which I was not able to ask on any other subject but which might relate to the general outlook of the company. When you give contracts for food and meals do you always ask for tenders?

Mr. MCGREGOR: It depends entirely on the nature of the purchase. In the case of a general supply of a normal item such as typewriter ribbons, or something like that, yes, we always ask for tenders. But in the case of a specific radio installation, we do not. Our technical people evaluate the various brands that are on the market and say, "We want this manufacturer" and the purchasing department negotiates the best deal they possibly can, including warranties and other things for that specific product. On anything of general supply, a commodity that anyone would normally buy, this is done on the basis of competitive bidding, particularly on fuel.

Mr. GRÉGOIRE: What about meals and food you serve on the aircraft?

Mr. MCGREGOR: We buy a catering service. In other words, we buy the service, the prepared meals being delivered to the aircraft. We are not normally in the market for food.

Mr. GRÉGOIRE: You call for tenders on this?

Mr. MCGREGOR: In the case of the supplier? I cannot think of a change in caterers in the past several years.

Mr. GRÉGOIRE: Do you normally use different caterers in all cities or do they come from one place?

Mr. MCGREGOR: We use them all across the system. We get meals in Montreal, Halifax, Winnipeg, Vancouver and throughout the Caribbean at different points. We have made one or two changes of the caterer in the Caribbean.

Mr. GRÉGOIRE: Do you have an advertising agency?

Mr. MCGREGOR: Five of them.

Mr. GRÉGOIRE: May we know which ones?

Mr. MCGREGOR: I think we dealt only with Foster in Canada once upon a time. The Canadian advertising is divided between Foster and Cockfield Brown. We had another agency also operating in Canada, Stanfield Johnson and Hill who are supplying the window displays and small models, and this sort of thing. We have McCann-Erickson in the United States and Mather and Crowther in the United Kingdom for Europe.

Mr. GRÉGOIRE: Have these agencies been changed lately?

Mr. MCGREGOR: Yes. Cockfield Brown was appointed this year.

Mr. GRÉGOIRE: In 1962?

Mr. MCGREGOR: Before the election.

Mr. GRÉGOIRE: You would make a good politician, Mr. McGregor. Have you never thought of using one French Canadian agency out of the five?

Mr. MCGREGOR: I do not know whether we have ever had the idea. We had an investigation of every agency that was of any size in Canada about four years ago. We put out a tremendous questionnaire and we had the people in and listened to their presentations. There was one French Canadian advertising agency, if not two, in that competitive race.

Mr. GRÉGOIRE: And they were not selected?

Mr. MCGREGOR: No.

Mr. GRÉGOIRE: There was an inquiry about it, I believe.

Mr. MCGREGOR: A tremendous one.

Mr. RHÉAUME: Mr. McGregor, I notice a paragraph in here where you say that the S.S.T. is sufficiently far off for the air line not to be concerned about this right now. Is this pretty well on a par with the plans of the other major world air lines? Have the other air lines in the world in fact already taken a close look at the S.S.T.?

Mr. MCGREGOR: Yes, some of the very large ones have, such as Air France, B.O.A.C. and Pan-Am who have all reserved a position in the delivery queue of the Concord. They will share the first eighteen aircraft produced equally, that is they will each end up with six. Of the first three each of those air lines gets one, of the second three each of the air lines gets one. In addition to that, and somewhat to my surprise I think, all air lines of any size have recently received a letter from an organization in the United States that invites them to send a cheque for \$100,000 promising that this will buy them a position in the delivery queue of a yet undeveloped, unplanned, United States Super-

sonic. We do not even know the Mach number or speed that has been looked for, so we have not sent the \$100,000.

Mr. RHÉAUME: Your position has not changed then, that this is not an immediate outlook of Trans-Canada Air Lines or of Air Canada to be worried about the S.S.T.?

Mr. MCGREGOR: I can concede that the service date is in the order of nine years hence.

Mr. GRÉGOIRE: Do you anticipate the time when there will be a helicopter service between the airport and the centre of a city?

Mr. MCGREGOR: I am always asked this question, Mr. Grégoire, and I always reply in the same way—Although the cost will be reduced as time goes on, so far helicopters carry such a high operating cost per seat mile that they require a high fare charge, except in extreme circumstances, which makes them unacceptable. As you know, there has been a helicopter service operating between the three major airports in the Manhattan area for these past several years. I think it is also capable of landing in downtown Manhattan, and there was an emergency landing on a roof just the other day. This is the most highly subsidized commercial air line operation in the world. Economically it does not look well. There has been a company which applied for and received the operating rights between Dorval and downtown Montreal. I do not think it ever got into operation on a regular basis. It is a possibility, but not one that I think a normal scheduled air line should get into.

Mr. PUGH: Could you tell me, Mr. McGregor, how much time would be saved from Dorval to downtown Montreal?

Mr. MCGREGOR: If we think of forty minutes as being an average time from the hotel area to Dorval which would apply in the non-rush hours—in the rush hours it would be worse than that—the helicopter would make the flight in perhaps eight or nine minutes.

Mr. GRÉGOIRE: Do you have a joint insurance scheme for your employees?

Mr. MCGREGOR: Yes.

Mr. GRÉGOIRE: Did you ask for tenders for this insurance?

Mr. MCGREGOR: It is a group insurance. It was started before I joined T.C.A. I suppose, because the company's operating headquarters was in Winnipeg, it has been the Great-West Life Insurance Company. We have investigated on many occasions the possibility of moving that to our monetary advantage and we have never yet found any better deal.

Mr. RHÉAUME: Does the Trans-Canada Air Lines want to consider getting out of the short run lines, the feeder services in Canada, such as the coastal services, the Pacific Western and the Trans-Air build-up?

Mr. MCGREGOR: It is true to say that we have mixed feelings with respect to those services. As I have said here we know that it is not too possible, and probably quite impossible, to make them contributors to the over-all overhead of the company. On the other hand, we feel that this is an obligation which is not attractive to any other air line, least of all a regional carrier, and therefore it is presumably up to the state-owned carrier to make these services available. We have continued to do so although we realize the hopelessness of trying to turn them into net profit operations. But this is not the only thing that is at stake. There is another feature about these lines, and that is that many of them carry traffic which feeds on to our main line operation, and therefore, in a sense, you are paying an agency to bring passengers to the main line connecting point. We have made no agitation to get out of any of these

except in the case of the famous prairie milk run where we did agitate because the airports were no longer of a size and strength capable of handling the smallest aircraft which we were about to have in our fleet, that is the Viscount.

Mr. MITCHELL: It is time for me to ask my annual question. Has any further consideration been given for a drop down in Sudbury on the east-west line, Montreal, Toronto, Winnipeg, which could not cause us to have to go south to go either east or west?

Mr. MCGREGOR: Yes, that was carefully investigated the last time. Stopping a flight at a point which is being overflowed is not quite as cheap as the average person might think. However, I am not ruling that out as a possibility. I agree with you there is a certain amount of traffic, although it is not very impressive, to be gained from that stop.

Mr. MITCHELL: Have we the runway equipment to handle most of the traffic?

Mr. MCGREGOR: Yes.

Mr. RHÉAUME: I did not finish my questioning. Looking at it solely from an economic point of view and not considering obligations which you may feel to these areas, would the company resist abandoning these short and uneconomical runs which you are now carrying out?

Mr. MCGREGOR: Yes, for the reason that it would require painful shrinking in our over-all staff and probably the relinquishing of people who have served the company well and faithfully over a long period of time.

The CHAIRMAN: Gentlemen, I think we have had good questioning on this report. Could I have a motion to adopt the report?

Mr. GRÉGOIRE: Before we finish, I would like to say that I have read the editorial of *La Presse* mentioned by Mr. Fisher, and after having been present at this committee meeting I would like to say that this editorial does not conform with the truth and is not in accordance with what has been said here. That is my view and I would like to say this for the record.

The CHAIRMAN: You are not associated with the thoughts in it?

Mr. GRÉGOIRE: I think the editorial was exaggerated.

Mr. NUGENT: I have one question. Mr. McGregor, I presume that the traffic studies are pretty complete on the service from Winnipeg to Ottawa. I am one of those who has to travel from the west all the time. Is there a remote possibility that you might see a flight being put on from Winnipeg to Ottawa to relieve us of the necessity of going through Toronto?

Mr. MCGREGOR: You were not here when I touched on that point. We keep a very careful watch to see when there is enough traffic between two points in order to establish a direct flight. The first thing that is likely to happen is that that traffic will be sufficient in the summer time and not in the winter. We will have to run it in the summer time at first and revert to a connecting operation in winter, because of the general lowering in the level of traffic. The next year it can go on a year round basis. This is a historic tradition with the services.

Mr. PUGH: With the new DC-9 coming in it would be a fairly efficient operation from Montreal straight west to Winnipeg.

Mr. MCGREGOR: Quite practical.

Mr. LLOYD: I move the report be approved.

The CHAIRMAN: The motion is that the report be adopted.

The report is agreed to.

The CHAIRMAN: We now move to the capital budget.

## SESSIONAL COMMITTEE

## TRANS-CANADA AIR LINES

CAPITAL BUDGET—1963  
(Expressed in Thousands)

## APPLICATION OF FUNDS:

Property and equipment (details appended).....	\$ 32,000
Increased materials and supplies, etc.....	5,650
	<u>\$ 37,650</u>

## SOURCE OF FUNDS:

Funds arising out of 1963 operations, disposals of aircraft, etc.....	29,650
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FINANCED THROUGH CANADIAN NATIONAL RAILWAYS.....	<u>\$ 8,000</u>
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NOTE: If, during 1963, TCA is authorized to take on new commitments with respect to the Caribbean, some additional capital will be required. At the time of the preparation of this budget, however, this possible need is too nebulous to permit specific mention and/or inclusion. If the need in this connection does arise during the year 1963, an appropriate supplemental budget will be submitted.

## TRANS-CANADA AIR LINES

## PROPERTY AND EQUIPMENT BUDGET—1963

	1963 Expenditures		
	Projects Proposed 1963 Budget (000)	Projects Authorized Prior to 1963 (000)	Total* (000)
<b>Airplanes and Components</b>			
Airplanes.....	\$ 2,000**	\$ 21,495	\$ 23,945
Betterment Projects.....	460	1,120	1,580
Spare Engines.....	—	1,635	1,635
<b>Total.....</b>	<u>\$ 2,460</u>	<u>\$ 24,700</u>	<u>\$ 27,160</u>
<b>Ground Facilities and Components</b>			
Flight handling.....	\$ 720	\$ 350	\$ 1,070
Maintenance and overhaul.....	600	340	940
Business and passenger office equipment.....	380	275	655
Miscellaneous.....	495	725	1,220
<b>Total.....</b>	<u>\$ 2,195</u>	<u>\$ 1,690</u>	<u>\$ 3,885</u>
Buildings and improvements.....	\$ 155	\$ 500	\$ 655
Contingency fund.....	\$ 300	\$ —	\$ 300
<b>Total property and equipment.....</b>	<u>\$ 5,110</u>	<u>\$ 26,890</u>	<u>\$ 32,000</u>

\* The expenditure with respect to each of the above items may exceed the amount shown by not more than 10% without further approval, provided the total expenditures on the said items do not exceed \$32,000,000.

\*\* Initial payment with respect to additional aircraft required in 1965 and 1966 to supplement existing fleet.

Expenditures in subsequent years arising from commitments under the 1963 and previous budgets are:

	1964	1965	1966	Total
1 long range jet aircraft.....	\$ 5,945			\$ 5,945
Additional aircraft.....	4,785	\$ 11,175	\$ 11,040	27,000
	<u>\$ 10,730</u>	<u>\$ 11,175</u>	<u>\$ 11,040</u>	<u>\$ 32,945</u>

Mr. MCGREGOR: In spite of the names that have been used on these documents for years, the capital budget is nothing more than a statement of the total amount of capital funds forecast to be required in the year under consideration, in the two main divisions into which that falls. The source of funds is where we propose to get the money. On page two is the property and equipment budget which is a more detailed breakdown of the various components that have gone to make up the total proposed expenditure. You will notice that at the bottom of the page, in the property and equipment budget, we show the capital expenditures that will fall in the succeeding years as the result of the approval of the proposed budget for the current year, which in this case is 1963. In no case do we lead anybody up a garden path by saying, "if you give us authority to spend five million dollars this year, that is that", whereas in fact there will be three more five million dollars in successive years. We show that. This budget runs through to 1966.

Mr. LLOYD: I take it that a good deal of what we have been discussing is really in essence reflected in these figures in terms of the timing of financial expenditures. Has this particular budget been processed in some other way through the government?

Mr. MCGREGOR: Yes; this touches on a point which has been raised by Mr. Fisher at the very outset of these hearings. I have never understood well the machinery of this, but we are now considering the capital budget for 1963. It was referred to the government, to the Minister of Transport, and by him to the Minister of Finance in December 1962, was approved by order in council in February of this year, and is virtually spent. Normally, this odd lapse of time would not have taken place. It has been the custom for years to have this committee sit on the previous annual report in April—I think one famous year in March—so that the whole thing is not as much in retrospect as it is this year.

Mr. LLOYD: So that this in fact has already been accomplished and approved? You had to have approval to carry on?

Mr. MCGREGOR: I can give you the order in council number.

Mr. LLOYD: I am quite happy to move that the capital budget be approved.

Mr. PUGH: Just a second, I have another point. Where you have additional aircraft, \$27 million, this refers to the DC-9's?

Mr. MCGREGOR: Yes, and the progress payments on aircraft that have been ordered under the previous capital budgets, such as the DC-8 that is going to be delivered to us in April.

Mr. PUGH: That is \$5,900,000, is it? There is a total of \$32 million. They are all together there.

Mr. MCGREGOR: It is long range, so it is separated.

Mr. PUGH: How will the DC-8 that went down the other day be classified?

Mr. MCGREGOR: That is a matter that will be decided by my board at the next meeting.

Mr. PUGH: And the one that went down in England, near the London airport? I remember that there was something in the neighbourhood of \$2 million worth of damage. How is this handled?

Mr. MCGREGOR: I hope you are right, about the amount of that damage.

Mr. PUGH: I thought I had your figure.

Mr. MCGREGOR: I think the figure is as small as that. I have not yet an estimate, but having looked at the picture of the damage of the airplane I hope you are right, but I fear your figure is low. This will presumably be handled out of our insurance reserve fund which is in the order of \$9,800,000.

Mr. PUGH: What effect will that have on your insurance reserve fund?

Mr. MCGREGOR: It will knock it down by whatever the cost of that repair bill is.

Mr. PUGH: Will no further assessment be made on that insurance reserve fund? In other words, you would hope that you will not have any further crashes. If you went over that insurance reserve fund, where would the capital come from?

Mr. MCGREGOR: It would come out of capital, yes. We get into a fairly historical area, but there is a commitment on the part of the government when it approved the policy of self insuring, when it said that if, through catastrophic loss the fund was depleted it would be financed by Government on the understanding that the company would hasten to re-establish the fund in a liquid position by accruals to it.

Mr. PUGH: Do you mean to step up the accruals?

Mr. MCGREGOR: I think it would have to be, yes. In 1962-63 the rate of accrual would be in the order of \$900,000 a year.

Mr. PUGH: In view of these two crashes I do not say that the fund will disappear, but to get it back into the picture properly would you not have to step up the accruals at the present time?

Mr. MCGREGOR: That is right. The board of directors have agreed that the company should bring the insurance reserve funds up to \$10,000,000, subject to that not putting us into a deficit position which would mean that the government would have to pay for our deficit, and in so doing would be paying for the insurance reserve fund.

Mr. MUIR (*Lisgar*): That means roughly \$3,000,000, \$900,000 of which could be attributed to what you included in your insurance fund.

Mr. MCGREGOR: In 1962, yes.

The CHAIRMAN: Is there a seconder to Mr. Lloyd's motion?

Mr. PUGH: I will second it.

The CHAIRMAN: It is seconded by Mr. Pugh.

Motion agreed to.

Now we have come to the auditor's report. Perhaps Mr. de Lalanne will come up to the head table.

The CHAIRMAN: You will find the report on page 23. Mr. de Lalanne is here. I do not know if you have any questions to ask him on his report.

Mr. FISHER: Mr. de Lalanne, did you carry out this duty yourself, or did you contract out the work to other accountants?

Mr. J. A. DE LALANNE (*Chartered Accountant*): It was all carried out by my partners in the McDonald Curry and Company, the same as in previous years.

Mr. FISHER: Could you tell us whether you have been engaged to carry on this duty for the next year; that is, for the annual report for 1963?

Mr. DE LALANNE: No, I have not. My commitment ceased with the year 1962.

Mr. GRÉGOIRE: How long does it take you to make such a verification?

Mr. DE LALANNE: This work goes on throughout the whole year to a certain degree, and there are a great many people in a great many centres.

Mr. GRÉGOIRE: It is year round work?

Mr. DE LALANNE: Yes. This report consists of explanatory notes. The official note requires us—the Financial Administration Act is the statute—to report here in the regular form, as do all the crown companies. This booklet contains official information. It is difficult to know what to put in it. It consists of explanatory notes which might be of interest to you.

Mr. LLOYD: I move the adoption of the auditor's report.

The CHAIRMAN: I think that concludes our questioning of T.C.A. and I want to take this opportunity to thank Mr. McGregor, Mr. de Lalanne and the members of the staff. I think they have been most helpful and co-operative. If I had any compliment to give—it is my privilege to do that—it would be to the excellent partnership I have had with the members of this committee.

We shall not have a meeting this evening. I was wondering if the steering committee could meet with me this evening. Does that suit you, Mr. Fisher?

Mr. FISHER: Why not meet tomorrow?

The CHAIRMAN: The business would be to decide on future meetings. That is the crux of it. I do not suppose it will take us very long to go through the C.N.R., although I am quite willing, because I have enjoyed sitting here. But it is understood that Mr. Gordon will be available next Thursday, and I thought if we could start on Thursday and Friday—

Mr. FISHER: I do not think there is any objection to that.

The CHAIRMAN: Do we need to meet to set the dates for Thursday and Friday?

Mr. RHÉAUME: Not on Friday night, I hope.

The CHAIRMAN: Anyway the steering committee will decide after the first meeting next week. There will not be a meeting before next Thursday at nine o'clock.

Mr. PUGH: One point before we break up: you mentioned sitting here. I think far too much time has been spent sitting here waiting for a quorum. There is a valid reason for it. Members hustled to attend far too many committee meetings at the same time. In certain committees it does not matter quite so much, but when we have all these high priced help here, it is rather a waste of time, I would say, and I think that for future meetings we should somehow or other have the committees set up so we could handle them in reasonable numbers and hours.

Mr. LLOYD: If you would stay away from elections for a couple of years, we might get some things sorted out.

The CHAIRMAN: Our difficulty has been with the quorum. My motion will appear on another day for concurrence to reduce the quorum from 14 to 10. I was hoping we could have it done by compromise. Personally I have always thought that 12 would be a good number instead of 10. Could we not agree to be unanimous with 12? It might be helpful, because next week will be a very, very busy time, since we will be coming towards the end of the session. So would the members agree unanimously to an amendment to make the quorum 12?

Mr. PUGH: I think you should have it at 13.

Mr. CANTELON: I think that one of our difficulties is that in the morning our secretaries do not arrive until nine, which only leaves us half an hour with them. Then we have to be here at 9.30 a.m.

The CHAIRMAN: I sympathize with you. I do not have the same problem because I live in Ottawa.

Mr. CANTELON: In the afternoon we are supposed to meet immediately after the question period, but again we find it difficult to get here promptly. It could be half an hour after the question period is over which time would be lost. And if we take that half hour and the half hour we lose in the morning, it adds up to quite a long time lost.

The CHAIRMAN: I do not believe we would have had difficulty had the quorum been 12. How do you feel about that, Mr. Fisher?

Mr. FISHER: I will go along with that, but I would be surprised if we were to be short of a quorum next week.

The CHAIRMAN: You say you would go along with 12?

Mr. FISHER: Yes.

The CHAIRMAN: May I have a motion?

Mr. PUGH: I so move.

Mr. LLOYD: I second the motion.

Motion agreed to.

Mr. MUIR (*Lisgar*): You will set the meeting at 9.00 a.m.?

The CHAIRMAN: No, 9.30 a.m.

Mr. McILRAITH: Might I ask for an expression of views by the committee. I have taken the trouble to have the dates of meetings of the special committee turned up since 1950. Until 1958, they were all in March and April. Then starting in 1958 it was July; 1959, May; 1960, March; 1961, June 15; 1962, November 19; and 1963, December.

Now, if you look at the order paper, you will notice item 12, a resolution to approve the capital budgets of the Canadian National and Trans-Canada for the years 1962 and 1963. The capital budget we have just dealt with now is for the year 1963 and more than 11 months of the year have already gone by. I hope that from now on we will follow a more appropriate schedule and have the reports of the two companies come forward for consideration in March or April of each year. As I have mentioned, the resolution is on the order paper. Now we are nearing what I hope is the end of the session and the problem is going to arise, as I foresee the business of the session, as to how to get legislation which will follow the resolution dealt with before the end of the two year period covered. I wondered if members of the committee would consider whether they might let this resolution, which pretty much deals with the dead past go through so that the auditor for 1963, who has been working for over 11 months now could be appointed. I would like to start off from now with a clean sheet. Then I hope to bring in legislation this year appointing auditors for the year 1964 so they could operate with authority. The one for 1963 has been acting, but without the required authority.

Mr. PUGH: Surely the house would have to do that.

Mr. McILRAITH: It is a question of whether the committee would be agreeable to this resolution going forward before dealing with the Canadian National Railways annual report.

Mr. FISHER: We discussed this in our caucus and we are prepared to go along with it.

Mr. McILRAITH: I am in the hands of the committee, but it would seem proper to let the resolution go ahead.

Mr. GRÉGOIRE: I think we might have a couple of speakers on that point.

Mr. McILRAITH: I do not think so. The point here does not involve the place where you discuss subsidies.

Mr. GRÉGOIRE: Does it not include item 216-A of your estimates?

Mr. McILRAITH: No. That item was allowed to stand at your request. I hope some day we can get it through. I am just looking for guidance and I do not want a motion. Just your opinion.

Mr. GUAY: Would it be possible to get Mr. Gordon's report in our hands a few days before the meeting? Surely it could be distributed for the press gallery.

The CHAIRMAN: Can we have Mr. Gordon's report in the hands of the committee immediately?

Mr. McILRAITH: It has been in the hands of the committee since last May 17, but I will get other copies if you want second ones.

Mr. FISHER: I move we adjourn.

HOUSE OF COMMONS

First Session—Twenty-sixth Parliament

1963

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SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned and Controlled by the Government

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

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THURSDAY, DECEMBER 12, 1963

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ANNUAL REPORT

CANADIAN NATIONAL RAILWAYS

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WITNESSES:

The Honourable George McIlraith, Minister of Transport, Mr. Charles Cantin, Parliamentary Secretary to the Minister of Transport.

From the Canadian National Railways: Messrs. Donald Gordon, President, J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance and R. T. Vaughan, Secretary.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

SESSIONAL COMMITTEE  
ON  
RAILWAYS, AIR LINES AND SHIPPING  
owned and controlled by the Government

*Chairman:* Jean T. Richard, Esq.

*Vice-Chairman:* C. R. Granger, Esq.

and Messrs.

Addison  
Balcer  
Béchar  
Cantelon  
Chrétien  
Deachman  
Fisher  
Forbes  
Foy

Granger  
Grégoire  
Guay  
Hahn  
Horner (*Acadia*)  
Leboe  
Lloyd  
Mitchell  
Monteith

Muir (*Lisgar*)  
Prittie  
Pugh  
Richard  
Rheaume  
Rideout  
Rock  
Southam—26.

Quorum—(12)

Maxime Guitard,  
*Clerk of the Committee.*

ORDERS OF REFERENCE

TUESDAY, December 10, 1963.

*Ordered*,—That the quorum of the Sessional Committee on Railways, Air Lines and Shipping be reduced from 14 to 12 Members, and that Standing Order 67(2) be suspended in relation thereto.

Attest.

LEON-J. RAYMOND,  
*The Clerk of the House.*

REPORT TO THE HOUSE

The Sessional Committee on Railways, Air Lines and Shipping, owned and controlled by the Government, has the honour to present its

THIRD REPORT

Your Committee recommends that its quorum be reduced from 14 to 12 members, and that Standing Order 67(2) be suspended in relation thereto.

Respectfully submitted.

JEAN T. RICHARD,  
*Chairman.*

## MINUTES OF PROCEEDINGS

THURSDAY, December 12, 1963.

(8)

The Sessional Committee on Railways, Air Lines and Shipping met at 9:43 o'clock a.m. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Béchard, Cantelon, Chrétien, Deachman, Fisher, Forbes, Granger, Grégoire, Lloyd, Mitchell, Monteith, Muir (*Lisgar*), Prittie, Pugh, Richard, Rideout, Rock, Southam—(19).

*Also present:* The Honourable George McIlraith, Minister of Transport, Mr. Charles Cantin, Parliamentary Secretary to the Minister of Transport.

*In attendance: From Canadian National Railways:* Messrs. Donald Gordon, President, J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance and R. T. Vaughan, Secretary.

The Chairman welcomed the officials of Canadian National Railways and in particular Mr. Donald Gordon, President, whom he invited to read the 1962 Canadian National Railways Annual Report.

The Committee agreed to stand the Section intituled "*Financial Review*" until all the other sections of the Report were considered. The examination of the witnesses ensued on the Section intituled "*Development*".

On motion of Mr. Prittie, seconded by Mr. Balcer,

*Resolved:* That the Section intituled "*Development*" of the 1962 Canadian National Railways Annual Report be adopted as read.

At 12:08 o'clock p.m., the Committee adjourned until this afternoon at 3:30 o'clock p.m. to resume its consideration of the Canadian National Railways Annual Report.

### AFTERNOON SITTING

(9)

The Sessional Committee on Railways, Air Lines and Shipping met at 4:08 o'clock p.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Cantelon, Fisher, Forbes, Foy, Granger, Grégoire, Hahn, Horner (*Acadia*), Lloyd, Muir (*Lisgar*), Prittie, Pugh, Richard, Rideout, Southam—(15).

*Also present:* Mr. Charles Cantin, Parliamentary Secretary to the Minister of Transport.

*In attendance:* The same as at this morning's sitting.

The Committee's proceedings were interrupted by the Division Bells at 4:13 o'clock p.m.

At 4:57 o'clock p.m. the examination of the witnesses was resumed on Section intituled "*Operations*" of the 1962 Canadian National Railways Annual Report.

*Members present:* Messrs. Balcer, Cantelon, Chrétien, Deachman, Fisher, Forbes, Grégoire, Guay, Hahn, Horner (*Acadia*), Lloyd, Muir (*Lisgar*), Prittie, Pugh, Richard, Rideout, Rock, Southam—(18).

On motion of Mr. Muir (*Lisgar*), seconded by Mr. Lloyd,

*Resolved:*—That Section intituled “*Operations*” of the 1962 Canadian National Railways Annual Report be adopted as read.

At 6:03 o'clock p.m. the Committee adjourned until this evening at 8:00 o'clock p.m. to consider the Section intituled “*Freight Services*.”

#### EVENING SITTING (10)

The Sessional Committee on Railways, Air Lines and Shipping met at 8:08 o'clock p.m. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Cantelon, Chrétien, Deachman, Fisher, Forbes, Granger, Grégoire, Lloyd, Muir (*Lisgar*), Prittie, Pugh, Richard, Rideout, Rock, Southam—(16).

*Also present:* The Honourable George McIlraith, Minister of Transport and his Parliamentary Secretary, Mr. Charles Cantin.

*In attendance:* The same as at the two previous sittings.

The Committee commenced the consideration of the Section intituled “*Freight Services*” of the Canadian National Railways Annual Report.

Referring to the printed proceedings of the Committee

Mr. Grégoire moved, seconded by Mr. Rideout, and it was

*Resolved:*—That the Committee increase the number of printed copies of its Minutes of Proceedings and Evidence from 850 to 1200 in English and from 400 to 600 in French.

At 10:10 o'clock p.m. the Committee adjourned until Friday morning at 9 o'clock to again consider the question of “*Freight Service*.”

Maxime Guitard,  
Clerk of the Committee.

## EVIDENCE

THURSDAY, December 12, 1963

The CHAIRMAN: I have the honour to present Mr. Donald Gordon, president of the Canadian National Railways and his officers who will be introduced later.

Gentlemen, we are opening a series of meetings to study the report of the Canadian National Railways. I am sure that within a few days we will be able to complete our study of this report because, after all, just a few months ago this same committee sat. Moreover we will be having another meeting in a few months when we will have an opportunity to study some legislation in connection with railways.

In any event, before proceeding with the witness, I would like to tell the committee that I was approached by the C.B.C. and asked to give them permission to take just pictures—not sound—of the first two minutes of the meeting, and with the understanding, if it is agreeable to you, I should ask them to retire after two or three minutes have elapsed so that we may proceed quietly and without the disturbing effects of publicity.

Mr. CANTELON: Mr. Chairman, on a question of privilege having to do with the reporting of the doings of this committee by certain sections of the press, this matter was brought to the attention of the committee previously by Mr. Fisher, but apparently his justified criticism has had little effect. I refer to quite a few instances, of which I am sure most of the members of the committee know. I would like to refer specifically to the Trans-Canada Matinee C.B.C. program of Friday afternoon, December 5, which I consider to have been very badly slanted and to have given a very faulty impression of the proceedings of the committee. I think that such prejudiced, unscrupulous, and unprincipled reporting should be brought to the attention of the Speaker of the house and he should make representations to the press gallery to see that objective and fair-minded reporting of the committee is published in the press.

The CHAIRMAN: May we now proceed? I shall ask Mr. Gordon to make his statement and read his report.

Mr. DONALD GORDON (*President of the Canadian National Railways*): Mr. Chairman, and members of the committee: I have with me the usual officers, Mr. J. L. Toole, vice president of accounting and finance, Mr. J. W. Demcoe, vice president of transportation and maintenance, and Mr. R. T. Vaughan, secretary of the company.

Before dealing with the annual report, I should like to make reference to the timing of the committee itself. I mention this to indicate that the committee might be better served if we were able to return to the practice of having the committee sit in the spring of each year at which time the reports and budgets which are before the committee would be then current. In looking back over the past 12 years I find that this has been the practice, and the committee usually met either in March or April of each year, with the exception that it met in 1958 in July, and in 1961 in June. Of course, you will recall that last year we met in mid-November.

What is before the committee now is the 1962 annual report, which was published in mid-March of 1963, and the capital and operating budgets for 1963, which are usually approved by the governor in council towards the beginning of the year. My point in raising this, as I indicated, is that 1962 is past history and we have now nearly completed 1963, and of course, our capital

budget for 1963 is practically all implemented. A sitting of the committee in the spring would closely approximate the publication of our report for the preceding year and the closing of our accounts and, as well, we would then be able to put before you the capital budget for the current year. What I meant by saying that the committee would be better served if we returned to the previous phasing of the committee sittings, is that at this point in time I and the other officers have no conclusive figures on 1963 operations; we are busily engaged in preparing the 1964 capital and operating budgets and, as well, projecting into 1965. I recognize, of course, that many other matters of importance occupy Parliament and its members, and events intervene to alter established schedules. Nonetheless, I leave this with the committee for your consideration and deliberation. We shall of course do our best to serve you on this committee while reconstructing the events of 1962.

Now, I should like to read the text of the annual report for 1962. It would be better if I did read the text of the report, as hearing it read might bring the operations for 1962 into perspective and, as well, the many details contained in the report might answer some of the questions which members had in mind.

#### FINANCIAL REVIEW

The upward trend in Canada's economy, which continued throughout most of 1962, stimulated a higher potential within the transportation market. Canadian National aggressively pursued its share of the improved potential and achieved the highest volume of business, in terms of revenue ton miles, in any of the five years since 1957. Revenue ton miles were 35.6 billion, an increase of 2.5 percent over 1961.

Railway operating revenues reached \$738.3 million, an increase of \$28.0 million over 1961. At the same time, operating costs rose by \$16.7 million, to \$738.9 million, leaving a net operating loss of \$0.6 million, a reduction of \$11.3 million from 1961. After adding other income, which at \$14.1 million was substantially improved, a surplus, before interest on long-term debt, of \$13.6 million was recorded. However, this surplus fell \$48.9 million short of the \$62.5 million required for the interest on long-term debt. At \$48.9 million, the deficit was \$18.4 million less than in 1961.

The system operating budget, adopted at the first of the year, forecast a deficit of \$48.3 million. During the course of the year, costs totalling \$11.2 million, which were not anticipated in the budget, were incurred due to wage increases, additional pension charges and material price increases. Nevertheless, the actual deficit was held to a figure which exceeded that budgeted for by only \$0.6 million.

#### *Operating Revenues*

Freight revenues for the year totalled \$529.3 million, an improvement of \$15.4 million or 3 percent over 1961. Revenue per ton mile rose 0.5 percent and tonnage increased 3.1 percent. Principal contributors to increased tonnage were the manufacturing industries (particularly motor vehicles) and mining and forest product industries. On the other hand, less grain was carried in 1962 than in 1961 due to a reduction in export movements.

Included in freight revenues is \$9.5 million related to the Freight Rates Reduction Act. This act required reduction, for certain classes of traffic, of the full effect of a 17 percent freight rate increase authorized by the board of transport commissioners in 1958. The act expired April 30, 1962, and CN's share of the indemnification payments from the first of the year to that date amounted to \$3.0 million. Legislation was introduced in the House of Commons to extend the act for another year and the railways agreed to maintain the level of rates inherent in the proposed legislation. Payments due CN for carrying traffic at the reduced rates from April 30 to the end of the year amounted to \$6.5 million, making a total of \$9.5 million for the full year.

Also included in revenues is \$30.2 million representing Canadian National's share of Interim Payments related to the recommendations of the royal commission on transportation. At year end, payment of all but \$2.5 million of the total had been received.

Payments were also received under the Maritime Freight Rates Act which reduces rates to shippers on traffic moving within the Atlantic provinces and west to Levis, Que., and under the east-west bridge subsidy through which reduced rates are provided for certain traffic moving between eastern and western Canada.

The following table compares subsidy payments in 1961 and 1962, including those related to marine services to cover the net cost of Newfoundland and Prince Edward Island steamship and ferry services operated by CN as agent for the federal government:

	1962	1961	Increase or
	(Millions of Dollars)		(Decrease)
Freight Rates Reduction Act	\$ 9.5	\$10.7	\$(1.2)
Maritime Freight Rates Act	10.9	10.0	0.9
East-West Bridge Subsidy	3.2	3.5	(0.3)
Interim Payments	30.2	27.9	2.3
Newfoundland and P.E.I. Steamship Services	16.6	14.6	2.0
<b>TOTAL</b>	<b>\$70.4</b>	<b>\$66.7</b>	<b>\$ 3.7</b>

Express revenues were \$47.0 million, an increase of \$3.7 million, or 8.5 percent over 1961, due in large part to increased business as a result of a prolonged strike in the trucking industry in Ontario and Quebec.

Piggyback revenues rose 27 percent to \$8.3 million, resulting from additional traffic stimulated by the trucking strike and a higher volume of long-haul traffic between Eastern and Western Canada.

Telecommunications revenues from commercial services reached a new high of \$36.7 million, an increase of \$3.8 million over 1961.

#### *Operating expenses*

The increase of \$16.7 million in railway operating expenses was due principally to additional wage, pension and depreciation costs. Cost of wage increases amounted to \$10.2 million, while pension charges to railway operating expenses increased by \$3.7 million to \$33.0 million. Depreciation charged to rail operations in 1962 was \$93.4 million, up \$3.0 million from 1961 due to increased investment in depreciable road property.

Taxes for 1962 of \$23.4 million represented an increase of \$3.6 million over 1961 which was due mainly to increased municipal and provincial taxes. The total includes \$5.2 million for unemployment insurance, \$15.7 million in Canadian provincial and municipal and state taxes, and \$2.5 million in payments under the United States railroad retirement act.

Equipment and joint facility rents were \$3.1 million, up \$2.8 million from 1961. Most of the increase was in equipment rentals resulting from a higher demand for cars during peak traffic periods. Canadian National made greater use of foreign and private line equipment to meet its requirements, and since fewer C.N. cars were available for rental, receipts for the use of C.N. equipment by other railroads were lower.

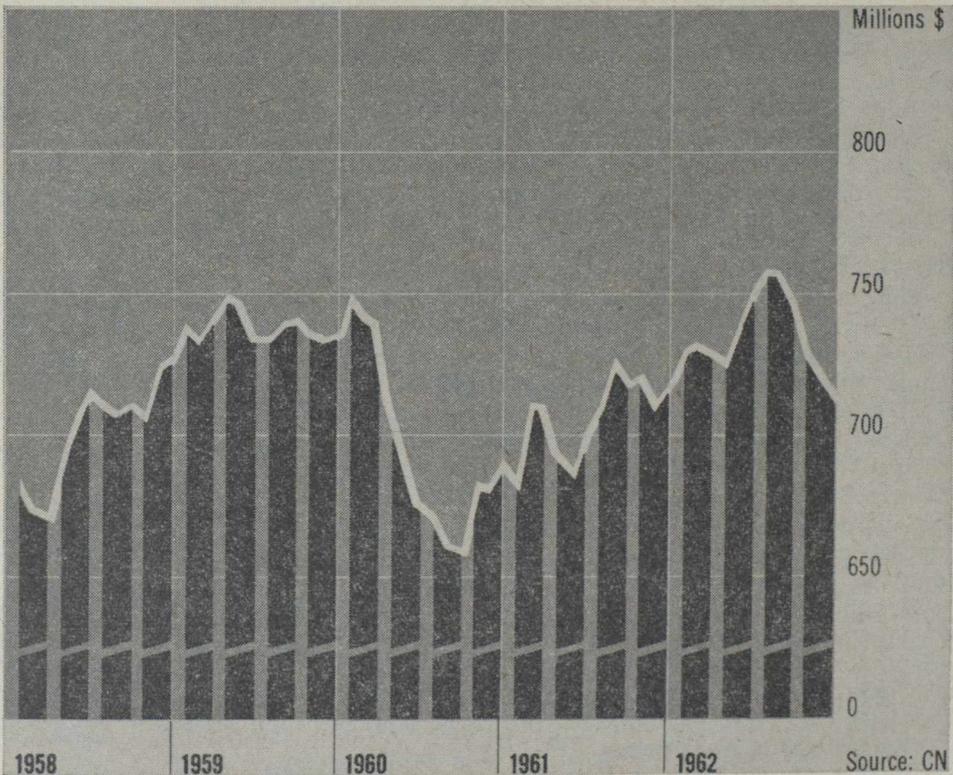
#### *Interest on Long-Term Debt*

Net interest on long-term debt of \$62.5 million was the same as in 1961. The effect of a \$5.2 million decrease in interest-bearing debt applicable to C.N. operations was offset by a slightly higher interest rate. The effective interest rate on the debt outstanding at the end of 1962 was 4.4 percent, 0.1 percent up from that at the end of 1961.

*Capital Expenditures*

Capital expenditures in 1962 were the lowest since 1955. They amounted to \$113.6 million, which was \$19.1 million below the approved capital budget and \$3.6 million below expenditures in 1961. They were financed entirely by self-generated funds from depreciation and amortization and from the sale of preferred stock. Capital expenditures in 1962 and 1961, by major categories, were as follows:

	1962	1961
	(Millions of Dollars)	
Road Property	\$ 55.3	\$ 64.4
Large Terminals	10.3	13.3
Telecommunications Facilities	11.7	19.2
Branch Lines	5.6	1.3
Hotels	1.8	1.8
Equipment	28.8	11.9
	<hr/>	<hr/>
	113.5	111.9
Investment in Affiliated Companies	0.1	5.3
	<hr/>	<hr/>
Total	\$113.6	\$117.2

**Operating Revenues Seasonally Adjusted at Annual Rates****DEVELOPMENT***Research*

Canadian National maintained its search for new and improved methods of transportation through a broad research and development program. This

program, while directed primarily towards improving the efficiency and competitive position of the railway, also makes a substantial contribution to Canada's transportation industry as a whole. Among the more important projects continued in 1962 was the development and testing of equipment for the handling and transportation of forest products, including open-top box cars for wood chips, special cars for pulp-wood and lumber, and cars with high capacity cushioning devices for newsprint. Other research projects involved mechanical refrigerator cars, protective coatings for equipment, improved lubricating oils for diesels, electronic weighing of cars in motion, containerization, greater utilization of the freight car fleet, and cost research.

#### *Branch Lines*

The first section of the 430-mile Great Slave Lake Railway, being built by C.N. for the federal government, went into operation in 1962. By the end of October, track had reached Manning, Alberta, a distance of 56 miles, and rail grain shipments began moving out of this northerly agricultural area. At year-end, 73.5 miles of track-laying had been completed, while clearing, grading, bridge and trestle work progressed on the rest of the right-of-way.

Also in Alberta, a 23-mile rail extension was constructed from Whitecourt to Windfall to carry sulphur shipments from the Windfall Gas Fields.

Grading was almost completed and track-laying two-thirds completed on the 61-mile branch line to the Matagami Lake region in Northern Quebec, scheduled to open in 1963 to serve new zinc and copper mines.

Construction was started on an eight-mile rail extension from Chisel Lake to a new mining development at Stall Lake in Northern Manitoba.

Transportation facilities were completed to serve the International Minerals and Chemical Corporation's extensive new potash mining development on CN's main line at Yarbo, Sask. Special handling and operating methods were developed to transport the potash concentrate with maximum efficiency.

Preparatory work was undertaken for the construction of a 15-mile branch line from Nepisiguit Junction, near Bathurst, N.B., to a zinc, lead and copper mining development of the Brunswick Mining and Smelting Company.

Acting as agent for the federal government, Canadian National made a survey report on a 57-mile line in the Gaspé region of Quebec, between Matane and Ste. Anne des Monts.

#### *Real Estate*

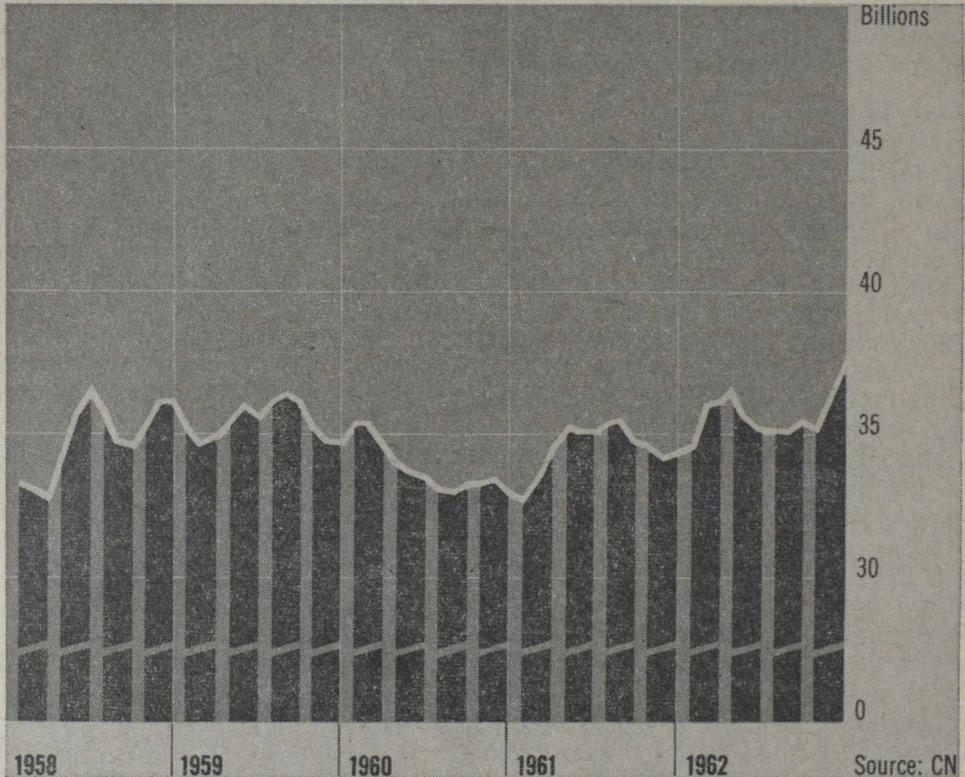
C.N. continued to encourage private interests to participate in the redevelopment of railway real estate properties in 1962. Under this program, C.N. promotes the redevelopment of specific land holdings, while at the same time maintaining an active interest in receiving proposals for the more profitable use of any other railway property.

The largest single project under this program is the redevelopment of C.N. property surrounding Central Station in Montreal. Place Ville Marie, a major phase, was completed in 1962. It occupies that portion of the terminal area to the north of Dorchester Boulevard and it embraces the 42-storey Royal Bank Building and a complex of business, shopping and entertainment facilities. Underground passageways link Place Ville Marie with buildings on the south side of Dorchester which include Central Station, the Queen Elizabeth Hotel, the International Aviation Building, C.N. Headquarters Building and the terminal Centre Building. Studies are under way covering the development of the remaining portion of the area, located south of Lagauchetiere Street, and proposals from private developers have been invited.

In Moncton, a new terminal building for Atlantic Region and Maritime Area headquarters offices was completed as part of the redevelopment of 26 acres of railway property in the downtown area. A new station will be completed in

1963. The project is being carried out by private developers and it involves, besides the new railway facilities, a commercial and business centre. Meanwhile, work proceeded on a similar, but smaller, development at Campbellton, N.B., in which a new station and offices will be provided for the railway.

Revenue Ton-miles Seasonally Adjusted at Annual Rates



The first phase of a renewal program was completed at London, Ont., with the opening of a combined railway station and office building. During 1963 work will proceed on a 104-unit motor hotel and a restaurant.

In western Canada, proposals were invited for the development of the terminal area at Edmonton, while at Saskatoon agreement in principle was reached with the city for the removal of railway facilities from the downtown area to make way for a redevelopment program.

#### *Industrial Development*

Firms planning new plant locations continued to use the technical and consulting services provided by the system's industrial development officers. Besides important new developments of mineral and forestry resources, there was substantial growth in the number and variety of manufacturing operations in industrial parks served directly by C.N. trackage. A total of 422 new manufacturing plants and warehousing and distribution facilities were established in locations served by C.N. freight services. Of these, 232 required direct service by private sidings. There were 32 miles of new industrial trackage and private sidings constructed in 1962.

## OPERATIONS

*Yards*

With the opening in September of Symington Yard, St. Boniface, Man., the third of four electronically-controlled hump classification yards was completed. The first two yards were opened previously at Moncton and Montreal, while the fourth yard, under construction at Toronto, is scheduled to go into operation in 1965. Symington yard replaces four flat yards in the Winnipeg area and, like the other new yards, employs the most advanced equipment and methods to classify and despatch freight trains.

A flat-type classification yard, known as "Sarcee yard", was constructed to replace two out-dated yards at Calgary, and to open up a new industrial area in co-operation with the city. In Newfoundland, construction on a new yard at Corner Brook neared completion, and the rebuilding of the existing yard at St. John's was continued.

*Signals and radio*

Further installations of centralized traffic control were made in 1962. CTC is a centrally-controlled signal system which expedites the handling of trains and increases the capacity of single track operation. At year-end, 2,704 miles of main line track were equipped with CTC.

Application of radio communications to train and yard operations continued throughout the year. With minor exceptions, trains operating on all principal traffic routes on the system were equipped with "end-to-end" radio communications.

## FREIGHT SERVICES

New services, equipment, and other improvements were introduced in Canadian National's rail and road freight operations to adapt them to the new and changing demands of the transportation market.

*Sales*

During 1962 CN's comprehensive sales program was broadened and intensified. The management sales training program, started in 1961, was expanded to include senior line personnel. The program is designed to equip sales and management personnel with the knowledge and techniques required to serve the total distribution requirements of industry today. Significant new sales tools, including mechanically-processed freight sales statistics, were introduced to assist the sales organization in analyzing market demands.

In support of the sales effort, a national advertising campaign, entitled "CNeengineering", was launched. Through the use of specific examples, the campaign illustrates to industry how Canadian National can assist customers in improving their distribution methods through specialized equipment design, modern pricing and technical assistance on materials handling and packaging problems.

*Incentive rates*

Incentive carload freight rates introduced in Ontario and Quebec in 1961 were extended to cover a broader cross-section of Central Canada. These rates encourage capacity loading of freight cars which results in greater rail efficiency and permits the shipper to gain the benefits of lower costs.

*Services*

A new freight train, providing faster delivery of shipments from western Canada to Toronto and Montreal was inaugurated. A counterpart to the east-west "Highballer" introduced in 1961, the new service improved the previous schedule from Vancouver by 24 hours.

A new freight car ferry service, known, as "Aquatrain", was inaugurated to link CN's railhead at Prince Rupert, B.C., with Alaska. The year-round ferry service transports rail cars to and from the Alaska railroad terminal at Whittier. It shortens the water voyage from the U.S. West Coast to Alaska by 600 miles and reduces overall transportation costs on shipments from the east and midwest United States.

Plan I piggyback in which commercial trailers are carried by the railway, was extended to include service from CN lines to points on the Northern Alberta Railways. Plan II (railway-owned trailers) was also expanded while under Plan IV, the movement of household goods in privately-owned containers on leased railway cars was established between Halifax, Ottawa, Vancouver and Victoria.

#### *Equipment*

CN bought 1,617 new freight cars of various types in 1962, most of them specifically designed to meet the requirements of particular industries. Included in the order were 150 tri-level automobile transporters, acquired following a successful market test with 20 leased transporters; 300 covered hopper cars for transporting dry flow commodities; 500 heated box cars to serve canning and beverage industries, and 500 box cars, 50½ feet in length, for carrying lumber.

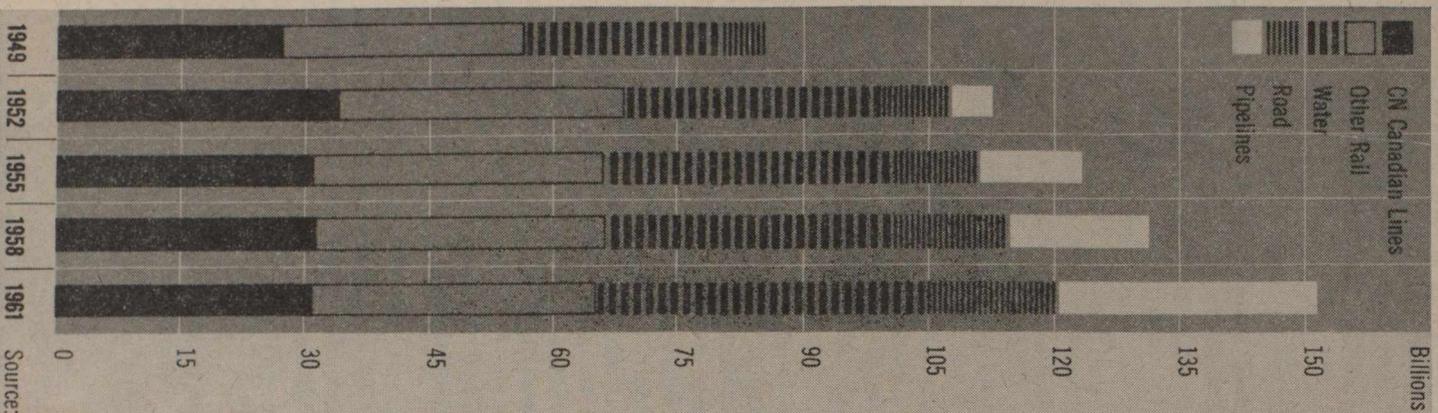
#### *Road-Rail Co-ordination*

Further steps were taken in 1962 toward the development of a new express freight service for package and LCL (less than carload) shipments. Creation of the new service on a system basis involves the integration of express and LCL freight operations on the one hand, and the establishment of master agencies (also known as railheads) on the other. Integration of express and LCL freight operations has been going on gradually at points across the system, while the new master agency concept is being tested in pilot operations in the Atlantic and mountain regions in 1963. Under the master agency plan, the function of numerous wayside freight sheds and stations is transferred to centrally-located terminals at which highway pickup and delivery, accounting, billing and other work is performed. In effect, the master agency plan is a refinement of the railhead principle which was developed to take full advantage of the benefits from co-ordinated road and rail operations, with trains handling the long haul between central points and highway vehicles covering the short haul to and from customers, wayside sheds and stations. Ultimately, the operation of express freight under the master agency concept will provide a low-cost, flexible service for shippers by co-ordinating the use of piggyback, rail and highway transport. The master agency plan is also a means of continuing service to the public in cases where unprofitable branch lines must be abandoned.

#### *Trucking Subsidiaries*

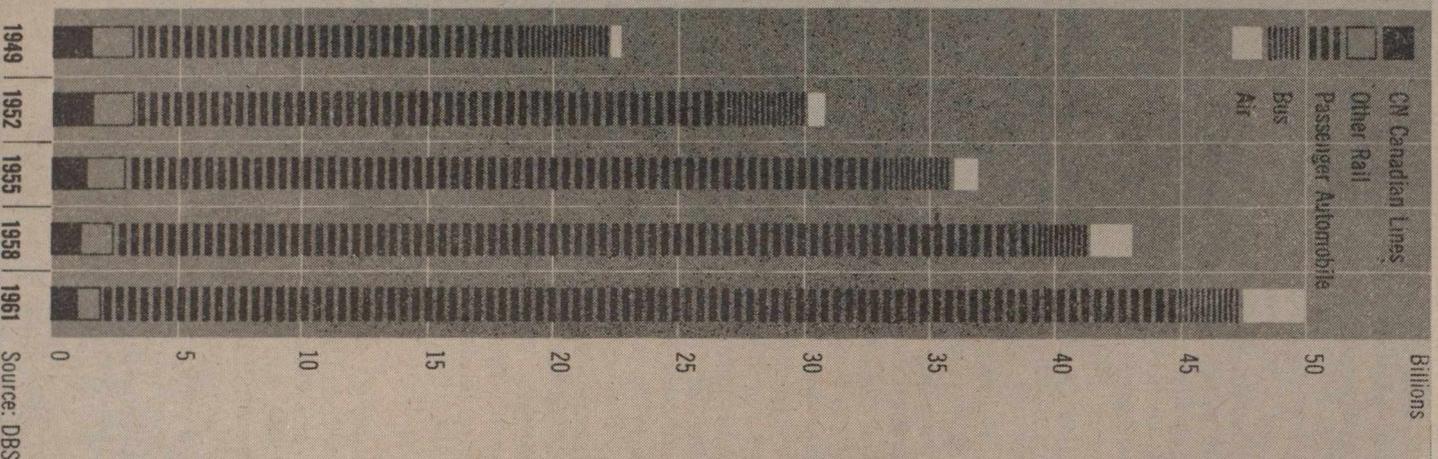
In late December, Canadian National Transportation Limited completed the purchase of the capital stock of Midland Superior Express Limited, and Husband Transport Limited. These transactions had been held in suspension and were completed following the withdrawal of an appeal before the Quebec Court of Appeal by the Quebec Trucking Association and other parties. The appeal was against judgments by the Quebec Transportation Board authorizing CNTL to acquire the two companies. CN now has an investment of \$15.2 million in eight wholly-owned trucking companies and two associated terminal companies. The net operating revenues of these companies for the full year 1962 was \$782,000, after provision for depreciation. This represents a return of 5.1 percent on the total investment.

Intercity revenue ton-miles (left)



Source: DBS

Intercity passenger miles (right)



Source: DBS

### *Marine Services*

A new passenger-motor vehicle ferry, the M.V. "Confederation", was placed in service in May, on the Northumberland Strait between Borden, P.E.I., and Cape Tormentine, N.B. The M.V. "Taverner", a passenger-cargo coastal vessel, was added to the Newfoundland services in July. Both vessels are operated by Canadian National for the Department of Transport.

### PASSENGER SERVICES

Revenues from passenger services increased in 1962 to reverse a downward trend which had persisted since late 1957. Combined rail and sleeping, dining and parlor car revenues were \$44.0 million compared with \$43.4 million in 1961. Among developments contributing to the higher revenues were an experimental fare plan on lines east of Montreal; improved services in southern Ontario; additional business stimulated by the Seattle World's Fair, and the popularity of the all-inclusive fare plan.

### *Fares and Ticketing*

The experimental red, white and blue fare plan was introduced on May 1, for one year between points in Quebec, New Brunswick, Nova Scotia and Prince Edward Island. Representing a departure from traditional railway pricing, which is based on standard per-mile rates, the new scheme relates prices to high and low traffic patterns and to distance. The lowest fares apply during periods of low travel demand and the highest fares during peak and holiday periods. There are three levels of fares, bargain, economy and standard, which are identified by red, white and blue tickets respectively. An additional charge is made for accommodation in sleeping cars which includes certain complimentary meals on specific trains. In each month from May to December, substantial increases in traffic and revenues were recorded in the territory covered by the new fare plan. It was decided, therefore, to maintain the plan beyond April 30, 1963, and to extend it to include Newfoundland. At the same time, traffic and market studies were undertaken to determine how and where the same fare principle might be extended to other areas.

A ticket-by-mail service was introduced to simplify ticket purchasing for customers. Tickets ordered by telephone are mailed, with accompanying invoice, to the caller.

Passenger service centres were established in Vancouver, Toronto, Montreal, Chicago and New York to expedite the handling of tickets and reservations.

### *Schedules*

In April, passenger trains running west of Toronto to points in southwestern Ontario were placed on faster schedules. The improvement was made possible by transferring express and mail shipments from passenger trains to merchandise trains operating on separate schedules designed specifically to serve commerce and industry.

A reduction of one hour and 45 minutes was made in the running time of the International Limited from Chicago to Toronto, while improvements were also made in the schedules of railiners operating between Moncton and Truro, and between North Sydney and Truro.

### TELECOMMUNICATIONS

CN telecommunications experienced another year of substantial growth and record high revenues in 1962. New communications systems were introduced, while existing services, principally private wire facilities and telex,

were expanded to keep pace with the growing demand for them. More than 29,000 carrier telephone channel miles, and 49,000 carrier telegraph channel miles were added during the year.

Telex exchanges were opened in eight additional centres, to bring to 61 the total number of exchanges serving 312 Canadian communities. The number of subscribers increased by 700 raising the total to 4,600.

Construction began on a new Canadian National-Canadian Pacific microwave radio system between Montreal and Vancouver. Designed as a trunk route to serve all principal centres across the country, the system will help to maintain the competitive position of CN-CP in the communications field. Initially, the system will be capable of carrying 600 telephone channels which may be used to transmit telegraph, facsimile, broadcast, data and other forms of communications. The system is designed so that additional channels, including television, may be added in the future. The project will be in operation January 1, 1964.

In April a high capacity microwave system between Peace River, Alta., and Hay river in the Northwest Territories went into operation. A joint project of CN Telecommunications and the Alberta Government Telephones, the system serves as the connecting link between the entire western section of the Northwest Territories, including defence installations of the Arctic region, and the Canadian and world-wide communications networks. With the completion of the microwave to Hay river, telephone and telegraph service was extended by wire line to Yellowknife and Fort Smith and by radio to Pine Point, Fort Resolution, and the Inuvik area. Other service extensions into the north included telex to Fort St. John, B.C., and Whitehorse, Y.T., and the CBC radio network to Cassiar, B.C., Haines Junction, Y.T., Yellowknife, Hay river and Fort Smith, N.W.T.

In Newfoundland public telephone service was extended to the great northern peninsula and automatic telephone exchanges were installed to serve the communities of St. Anthony, Come-by-Chance and Norris Arm, while the exchange at Lewisporte was enlarged. Twenty-five smaller communities, some of which were already being served by submarine cables, were afforded communications by short-wave radio.

A joint CN-CP telecommunications deskfax service was established in Toronto in April. A facsimile operation, the service enables a customer to send and receive telegrams over a combination transmitter and receiver installed in his own office.

Installation of a new nation-wide system to provide instant stock quotations over telex from the Toronto Stock Exchange was started during the year, and will be completed in 1963.

Arrangements were completed with Canadian Overseas Telecommunications Corporation to interchange cablegrams, providing CNT with a direct outlet to all points in the world served by COTC.

#### HOTELS

##### *Financial Results*

Hotel income was \$2.3 million in 1962, an increase of \$0.7 million over 1961. Contributing to this increase were higher revenues at Jasper Park Lodge and the newly-renovated and enlarged Nova Scotian in Halifax, generally improved control over operating expenses, and a higher return from the Queen Elizabeth Hotel. The net result in hotel income (after depreciation and before interest) was as follows:

	1962	Income or (Loss)	1961
Canadian National Hotels Ltd.	\$ 273,053		\$ (97,212)
The Queen Elizabeth Hotel	2,012,918		1,718,303
Total Hotel Income	\$2,285,971		\$1,621,091

### *Improvements*

At the Nova Scotian, a new lounge went into operation, a parking lot was provided for guests and work proceeded on the updating of facilities and furnishings in the original part of the hotel. At year-end, approximately half of the guest rooms at The Newfoundland, St. John's, had been refurbished and this project will continue during 1963. Furnishing and redecorating work was also carried out at the Chateau Laurier, Ottawa; The Macdonald, Edmonton, and The Fort Garry, Winnipeg. Combination radio and television sets were installed at The Bessborough, Saskatoon, and The Newfoundland, early in 1963. Under the general rebuilding program at Jasper Park Lodge, construction started on two 10-room and two 30-room cabins in 1962, and they will be completed for the 1963 season. These and other structures are being built to replace outdated accommodation. The resort was host to a record number of guests during the 1962 season.

Introduction of improved operating techniques, particularly in the area of cost controls, a staff training program, and a comprehensive sales program by the newly-developed sales branch, were among other more important accomplishments during the year.

A survey, made with the assistance of Hilton of Canada Ltd., of the facilities, services and operations of all the CN operated hotels was completed during the year and led to the adoption of an accelerated program of modernization of a number of the hotels to start in 1963.

## PERSONNEL AND LABOR RELATIONS

### *Negotiations*

An increasing measure of co-operation and understanding between management and employees in negotiating new contracts and working out problems of mutual concern was exhibited during 1962. The most significant example of this development was in the contract proceedings between the railways and 15 unions representing non-operating employees, including 60,000 CN employees. Despite complicated issues centering on questions of work security and revisions in seniority and related rules, the parties reached agreement through acceptance of a unanimous report of the conciliation board. Subsequently, a master agreement was negotiated which defined the broad terms of settlement including a 4 percent wage increase over a two-year period and the establishment of a work security program, requiring the payment of one cent an hour into a fund. Specific provisions of the work security plan and revision of seniority and related rules were, at year-end, being worked out by a joint management-union committee established under the terms of the master agreement.

Many months of negotiations with the Canadian Brotherhood of Railway, Transport and General Workers resulted in the consolidation of three agreements covering clerical, express, freight shed and cartage employees. The new contract provides a greater measure of work security for these employees as well as creating an integrated staff for the new Express Freight service. Studies on the establishment of a classification and rate structure for employees covered by the agreement were under way at year-end. Discussions with the Brotherhood of Maintenance of Way Employees and the Order of Railroad Telegraphers also resulted in the updating of their agreements with CN. The aim of all of these contract revisions was to bring seniority and working rules into conformity with present-day operating conditions thereby enabling the railway to benefit from technological advances and improved methods of operation, while at the same time ensuring a minimum of dislocation and hardship for long service employees.

Contract settlements were reached with three unions representing train crews. Wage increases for these employees, part of which were retroactive,

were: Brotherhood of Locomotive Engineers, 6½ percent over three years; Brotherhood of Locomotive Firemen and Enginemen, 4 percent in freight and yard service and 6½ percent in passenger service over three years; Brotherhood of Railroad Trainmen, 8 percent over 31 months. In each case, work rules were revised to eliminate or modify those which have become outdated in the process of changing from steam locomotive to all-diesel operation.

Besides a number of agreements re-negotiated with groups of employees in hotels and in trucking operations, significant five-year contracts were worked out with the Canadian Brotherhood of Railway, Transport and General Workers for approximately 900 employees, including unlicensed personnel and engineer officers, in Newfoundland marine services and on the MV "Bluenose", which operates between Yarmouth, N.S., and Bar Harbor, Me.

Thus 1962 saw contract renewals with all major groups of employees on Canadian lines. CN has 178 collective agreements with 35 unions representing a total of 85,700 employees.

A settlement was reached with the U.S. non-operating railway labor Organizations June 5th, providing wage increases of 10.28 cents spread over 30 months. A U.S. presidential commission established to investigate a dispute over work rules governing operating employees (including CN's U.S. employees) made its report on February 28, 1962. Recommendations included gradual elimination of firemen from locomotives in freight and yard service. The U.S. railways announced their intention of implementing the various recommendations but by year-end had not been able to do so because of a series of legal actions initiated by the unions.

### *Employee Relations*

Further attention was given to overcoming the difficulties inherent in the size, diversity and geography of the company in keeping employees informed of system activities and developments of immediate interest to them. A policy and procedures manual detailing methods and techniques of communicating to employees was produced for the guidance of system officers. While continuing use was made of existing media such as the employee magazines "Keeping Track" and "Au fil du rail", and a variety of employee letters and bulletins, new ones were developed including area newsletters and a film on important CN developments in 1962.

Management development and supervisory training in sales, work study, technical skills and human relations continued to receive special emphasis. There were about 62,000 enrollments in training courses during the year. Some employees were enrolled in more than one course. This training was done by a staff of 100 full-time instructors and 210 part-time instructors. In addition, a new plan was introduced to provide financial assistance to employees completing evening, correspondence or full-time educational programs related to their work.

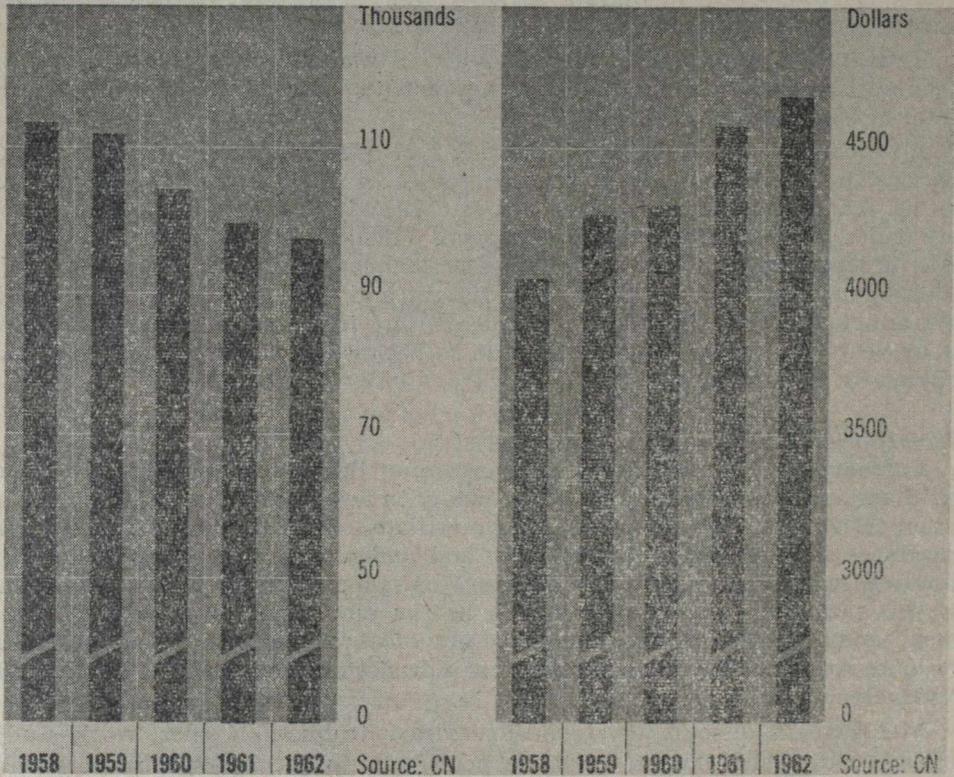
During 1962, attention was directed toward the role of French Canadians in the supervisory and management functions of the organization. A committee of the board of directors was formed to examine the subject and determine whether the objectives of current employment and promotion procedures (which are designed to provide fair and equitable opportunity for all employees and applicants) are being achieved. The study also sought to determine whether more effective measures could be taken to attract larger numbers of qualified French Canadians to join CN, and ensure that French Canadian personnel have full opportunity to enlarge their experience and qualifications for promotions to positions of greater responsibility at all levels of the organization. The study was continuing at year-end.

## PENSIONS

The rules of the 1959 pension plan were amended, with effect from April 1, 1962, to provide that pensions of employees retiring thereafter would be calculated at the rate of  $1\frac{1}{4}$  percent for each of the first 30 years and  $1\frac{1}{2}$  percent for each additional year of allowable service, based on average earnings in the last 60 months—or best five consecutive calendar years—of service, whichever is greater. Previously the rate had been 1 percent for each of the first 20 years,  $1\frac{1}{4}$  percent for each of the next 10 years and  $1\frac{1}{2}$  percent for each additional year.

Average number of employees

Average annual earnings per employee



At the same time the employee contribution rate was increased from 5 percent to  $5\frac{1}{2}$  percent on earnings after March 31, 1962. Statements of the pension trust funds appear later in this report. Total charges against CN earnings for pensions (excluding U.S. railroad retirement taxes of \$2.5 million) in 1962 compared with 1961 were as follows:

	1962 (Millions of dollars)	1961	Increase
1935 and 1959 pension plans	\$26.3	\$22.6	\$3.7
Pre-1935 plans, etc. (including I.C. and P.E.I. Railways employees' provident fund)	7.1	7.0	0.1
Total	\$33.4	\$29.6	\$3.8

The increase was mainly attributable to the adoption of the improved pension rate under the 1959 plan as was the increase from \$325 million to \$395 million in the system's acknowledged liability to the pension trust funds in respect to

past service of employees. Exclusive of payments under the U.S. Railroad Retirement Act, there was paid to pensioners and their beneficiaries, under the various Canadian national pension arrangements, a total of \$35.0 million in 1962 and 29,431 individuals were receiving such payments at the year-end.

#### *CN-CP Act*

Discussions were held with Canadian Pacific Railway to explore areas where co-operative measures might be undertaken.

#### *Board of Directors*

His fellow directors were saddened by the death, on November 8, 1962, of Mr. W. A. Colquhoun, who had served the board faithfully since his appointment on October 1, 1961.

### THE OUTLOOK

The foregoing report records improvements, additions and service changes to CN's complex plant and facilities. It is significant to note, as well, that the new form of administrative organization, now in its third year, has contributed to the improved sales showing and is considered to have brought a new spirit of enthusiasm throughout the system. The organizational structure, which emphasizes local responsibility, is producing more flexible operations tailored to customer demand. The board of directors and management, however, feel that the true impact of the accomplishments of 1962 and prior years, which produced a major rehabilitation of the property, is obscured by the heavy burden of long-term debt. There is a marked divergence between what might be termed the "service result" and the "bookkeeping result".

During the past year much attention has been focussed on the transportation industry in general and the railways in particular. The fact that earnings of the Canadian National have not been sufficient in recent years to provide for the interest on its long-term debt has been interpreted in some quarters to mean that the system has failed in its objective to operate efficiently with due regard to sound business principles in the competitive transportation market. This, in turn, has given rise to allegations that Canadian national, in taking steps to adapt to the changing demands of the transportation market, is engaging in unfair practices in respect of the introduction of new services and rate-making techniques without regard to whether the operations involved are on a compensatory basis. Canadian national does not indulge in such practices. Such criticism and general references to the overall deficit in this context are damaging to the system's business interests. As well, they make it difficult to maintain the high morale among the officers and employees of the system that is so necessary if Canadian national is to provide the best possible service to shippers at the lowest possible cost.

For these reasons, the board of directors considers it necessary and desirable in the interest of the public and employees to appraise CN's current situation and to comment on its outlook.

The MacPherson royal commission on transportation acknowledged that the railways are required to perform a number of operations which are uneconomic when judged by commercial standards. The commission recommended that these burdens, the result of obligations imposed upon the railways by tradition, law and public policy, should be lifted. The main areas of such uneconomic operations involve grain traffic carried at statutory rates, certain passenger services, and thin traffic branch lines. In general, the commission proposed an orderly rationalization of certain services and facilities, and recommended that the railways should be compensated for losses incurred for the continued operation of those services which, while uneconomic, may be deemed by the regulatory authorities to be essential to the public interest.

With respect to the capital structure of the system, submissions have been made to the government recommending a recapitalization procedure which would make it possible to present a more accurate picture of current operations. Basically the recommendations involve a recognition of the deficiency of the depreciation reserves of the system which came about because depreciation accounting was not applied to equipment prior to 1940, to hotel properties until 1954, and to road, track structures and other physical properties until 1956 (the first year for which the uniform classification of accounts in incorporating depreciation accounting was prescribed for Canadian railways by the board of transport commissioners). This deficiency has restricted CN's ability to finance capital expenditures from internal sources and has contributed directly to the current excessive burden of interest charges. If depreciation accounting, as it is now accepted and practised, had been in effect in prior years, large additional sums of cash would have been available to CN to finance, for the most part, its rehabilitation programs, and the need to incur interest-bearing debt for that purpose would have been substantially reduced.

Against the background of the recommendations of the MacPherson royal commission on transportation, and the proposals for a revision of the capital structure, Canadian national has been developing long-range, integrated corporate plans. These indicate that the deficit position is by no means chronic and that a surplus position could be achieved in the foreseeable future. In fact, had the recommendations of the MacPherson commission been in full force and effect in 1962, together with the capital revision proposals, the year-end result would have produced a modest net profit of approximately \$10 million.

Canadian national is intimately associated with the future of Canada and a healthy financial and competitive environment will better enable the system to serve the nation and its people.

The board of directors once again takes pleasure in expressing its appreciation for the continued loyal services rendered by officers and employees throughout the system.

D. Gordon

*Signed on behalf of the board of directors*

Montreal, March 14, 1963

## EXECUTIVE AND GENERAL OFFICERS

Donald Gordon, C.M.G., LL.D., D.C.L., President  
N. J. MacMillan, Q.C., Executive Vice-President  
S. F. Dingle, System Vice-President  
R. H. Tarr, Vice-President and Executive Assistant  
R. T. Vaughan, Secretary of the Company  
K. E. Dowd, M.D., C.M., F.A.C.S., Chief Medical Officer  
C. A. Harris, Director of Public Relations  
E. A. Spearing, M.B.E., Director of Investigation

*Accounting and Finance*

J. L. Toole, Vice-President  
L. J. Mills, O.B.E., Comptroller  
E. J. Denyar, Treasurer

*Highway Services*

F. A. Gaffney, Vice-President

*Law*

H. C. Friel, Q.C., Vice-President  
Lionel Côté, Q.C., General Counsel  
A. D. MacDonald, Q.C., General Counsel

*Personnel and Labour Relations*

W. T. Wilson, Vice-President  
T. A. Johnstone, Assistant Vice-President, Labour Relations  
George Lach, Assistant Vice-President, Personnel

*Purchases and Stores*

E. A. Bromley, Vice-President  
T. M. Pye, General Purchasing Agent

*Research and Development*

O. M. Solandt, O.B.E., M.D., D.Sc., Vice-President  
D. F. Purves, Assistant Vice-President

*Sales*

A. H. Hart, Vice-President  
E. A. Ryder, Deputy Vice-President  
G. R. Johnston, General Sales Manager, Freight  
Pierre Delagrave, M.B.E., General Sales Manager, Passenger

*Transportation and Maintenance*

J. W. Demcoe, Vice-President  
D. M. Trotter, Assistant Vice-President

*Atlantic Region*

H. C. Grayston, Vice-President, Moncton  
E. J. Cooke, General Manager  
E. K. House, Manager, Newfoundland Area, St. John's  
E. P. Stephenson, Manager, Maritime Area, Moncton  
J. G. Davis, Assistant Manager, Maritime Area  
C. A. Bérubé, Manager, Chaleur Area, Campbellton

*St. Lawrence Region*

J. A. McDonald, Vice-President, Montreal  
 J. E. Gauthier, General Manager  
 J. A. Lambert, Manager, Quebec Area, Quebec City  
 J. P. Blanchet, Assistant Manager, Quebec Area  
 J. E. Brennan, Manager, Montreal Area, Montreal  
 J. H. Richer, Assistant Manager, Montreal Area  
 J. J. F. Roberts, Manager, Champlain Area, Montreal  
 J. A. Pollock, Manager, Rideau Area, Belleville

*Great Lakes Region*

Eric Wynne, Vice-President, Toronto  
 W. C. Bowra, General Manager  
 J. H. Spicer, Manager, Toronto Area, Toronto  
 R. H. Menary, Assistant Manager, Toronto Area  
 C. J. Morris, Manager, London Area, London  
 G. H. Bloomfield, Manager, Northern Ontario Area, Capreol

*Prairie Region*

D. V. Gonder, Vice-President, Winnipeg  
 N. T. Walton, General Manager  
 J. D. Hayes, Manager, Lakehead Area, Port Arthur  
 L. H. B. Gooding, Manager, Winnipeg Area, Winnipeg  
 A. R. Williams, Assistant Manager, Winnipeg Area  
 H. J. Fast, Manager, Assiniboine Area, Winnipeg  
 E. S. Barker, Manager, Hudson Bay Area, Dauphin  
 A. Skinner, Manager, Saskatchewan Area, Saskatoon  
 A. E. Street, Assistant Manager, Saskatchewan Area

*Mountain Region*

G. R. Graham, Vice-President, Edmonton  
 W. D. McPherson, General Manager  
 W. B. Jackson, Manager, Edmonton Area, Edmonton  
 G. F. V. Middleton, Manager, Calgary Area, Calgary  
 R. A. Wyman, Manager, British Columbia Area, Vancouver  
 H. G. Wortman, Assistant Manager, British Columbia Area, Prince George

*Grand Trunk Western Railroad*

H. A. Sanders, Vice-President and General Manager, Detroit

*Telecommunications*

J. R. White, General Manager, Toronto  
 H. J. Clarke, Assistant General Manager

*Hotels*

S. S. Chambers, General Manager, Montreal

*European Organization*

J. C. Kenkel, General Manager, London, England

## COMPANIES INCLUDED IN THE CANADIAN NATIONAL SYSTEM

Canadian National Railway Company  
 Canadian National Express Company  
 Canadian National Hotels, Limited  
 Canadian National Railways (France)  
 Canadian National Realities, Limited  
 Canadian National Steamship Company, Limited  
 Canadian National Telegraph Company  
 Canadian National Transfer Company  
 Canadian National Transportation, Limited  
 The Canadian National Railways Securities Trust  
 The Canadian Northern Quebec Railway Company  
 The Central Counties Railway Company  
 Eastern Transport Limited  
 East-West Transport Ltd.  
 Empire Freightways Limited  
 The Great North Western Telegraph Company of Canada  
 Hoar Transport Company Limited  
 Husband Transport Limited  
 Midland Superior Express Limited  
 The Minnesota and Manitoba Railroad Company  
 The Minnesota and Ontario Bridge Company  
 Montalta Holdings Limited  
 Montreal and Southern Counties Railway Company  
 The Montreal Stock Yards Company  
 The Montreal Warehousing Company  
 Mount Royal Tunnel and Terminal Company, Limited  
 The Quebec and Lake St. John Railway Company  
 Sydney Transfer and Storage Limited  
 The Toronto-Peterborough Transport Company, Limited  
 Wacos Holdings Limited  
 Yellowknife Telephone Company  
 Central Vermont Railway, Inc.  
 Central Vermont Transportation Company  
 Duluth, Rainy Lake & Winnipeg Railway Company  
 Duluth, Winnipeg and Pacific Railroad Company  
 Duluth, Winnipeg and Pacific Railway Company  
 Grand Trunk-Milwaukee Car Ferry Company  
 Grand Trunk Western Railroad Company

In addition, the property of the Canadian Government Railways is entrusted to the Canadian National Railway Company as part of the system.

## FINANCIAL AND STATISTICAL STATEMENTS

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## CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1962

## ASSETS

*Current Assets*

Cash.....	\$ 50,063,093	
Accounts receivable.....	80,162,420	
Material and supplies.....	70,424,977	
Other current assets.....	15,761,981	
Government of Canada—Due on deficit account.....	9,335,454	
		\$ 225,747,925

*Insurance Fund*..... 15,000,000

*Investments in Affiliated Companies Not Consolidated*

Trans-Canada Air Lines.....	242,471,000	
Jointly operated rail and terminal facilities.....	48,616,893	
		291,087,893

*Property Investment*

Road.....	2,436,377,513	
Equipment.....	1,333,945,691	
Other physical properties.....	120,586,057	
	3,890,909,261	
Less recorded depreciation.....	738,344,856	
		3,152,564,405

*Other Assets and Deferred Charges*

Other investments.....	3,678,609	
Prepayments.....	2,508,520	
Unamortized discount on long term debt.....	21,665,337	
Other assets.....	27,867,747	
Deferred charges.....	14,000,829	
		69,721,042

\$3,754,121,265

## AUDITOR'S REPORT

To The Honourable The Minister of Transport,  
Ottawa, Canada.

I have examined the consolidated balance sheet of the Canadian National Railway System at December 31, 1962 and the consolidated income statement for the year ended on that date. My examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, subject to the position with regard to depreciation accruing prior to the adoption of depreciation accounting as referred to in Note 1, the accompanying consolidated balance sheet and the related consolidated income statement are properly drawn up so as to give a true and fair view of the state of the affairs of the System at December 31, 1962 and of the results of its operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the System, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the System and the transactions that have come under my notice have been within the powers of the System.

J. A. de Lalanne,  
Chartered Accountant.

February 28, 1963

## CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1962

		LIABILITIES	
<i>Current Liabilities</i>			
Accounts payable	.....	\$ 72,509,749	
Accrued charges	.....	21,260,194	
Other current liabilities	.....	2,445,046	
			\$ 96,214,989
<i>Provision for Insurance</i>	.....		15,000,000
<i>Other Liabilities and Deferred Credits</i>	.....		28,084,224
<i>Long Term Debt</i>			
Bonds	.....	1,633,319,073	
Government of Canada loans and debentures	.....	209,026,793	
			1,842,345,866
		SHAREHOLDERS' EQUITY	
<i>Government of Canada</i>			
6,000,000 shares of no par value capital stock of Canadian National Railway Company	.....	359,963,017	
968,746,872 shares of 4% preferred stock of Canadian National Railway Company	.....	968,746,872	
Capital investment of Government of Canada in the Canadian Government Railways	.....	439,267,036	
			1,767,976,925
<i>Capital Stock of Subsidiary Companies Owned by Public</i>	.....	4,499,261	
			1,772,476,186
			\$3,754,121,265

The accompanying notes are an integral part of this Balance Sheet.

L. J. Mills,  
Comptroller.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1962

*Note 1: Property Investment*

Additions since January 1, 1923 have been recorded at cost and properties and equipment brought into the System at January 1, 1923 are included at the values appearing in the books of the several railways now comprising the System to the extent that these have not been retired or replaced.

**Depreciation on Canadian Lines:** Depreciation accounting as adopted for equipment in 1940, for hotel properties in 1954 and for track and road structures and all other physical properties except land in 1956 has been continued in 1962. The depreciation rates used are based on the estimated service life of the properties but do not provide for depreciation which was not recorded in prior years under the replacement and retirement accounting principles then in force, nor for extraordinary obsolescence resulting from the introduction of more efficient equipment.

**Depreciation on U.S. Lines:** Replacement accounting for track and depreciation accounting for equipment and other property except land has been continued in accordance with the regulations of the Interstate Commerce Commission.

*Note 2: Material and Supplies*

The inventory has been priced at laid down cost based on weighted average cost for ties, rails and fuel and latest invoice price for new materials in general stores, and at estimated utility or sales value for usable second hand, obsolete and scrap materials.

*Note 3: Accounts Receivable from Government of Canada*

Accounts Receivable include the following items due from the Government of Canada:

(i) The Freight Rates Reduction Act expired on 30 April, 1962. Legislation to extend this Act was introduced in Parliament but had not been passed at 31 December, 1962. At the request of the Minister of Finance, the Company continued to extend reduced rates to shippers in accordance with the terms of the expired Act. The amount estimated to be due to the Company under this arrangement and included in its accounts for the period 1 May, 1962 to 31 December, 1962 is \$6,574,042.

(ii) Supplementary Estimates A for the fiscal year ended 31 March, 1963, as tabled in the House of Commons, included Vote 213a which provided \$50 million for Interim Payments related to the Recommendations of the Royal Commission on Railway Problems. Appropriation Act No. 7, 1962, authorized payment of eleven-twelfths of this amount. Payment of the last one-twelfth was not authorized at 31 December, 1962. The Company has included in its accounts the amount of \$2,500,000 estimated to be due to it for the month of December, 1962.

*Note 4: St. Lawrence Seaway*

The Company's expenditures related to the track diversion and re-arrangement of the approaches to the Victoria Jubilee Bridge necessitated by the construction of the St. Lawrence Seaway are included in Other Assets pending payment by the St. Lawrence Seaway Authority of the Company's claim, including interest, amounting to \$14.0 million.

*Note 5: Capital Stock*

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

*Note 6: Major Commitments*

(a) Pension Funds:

The Company has given a written acknowledgement to the Trustee of the Pension Funds for an amount not exceeding \$395,000,000 for the outstanding liability in respect of prior service of active employees.

(b) Vacation Pay:

In accordance with past practice the Company has not recorded the liability for vacations earned in 1962 which will be paid in 1963.

(c) Chicago & Western Indiana Railroad Company:

The Grand Trunk Western Railroad Company is liable jointly and severally with four other proprietors as guarantor of principal and interest with respect to \$11,766,000 First Collateral Trust Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds due May 1, 1982 of the Chicago & Western Indiana Railroad Company.

In addition, the proprietors are obligated to make annual sinking fund payments sufficient to retire the bonds at maturity and to meet interest as it falls due; in the absence of default of any of the other proprietors, Grand Trunk Western's proportion of such annual payments is one-fifth.

(d) The Belt Railway Company of Chicago:

The Grand Trunk Western Railroad Company is liable jointly and severally with eleven other proprietors as guarantor of principal, interest and sinking fund payments with respect to \$37,250,000 First Mortgage 4 $\frac{3}{8}$ % Sinking Fund Bonds series "A", due August 15, 1987 of The Belt Railway Company of Chicago. Each proprietor is to make payments to the extent required in proportion to its usage of the Belt's facilities in the preceding three years. For the three years ended December 31, 1962 Grand Trunk Western Railroad's usage was approximately 3% of the total.

(e) Detroit & Toledo Shore Line Railroad Company:

The Grand Trunk Western Railroad Company is jointly and severally liable with one other proprietor as guarantor of principal, interest and sinking fund payments with respect to \$2,708,000 First Mortgage 3 $\frac{1}{4}$ % 30-year series "A" Bonds, due December 1, 1982 of the Detroit & Toledo Shore Line Railroad Company.

## CONSOLIDATED INCOME STATEMENT

	1962	1961
<i>Railway Operating Revenues</i>		
Freight.....	\$529,307,712	\$513,949,260
Switching, demurrage, etc.....	18,491,545	16,007,554
Passenger.....	34,331,531	34,793,498
Sleeping, dining and parlour car, etc.....	9,645,296	8,649,032
Mail.....	11,030,572	11,650,454
Express.....	46,963,146	43,256,496
Telecommunications.....	36,706,570	32,930,780
Other.....	21,645,902	21,190,099
Interim payments—Royal Commission on Transportation	30,202,480	27,878,000
<b>Total operating revenues.....</b>	<b>738,324,754</b>	<b>710,305,173</b>
<i>Railway Operating Expenses</i>		
Road maintenance.....	165,724,315	166,739,542
Equipment maintenance.....	148,450,417	147,654,575
Sales.....	16,361,800	16,398,837
Transportation.....	317,044,854	311,629,593
Miscellaneous operations.....	6,152,519	6,369,685
General.....	58,704,428	53,293,780
Railway tax accruals.....	23,355,682	19,791,374
Equipment and joint facility rents.....	3,088,665	270,197
<b>Total operating expenses.....</b>	<b>738,882,680</b>	<b>722,147,583</b>
<b>Net Railway Operating Loss.....</b>	<b>557,926</b>	<b>11,842,410</b>
<i>Other Income</i>		
Miscellaneous rents.....	2,063,882	1,680,997
Income from non-rail properties.....	2,593,296	1,168,553
Hotel income.....	2,285,971	1,621,091
Dividend income.....	239,617	299,616
Interest income.....	1,935,809	1,490,865
Miscellaneous.....	5,018,487	749,426
<b>Total other income.....</b>	<b>14,137,062</b>	<b>7,010,548</b>
<b>Surplus or Deficit before interest on long term debt</b>	<b>13,579,136</b>	<b>4,831,862</b>
<i>Interest Charges</i>		
Interest on bonds.....	67,798,723	69,055,215
Interest on government loans.....	3,770,596	1,480,367
Amortization of discount on bonds.....	2,448,047	2,451,660
<b>Total interest on long term debt.....</b>	<b>74,017,366</b>	<b>72,987,242</b>
<b>Less interest on loans to Trans-Canada Air Lines</b>	<b>11,518,776</b>	<b>10,511,332</b>
<b>Net interest on long term debt.....</b>	<b>62,498,590</b>	<b>62,475,910</b>
<b>Deficit.....</b>	<b>\$ 48,919,454</b>	<b>\$ 67,307,772</b>

## PROPERTY INVESTMENT STATEMENT

Property Investment at December 31, 1961.....		\$3,828,338,463
CAPITAL EXPENDITURES IN 1962		
New lines and diversions.....	\$ 8,043,056	
Roadway improvements.....	32,933,506	
Large terminals.....	10,332,465	
Yard tracks and sidings.....	1,957,902	
Buildings.....	3,792,216	
Highway crossing protection.....	569,529	
Signals.....	3,370,802	
Roadway and shop machinery.....	2,001,692	
Other facilities.....	2,615,533	
Telecommunication facilities.....	11,688,249	
	<hr/>	
	77,304,950	
Branch Lines.....	5,577,981	
Hotels.....	1,846,787	
Equipment.....	28,757,943	
	<hr/>	
		\$113,487,661
Government of Canada net expenditure on Canadian Government Railways.....		1,363,994
Properties of companies acquired.....		7,948,679
		<hr/>
Additions to property in 1962.....	122,800,334	
Deduction in respect of property retirements in 1962.....	60,229,536	
	<hr/>	
		62,570,798
Property Investment at December 31, 1962.....		<u>\$3,890,909,261</u>

## RECORDED DEPRECIATION STATEMENT

Recorded Depreciation at December 31, 1961.....		\$ 681,880,200
ADD PROVISION FOR DEPRECIATION FOR THE YEAR		
Road property.....	\$ 48,506,258	
Equipment.....	44,886,598	
Other Physical Properties.....	2,525,238	
	<hr/>	
		\$ 95,918,094
Recorded depreciation of companies acquired.....	3,782,272	
	<hr/>	
	99,700,366	
Deduct Net Charges in respect of property retirements.....	43,235,710	
	<hr/>	
		56,464,656
Recorded Depreciation at December 31, 1962.....		<u>\$ 738,344,856</u>

LONG TERM DEBT

Rate %	Maturity (See Note)		Currency in which payable	Outstanding at Dec. 31, 1961	Transactions Year 1962 Increase or Decrease	Outstanding at Dec. 31, 1962
		<i>Bonds and Debenture Stocks</i>		\$	\$	\$
3	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can.-U.S.-Stg.	26,465,130	26,465,130	
4	Jan. 1, 1962	Grand Trunk Pacific Bonds.....	Can.-U.S.-Stg.	7,999,074	7,999,074	
2½	Feb. 1, 1963 <i>a</i>	Canadian National 8 Year 1½ Month Bonds.....	Canadian	250,000,000		250,000,000
5½	Dec. 15, 1964 <i>b, i</i> ,	Canadian National 5 Year Bonds.....	Canadian	198,989,000	278,000	198,711,000
3	Jan. 3, 1966 <i>c</i>	Canadian National 17 Year Bonds.....	Canadian	35,000,000		35,000,000
2½	Jan. 2, 1967 <i>d</i>	Canadian National 20 Year Bonds.....	Canadian	50,000,000		50,000,000
4½	Apr. 1, 1967 <i>i</i>	Canadian National 6½ Year Bonds.....	Canadian	72,750,000	450,000	72,300,000
5	May 15, 1968 <i>i</i>	Canadian National 9 Year Bonds.....	Canadian	56,400,000	600,000	55,800,000
2½	Sept. 15, 1969 <i>e</i>	Canadian National 20 Year Bonds.....	Canadian	70,000,000		70,000,000
2½	Jan. 16, 1971 <i>f</i>	Canadian National 21 Year Bonds.....	Canadian	40,000,000		40,000,000
5½	Dec. 15, 1971 <i>i, j</i>	Canadian National 12 Year Bonds.....	Canadian	11,000	278,000	289,000
3½	Feb. 1, 1974 <i>g</i>	Canadian National 20 Year Bonds.....	Canadian	200,000,000		200,000,000
2½	June 15, 1975 <i>h</i>	Canadian National 25 Year Bonds.....	U.S.	6,000,000		6,000,000
5	May 15, 1977 <i>i</i>	Canadian National 18 Year Bonds.....	Canadian	85,950,000	1,350,000	84,600,000
4	Feb. 1, 1981	Canadian National 23 Year Bonds.....	Canadian	300,000,000		300,000,000
5½	Jan. 1, 1985 <i>i</i>	Canadian National 25 Year Bonds.....	Canadian	99,500,000		99,500,000
5	Oct. 1, 1987 <i>i</i>	Canadian National 27 Year Bonds.....	Canadian	171,500,000	2,825,000	168,675,000
4½	Sept. 15, 1979	Grand Trunk Western Note.....	Can.-U.S.	400,000		400,000
5½	Perpetual	Buffalo and Lake Huron 1st Mortgage Bonds.....	Sterling	795,366		795,366
5½	Perpetual	Buffalo and Lake Huron 2nd Mortgage Bonds.....	Sterling	1,228,399		1,228,399
5	Perpetual	Debenture Stocks—Various.....	Sterling	88,972	68,664	20,308
Total Bonds and Debenture Stocks.....				1,673,076,941	39,757,868	1,633,319,073
<i>Government of Canada Loans and Debentures</i>						
Capital Revision Act: Jan. 1, 1972 Debenture.....		Canadian		100,000,000		100,000,000
Canadian Government Railways: Advances for Working Capital.....		Canadian		16,983,762		16,983,762
Financing and Guarantee Acts: Loans.....		Canadian		45,571,000	12,635,244	58,206,244
Refunding Act, 1955: Loans for Debt Redemption.....		Canadian		2,038,388	31,798,399	33,836,787
Total Government of Canada Loans and Debentures.....				164,593,150	44,433,643	209,026,793
Total Long Term Debt.....				1,837,670,091	4,675,775	1,842,345,866

NOTE: *a* Callable at par on or after Feb. 1, 1961  
*b* Exchangeable on or before June 15, 1964 for 5½% bonds due Dec. 15, 1971  
*c* Callable at par on or after Jan. 3, 1961  
*d* Callable at par on or after Jan. 2, 1964

*e* Callable at par on or after Sept. 15, 1964  
*f* Callable at par on or after Jan. 16, 1966  
*g* Callable at par on or after Feb. 1, 1972  
*h* Callable on or before June 14, 1962, at 101½; thereafter at varying redemption premiums.

*i* Amounts of ½% or 1% of the original issues may be purchased quarterly through Purchase Funds operated under the conditions of each issue.  
*j* Issued in exchange for 5½% bonds due December 15, 1964.

## SHAREHOLDERS' EQUITY

*Government of Canada*

No par value capital stock of Canadian National Railway Company.....	359,963,017		359,963,017
4% Preferred stock of Canadian National Railway Company.....	946,807,207	21,939,665	968,746,872
Capital investment in Canadian Government Railways.....	437,903,042	1,363,994	439,267,036
Total Government of Canada.....	1,744,673,266	23,303,659	1,767,976,925
<i>Capital Stock of Subsidiary Companies Owned by Public.....</i>	4,499,273	12	4,499,261
Total Shareholders' Equity.....	1,749,172,539	23,303,647	1,772,476,186

## INVESTMENTS IN JOINTLY OPERATED RAIL AND TERMINAL FACILITIES

	Percentage Held	Investment at Dec. 31, 1961	Transactions Year 1962 Increase or Decrease	Investment at Dec. 31, 1962
		\$	\$	\$
<i>The Belt Railway Company of Chicago</i>				
Capital Stock.....	8.33	240,000		240,000
Advances.....		74,512	27,781	46,731
<i>Chicago &amp; Western Indiana Railroad Company</i>				
Capital Stock.....	20	1,000,000		1,000,000
Advances.....		6,802,461	311,408	7,113,869
<i>The Detroit &amp; Toledo Shore Line Railroad Company</i>				
Capital Stock.....	50	1,500,000		1,500,000
<i>Detroit Terminal Railroad Company</i>				
Capital Stock.....	50	1,000,000		1,000,000
<i>Northern Alberta Railways Company</i>				
Capital Stock.....	50	8,540,000		8,540,000
Bonds.....	50	16,902,500		16,902,500
<i>The Public Markets, Limited</i>				
Capital Stock.....	50	575,000		575,000
<i>Railway Express Agency, Inc.</i>				
Capital Stock.....	0.6	600		600
Advances.....		173,493		173,493
<i>The Shawinigan Falls Terminal Railway Company</i>				
Capital Stock.....	50	62,500		62,500
<i>The Toronto Terminals Railway Company</i>				
Capital Stock.....	50	250,000		250,000
Bonds.....	50	11,202,200	190,000	11,012,200
Advances.....		200,000		200,000
Total.....		48,523,266	93,627	48,616,893

## SOURCE AND APPLICATION OF FUNDS FOR THE YEAR 1962

*Source of Funds*

Amount recoverable from Government of Canada in respect of deficit for the year (including \$39,584,000 received on account prior to December 31, 1962).....	\$ 48,919,454
Increase in long term debt.....	4,675,775
Provision for depreciation.....	95,918,094
Issue of 4% preferred stock.....	21,939,665
Other (net).....	10,718,542
Total.....	\$182,171,530

*Application of Funds*

Deficit for the year.....	\$ 48,919,454
Additions to property investment.....	113,487,661
Advances to Trans-Canada Air Lines.....	9,800,000
Increase in working capital.....	9,964,415
Total.....	\$182,171,530

## INVENTORY OF RAILWAY EQUIPMENT

	On Hand Dec. 31, 1962
Motive Power Equipment	
Diesel Electric Units.....	2,125
Electric Locomotives.....	27
Steam Generator Units.....	108
Total.....	2,260
Freight Equipment	
Box, Flat and Stock Cars.....	76,124
Refrigerator Cars.....	5,279
Gondola and Hopper Cars.....	23,774
Caboose and Other Cars.....	1,951
Total.....	107,128
Passenger Equipment	
Coach Cars.....	729
Sleeping, Dining, Parlour and Tourist.....	571
Baggage, Mail and Express.....	1,300
Other Cars in Passenger Service.....	243
Total.....	2,843
Work Equipment	
Units in work service.....	9,551
Floating Equipment	
Car Ferries.....	6
Steamers.....	14
Barges, Tugs and Work.....	12
Total.....	32

## OPERATED MILEAGE AT DECEMBER 31, 1962

	Owned	Leased	Trackage Rights	Total
<i>Operated Road Mileage—first main track</i>				
Atlantic Region.....	3,802	1	83	3,886
St. Lawrence Region (including New England Lines).....	3,878	7	15	3,900
Great Lakes Region.....	3,328		16	3,344
Prairie Region (including Duluth, Winnipeg and Pacific).....	8,148		5	8,153
Mountain Region.....	4,066	35	85	4,186
Grand Trunk Western Lines.....	879	10	58	947
Central Vermont Lines.....	308		59	367
Total.....	24,409	53	321	24,783
Lines in Canada.....	22,816	36	201	23,053
Lines in United States.....	1,593	17	120	1,730
<i>Operated Mileage—all tracks</i>				
First main track.....	24,409	53	321	24,783
All other main lines.....	1,129		82	1,211
Spurs, sidings and yard tracks.....	7,241	16	1,645	8,902
Total all tracks.....	32,779	69	2,048	34,896

## PENSION TRUST FUNDS BALANCE SHEET AT DECEMBER 31, 1962

		ASSETS	
<i>Current Assets</i>			
Cash—In Banks—Current Accounts.....	\$	212,438	
—Time Deposits.....		800,000	
Deposits with Trust Companies.....		447,390	
		1,459,828	
Accrued interest on investments.....		3,933,096	
Accounts receivable—			
Canadian National Railways—current account.....		2,096,784	
Banks, Insurance and Trust Companies re Mortgages....		263,459	\$ 7,753,167
<i>Investments</i>			
Stocks—at cost (Market value \$42,753,228).....		40,157,906	
Bonds—at amortized value (Market value \$255,908,364).....		276,517,986	
Mortgages—at amortized value.....	\$126,710,778		
less holdbacks.....		478,058	
		126,232,720	442,908,612
<i>Canadian National Railways</i>			
Acknowledged liability in respect of past service of employees.....			395,000,000
			\$ 845,661,779
		LIABILITIES	
<i>Current Liabilities</i>			
Accounts Payable.....	\$		62,694
<i>Reserve for Pensions</i>			
In respect of pensions in force and pensions accruing to active employees under the 1935 and 1959 Pension Plans.....			845,599,085
			\$ 845,661,779
Note: The Reserve for Pensions includes the accumulated contributions of certain employees in service, with interest thereon, which are held in trust under the rules of the 1935 Pension Plan as follows:—			
Annuity Trust Fund.....	\$	11,337,872	
Supplemental Annuity Trust Fund.....		2,300,349	
		\$ 13,638,221	

L. J. Mills,  
Comptroller

PENSION TRUST FUNDS STATEMENT OF RESERVE AT DECEMBER  
31, 1962

Reserve at December 31, 1961.....		\$ 737,667,542
<i>Addition to Reserve during the year:</i>		
Increased unfunded liability in respect of past service acknowledged by Canadian National Railways.....	\$ 70,000,000	
 Contributions from employees on ac- count of—		
Current service.....	\$ 17,598,249	
Prior years' deficiencies.....	5,087,400	
	22,685,649	
Less refunds on termination of service, etc.....	2,769,374	
	19,916,275	
Contributions by the Company.....	26,271,742	
Interest earned on contributions made by the Company and employees.....	18,928,338	
	135,116,355	
		872,783,897
 <i>Deductions from Reserve during year:</i>		
Pensions paid.....		27,184,812
		27,184,812
Reserve at December 31, 1962.....		\$ 845,599,085

AUDITOR'S REPORT

To the Trustee,  
Canadian National Railways Pension Funds.

I have examined the balance sheet of the Pension Trust Funds of the 1935 and 1959 Pension Plans of Canadian National Railways at December 31, 1962 and the statement of reserve for pensions for the year ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion, the accompanying balance sheet and related statement of reserve for pensions are properly drawn up so as to give a true and fair view of the state of the affairs of the Funds at December 31, 1962 and of the results of their operations for the year ended on that date according to the best of my information and the explanations given to me and as shown by the books of the Funds, and in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the Trustee and that the transactions that have come under my notice have been within the powers of the Trustee.

J. A. de Lalanne,  
Chartered Accountant

February 28, 1963

ACTUARIAL CERTIFICATE

This is to certify that the Reserve for Pensions shown in the Balance Sheet of the Pension Trust Funds of Canadian National Railways, amounting to \$845,599,085 as at December 31, 1962, in our opinion, represented adequate provision for the accumulated liabilities of pensions then approved and in force, pensions awaiting approval and pensions accrued to the above date in respect of employees then in service under the 1935 and 1959 Plans, excluding pensions granted under prior Plans.

Denis R. J. George,  
Dudley Funnell,  
Fellows of the Institute of Actuaries

William M. Mercer Limited  
Montreal, February 19, 1963

## STATISTICS OF RAIL-LINE OPERATIONS

	1962	1961	% Increase or Decrease
<i>Train Miles</i>			
Freight service.....	34,283,043	34,041,907	0.7
Passenger service.....	18,096,980	19,576,875	7.6
Work service.....	1,634,258	1,561,665	4.6
Total train miles.....	54,014,281	55,180,447	2.1
<i>Locomotive Miles</i>			
Freight service.....	34,545,765	34,299,804	0.7
Passenger service.....	16,072,350	17,407,808	7.7
Switching service—Road and Yard.....	17,947,807	18,066,116	0.7
Work Service.....	1,657,702	1,583,756	4.7
Total locomotive miles.....	70,223,624	71,357,484	1.6
<i>Car Miles</i>			
Freight Service:			
Loaded.....	1,110,109,898	1,092,918,197	1.6
Empty.....	680,423,883	664,846,763	2.3
Other.....	14,257,575	14,417,958	1.1
Caboose.....	35,075,508	34,420,941	1.9
Passenger—Coach and Combination...	3,231,400	3,074,942	5.1
	1,843,098,264	1,809,678,801	1.8
Passenger Service:			
Coach and Combination.....	39,278,731	42,009,734	6.5
Sleeping, Parlour and Observation.....	40,601,819	42,646,795	4.8
Dining.....	7,948,251	8,434,799	5.8
Motor Unit.....	3,806,184	3,782,495	0.6
Other (baggage and express, etc.).....	79,132,838	84,810,887	6.7
Freight—loaded.....	1,423,952	2,523,331	43.6
Freight—empty.....	372,441	454,211	18.0
	172,564,216	184,662,252	6.6
Work Service.....	2,804,515	3,302,287	15.1
Total car miles.....	2,018,466,995	1,997,643,340	1.0
<i>Ton Miles</i>			
Gross ton miles—all services (excluding passenger cars on passenger trains)....	80,715,356,000	78,849,250,000	2.4
Net tons miles—all services.....	36,110,915,000	35,280,613,000	2.4
Average Miles of Road Operated.....	24,753.38	24,854.33	0.4
<i>Freight Traffic</i>			
Freight revenue.....	\$ 529,307,712	513,949,260	3.0
Tons carried—Revenue freight.....	78,384,773	76,022,886	3.1
Ton miles—Revenue freight.....	35,595,425,349	34,723,214,717	2.5
Train hours in freight road service.....	1,548,194	1,569,482	1.4
Averages Per Mile of Road:			
Freight revenue.....	\$ 21,383	20,678	3.4
Train miles.....	1,385	1,370	1.1
Total freight train car miles.....	73,827	72,241	2.2
Ton miles—Revenue freight.....	1,438,003	1,397,069	2.9
Ton miles—All freight.....	1,458,828	1,419,496	2.8
Averages Per Loaded Car Mile:			
Freight revenue.....	c. 47.6	46.9	1.5
Ton miles—All freight.....	32.5	32.2	0.9

## STATISTICS OF RAIL-LINE OPERATIONS (continued)

	1962	1961	% Increase or Decrease
<i>Freight Traffic (Continued)</i>			
Miscellaneous Averages:			
Revenue per ton.....	\$ 6.753	6.760	0.1
Revenue per ton mile.....	1.487	1.480	0.5
Miles hauled per revenue ton.....	454.1	456.7	0.6
Cars per train—loaded.....	32.4	32.2	0.6
Cars per train—empty.....	19.8	19.5	1.5
Gross load—Freight trains (tons)....	2,352	2,313	1.7
Net load—Freight trains (tons)....	1,053	1,035	1.7
Gross ton miles per freight train hour	52,085	50,172	3.8
Train speed—Miles per hour.....	22.1	21.7	1.8
Diesel unit miles per serviceable day (excluding stored).....	217	208	4.3
<i>Passenger Traffic</i>			
Passenger revenue.....	\$ 34,331,531	34,793,498	1.3
Revenue passengers carried.....	12,342,782	12,104,791	2.0
Revenue passenger miles.....	1,129,315,233	1,075,770,694	5.0
Average Per Mile of Road:			
Passenger revenue.....	\$ 1,387	1,400	0.9
Train miles.....	731	788	7.2
Total passenger train car miles.....	7,603	8,000	5.0
Revenue passenger miles.....	45,623	43,283	5.4
Averages Per Car Mile—Passenger:			
Passenger revenue.....	¢ 40.2	38.7	3.9
Revenue passenger miles.....	13.2	12.0	10.0
Miscellaneous Averages:			
Revenue per passenger.....	\$ 2.782	2.874	3.2
Revenue per passenger mile.....	¢ 3.040	3.234	6.0
Average passenger journey (miles)...	91.5	88.9	2.9
Percent on time arrival—principal passenger trains.....	72.7	71.4	1.8
Diesel unit miles per serviceable day (excluding stored).....	379	379	—
<i>Operating Results</i>			
Total operating revenues per mile of road	\$ 29,827	28,579	4.4
Total operating expenses per mile of road	29,850	29,055	2.7
Net railway operating loss per mile of road	23	476	95.2

	1962	1961	Increase or Tons Decrease %
<i>Revenue Tonnage Carried (by classes of commodities)</i>			
Agricultural Products.....	13,464,634	14,402,246	937,612 6.5
Animals and Animal Products.....	662,726	737,974	75,248 10.2
Mine Products.....	27,108,716	26,624,648	484,068 1.8
Forest Products.....	9,096,858	8,413,443	683,415 8.1
Manufactured and Miscellaneous....	27,256,436	24,999,336	2,257,100 9.0
Total Carload Freight.....	77,589,370	75,177,647	2,411,723 3.2
All less than carload freight.....	795,403	845,239	49,836 5.9
Grand Total.....	78,384,773	76,022,886	2,361,887 3.1

A 25-YEAR SYNOPTICAL HISTORY OF THE  
CANADIAN NATIONAL RAILWAYS

Year	Operating Revenues	Operating Expenses	Net Railway Operating Profit or Loss	Other Income	Surplus or Deficit before Interest Charges	Interest on Long Term Debt	Surplus or Deficit	Freight Revenue Ton Miles	Freight Revenue per Ton Mile	Revenue Passenger Miles	Revenue per Passenger Mile	Average Number of Employees
	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Thousands	Millions	c	Millions	c	
1938	\$ 182,242	\$ 184,375	\$ 2,133	\$ 1,271	\$ 862	\$ 53,452	\$ 54,314	14,505	.964	892	2.030	79,940
1939	203,820	191,382	12,438	955	13,393	53,488	40,095	17,084	.938	875	2.035	81,672
1940	247,527	211,563	35,964	376	36,340	53,305	16,965	21,532	.904	1,125	1.929	86,366
1941	304,377	248,750	55,627	1,551	57,178	53,162	4,016	27,200	.881	1,762	1.810	95,362
1942	375,655	300,725	74,930	1,803	76,733	51,670	25,063	31,729	.909	2,708	1.784	100,651
1943	440,616	358,982	81,634	6,195	87,829	52,190	35,639	36,327	.894	3,169	1.848	106,893
1944	441,147	373,422	67,725	5,776	73,501	50,474	23,027	36,016	.893	3,697	1.888	108,278
1945	433,773	365,895	67,878	5,888	73,766	49,010	24,756	34,600	.915	3,338	1.953	110,591
1946	400,586	369,027	31,559	6,164	37,723	46,685	8,962	30,812	.975	2,289	2.190	109,809
1947	438,198	414,487	23,711	6,330	30,041	45,926	15,885	32,945	1.040	1,845	2.332	112,801
1948	491,270	481,094	10,176	2,633	12,809	46,342	33,533	32,943	1.195	1,755	2.368	115,395
1949	500,723	495,176	5,547	1,042	6,589	48,632	42,043	30,922	1.276	1,621	2.671	116,057
1950	553,831	513,387	40,444	3,717	44,161	47,422	3,261	31,988	1.394	1,408	2.834	116,347
1951	624,834	599,237	25,597	7,548	33,145	48,177	15,032	36,435	1.369	1,611	2.947	124,608
1952	675,219	655,725	19,494	6,063	25,557	25,415	142	38,430	1.397	1,635	2.964	131,297
1953	696,622	676,465	20,157	9,463	29,620	29,376	244	36,678	1.509	1,539	2.984	130,109
1954	640,637	639,998	639	3,130	3,769	32,527	28,758	32,882	1.529	1,472	2.973	122,237
1955	683,089	646,378	36,711	7,011	43,722	33,004	10,718	35,677	1.511	1,464	3.001	119,430
1956	774,801	728,009	46,792	11,068	57,860	31,783	26,077	41,935	1.461	1,501	3.054	126,639
1957	753,166	755,214	2,048	9,447	7,399	36,972	29,573	36,674	1.601	1,499	3.124	124,620
1958	704,947	719,211	14,264	9,194	5,070	46,521	51,591	35,077	1.554	1,269	3.270	113,086
1959	740,165	741,852	1,687	6,897	5,210	48,798	43,588	35,542	1.613	1,272	3.159	111,538
1960	693,141	705,818	12,677	6,203	6,474	61,023	67,497	34,011	1.547	1,208	3.171	104,155
1961	710,305	722,147	11,842	7,010	4,832	62,476	67,308	34,723	1.480	1,076	3.234	99,564
1962	738,325	738,883	558	14,137	13,579	62,498	48,919	35,595	1.487	1.129	3.040	97,922

The CHAIRMAN: Thank you very much, Mr. Gordon. Gentlemen, the usual practice is to go back to the report, to the first heading "Financial Review", and to discuss any matters which arise in that section. I would hope in order that we may proceed in an orderly manner that everybody will have an opportunity to put questions, and that the members will co-operate with me. Secondly, I hope it will be possible that the questions may be of a nature which will relate to these sections. Under those circumstances I think we should be able to proceed with the item of "Financial Review".

Mr. PRITTE: Before we start, I suppose this has been brought up before, but Mr. Gordon has had to spend three quarters of an hour to read his report. Surely, the members of the committee could be expected to have done this reading beforehand, and may we not consider that for the future? I agree with Mr. Gordon's comment regarding the timing of the committee. We were here in June and July and we could have met and dealt with the report at that time. That is my opinion. I wonder if the Minister of Transport would care to comment about the future? Could we not deal with this year's report, the 1963 report in the spring?

Hon. George J. McILRAITH (*Minister of Transport*): Yes, I referred that matter to this committee and also expressed the hope that it would be possible to do so. We were confronted with a very heavy load or pressure of legislation by reason of two elections in one year, and those arrears had to be tidied up. The 1962 estimates were not even passed when this session started, and then we were well into 1963's. So it was not possible to have the house deal with the setting up of this committee in priority to other legislation. Other matters simply had to be dealt with if government was to carry on in this country.

I would hope, as I have expressed previously in this committee, that it would be possible to submit the annual report to the committee immediately upon its being tabled, which is usually in March of each year. Certainly, as far as I am concerned that is my intention as long as I have responsibility in this office.

Mr. BALCER: I agree with the remarks of the minister. There are no requirements in the law for this committee to sit. In fact, the report does not have to be approved by the committee. So there is no special need for this committee to sit right now. We could sit in March of next year without doing anything illegal.

Mr. McILRAITH: That is right.

The CHAIRMAN: Are you ready to start your questioning under "Financial Review"?

Mr. GRÉGOIRE: Mr. Chairman, I notice on the green page there is given a list of the board of directors. It is from that board of directors that the board of directors of T.C.A. is appointed?

Mr. GORDON: Not all of them, no.

Mr. GRÉGOIRE: Only five?

Mr. GORDON: The board of directors of the Canadian National Railways appoints five directors. They do not have to be directors of the C.N.R. board. They can be anybody. But in practice we have always followed the procedure that we appoint five of the directors of the board of directors of the Canadian National Railways to function on the board of directors of TCA.

Mr. GRÉGOIRE: Who makes the appointments?

Mr. GORDON: The board of directors of the Canadian National Railways.

Mr. GRÉGOIRE: They have to have the approval of the Minister of Transport?

Mr. GORDON: No. The government appoints four of the directors of TCA directly. They are appointed by order in council. But under the TCA Act the CNR selects five of their own members to be directors of TCA.

Mr. GRÉGOIRE: In other words, they become a majority of the Trans-Canada Air Lines board of directors?

Mr. GORDON: That is correct.

Mr. GRÉGOIRE: That is, Trans-Canada makes the decision. And as to these five members of the board of directors who come from the Canadian National Railways—where is the decision taken by Trans-Canada Air Lines?

Mr. GORDON: They act as individual members of the board. When the Canadian National Railways appoint five members to the Trans-Canada Air Lines board, there are four members appointed by the government. Each director so appointed to TCA acts in his individual capacity. In other words, there is no Canadian National Railways block of five members voting, so to speak. They are individual members, and they are free to make up their minds in regard to TCA matters, since they are members of the board. They are, of course, fully informed and take part in TCA decisions.

Mr. GRÉGOIRE: But they are there as shareholders of the Canadian National Railways?

Mr. GORDON: Yes; they are there representing the shareholders.

Mr. GRÉGOIRE: You are aware of the decision taken by TCA?

Mr. GORDON: In the board of directors, yes.

Mr. GRÉGOIRE: Were you consulted?

Mr. GORDON: Two months ago.

Mr. GRÉGOIRE: I mean on October 22, regarding the decision of Trans-Canada Air Lines to have a choice of new aircraft for TCA.

Mr. GORDON: Well, I do not want to give evidence on behalf of TCA, but I can point out that Mr. McGregor has already indicated, in various ways, that the decision in regard to the choice of aircraft was a unanimous decision of the board of directors.

Mr. CANTELON: Mr. Chairman, on a question of privilege, is this pertinent to the operations of CNR?

The CHAIRMAN: Up to this point, but I wanted to see how far it was going to go.

Mr. GRÉGOIRE: The five directors act as members of the Canadian National Railways in regard to the TCA, as such?

Mr. GORDON: I want to make it clear that the members of the TCA board of directors make their own decisions. They are not making decisions that represent the Canadian National Railways.

Mr. GRÉGOIRE: No, but they are there as shareholders, and the Canadian National Railways is almost the sole if not the only shareholder of the TCA.

Mr. GORDON: That is correct.

Mr. GRÉGOIRE: When they are members of TCA they are there as shareholders of the Canadian National Railways?

Mr. GORDON: Do we have the TCA Act? They are acting as members of the board of TCA when they make a decision affecting TCA.

Mr. GRÉGOIRE: I know, but they also act because they represent the shareholders of the Canadian National Railways.

Mr. GORDON: No, they are appointed by the Canadian National Railways board of directors in accordance with the provisions of the act. How does the

act read? Have you a copy of it? I will read the section in the act as follows from the "Revised Statutes of Canada", 1952, vol. IV, page 5088.

5. (1) The Corporation shall be under the management of a Board of Directors composed of nine persons, elected and appointed as hereinafter provided.

(2) It is not necessary that a director be a shareholder of the Corporation, but no person shall be elected or appointed as a director or shall continue to hold office as such who is not a British subject who has been continuously resident in Canada for not less than five years prior to the date of his election or appointment.

(3) Five directors shall be elected by the shareholders of the corporation and four directors shall be appointed by the Governor in Council.

Mr. GRÉGOIRE: I know, but I want to raise this point: there is only one shareholder of TCA?

Mr. GORDON: That is right.

Mr. GRÉGOIRE: And that is the Canadian National Railways?

Mr. GORDON: That is right.

Mr. GRÉGOIRE: There are five members of the board of directors of TCA who are appointed by the board of directors of the Canadian National Railways, and they are named because the Canadian National Railways is the shareholder of TCA.

Mr. GORDON: Under the act the shareholders are authorized to appoint five directors, and they sit on the board of TCA as directors of TCA.

Mr. GRÉGOIRE: To represent the Canadian National Railways which is the sole shareholder of TCA.

Mr. GORDON: I do not understand your point. You are getting into a legal area and you are a little bit beyond me, I am afraid.

Mr. GRÉGOIRE: At page 2 of the TCA annual report for 1962 I read: "Elected by the shareholders: R. A. Brown, Jr., Donald Gordon, J.-Louis Lévesque, H. I. Price, and W. G. Stewart." They are there because they represent the shareholders, and because the Canadian National Railways is the only shareholder, I know they are there to speak for the Canadian National Railways. They do not represent anybody else except the Canadian National Railways.

Mr. GORDON: That is the point. There is a legal definition which I am not prepared to make. I would rather have a lawyer do it. When they are appointed as directors of TCA they are bound by statutory duties outlined in the TCA Act. They are not at that point covered by the Canadian National Railways Act. When they have accepted appointment, they carry out their duties in accordance with the TCA act.

Mr. GRÉGOIRE: But the fact is that as shareholders they represent the interest of shareholders.

Mr. McILRAITH: No, no.

Mr. GORDON: I cannot follow that. They represent the interest of TCA.

Mr. GRÉGOIRE: But TCA is a company with shareholders. Somebody has to guarantee the funds, and it is the shareholders, and the shareholders are the Canadian National Railways.

Mr. LLOYD: Would it help matters at this stage if Mr. Gordon might advise the committee on the difference between an ordinary corporation and the statutory responsibility imposed upon TCA by the act to which he referred very briefly?

I think the gentleman is trying to establish that in the normal case the shareholders of a private corporation and the directors can control a sub-

subsidiary and there would be a reverting responsibility. I think the line of questioning here is being followed in an attempt to try to distinguish between this government kind of corporate structure and a private one.

Mr. GRÉGOIRE: Evidently there is a difference.

Mr. LLOYD: Just a minute, please.

Mr. GRÉGOIRE: All the guarantees are given by the CNR, and five of the nine shareholders are elected by the board of directors of the CNR, so they have a responsibility as shareholders of the CNR and as members of the board of directors of TCA in respect of the actions of TCA.

Mr. GORDON: Perhaps I could clear your mind, Mr. Grégoire, by saying that as far as I have had experience with the situation and all the time that I have been on that board, no director distinguishes at all between his position, whether he is appointed by the CNR or the government. Each director expresses his views and votes and discharges his duties in exactly the same fashion. There is no distinction between the two groups of directors in that respect.

Mr. GRÉGOIRE: I understand that, but the point I want clarified is a very simple one. Five of the directors of TCA are directors of TCA because they represent the shareholders of CNR?

Mr. McILRAITH: They are answerable to the Statute, not to the CNR.

Mr. GORDON: I said before they carried out their duties in accordance with the TCA Act, as I understand it. You are getting into a definition of a legal approach in respect of which I am not competent to answer. I do not understand what it is you are trying to establish, so perhaps we will have to leave it. If you want a legal opinion I will get one for you.

Mr. GRÉGOIRE: I think it is obvious that they are representing the shareholders.

Mr. GORDON: I do not understand that.

Mr. GRÉGOIRE: Then I am not able to ask some questions I wish to ask.

The CHAIRMAN: Mr. Grégoire, I think you have asked all the questions you wish to ask Mr. Gordon in respect of this subject.

Mr. GRÉGOIRE: No.

The CHAIRMAN: Let me finish, please. We are not going to open up evidence which has been given in respect of another report. I do not think Mr. Gordon is a witness for that purpose.

Mr. GRÉGOIRE: I would like to ask another question. Were you present at the meeting of the board of directors of Trans-Canada Air Lines when the decision was made in respect of this aircraft purchase?

Mr. GORDON: I was present as a director of TCA. I took part in that decision which was made in respect of the selection of the aircraft. I was present when the presentation was made. I heard all the facts presented, and I agreed and went along with all the other directors. As I said before, Mr. McGregor indicated there was a unanimous decision of the board.

Mr. GRÉGOIRE: Was the report of the expert of TCA presented to all nine members of the board of directors of TCA and did you see that report?

Mr. GORDON: Certainly I saw it and I have already said that. I think Mr. McGregor has already given evidence along that line, has he not?

Mr. McILRAITH: Yes.

Mr. GRÉGOIRE: Yes.

Mr. GORDON: You really are asking me, Mr. Grégoire, whether Mr. McGregor told you the truth.

Mr. GRÉGOIRE: I never asked you that.

Mr. GORDON: Is that not the effect of your question? I can say to you that anything I have seen of what Mr. McGregor has said about the presentation made to the board of directors is exactly correct.

Mr. GRÉGOIRE: That is not what I wanted to know. I wanted to know if you saw the report, if you studied it, and if you were aware of the things involved.

Mr. BECHARD: (*Interpretation*): I thought we were here to discuss the CNR report not the TCA report.

The CHAIRMAN: (French)

(No Interpretation)

Mr. GRÉGOIRE: I would like to ask the president of the CNR a further question. I would like to see the report, if it exists. In respect of the board of directors of the CNR and particularly those on the board of directors of TCA, there are five out of nine members of the board of directors of TCA elected by the shareholders who have a responsibility to the CNR, and my question is related directly to this point, and I think you should allow me to go into this line of questioning in regard to decisions taken by TCA since those five shareholders' representatives are on the board of directors of the CNR.

Mr. PRITTE: I do not know whether I can clear this situation in any way, but I think the point is that the five members of the board of directors of CNR on the TCA board of directors do not report back as a group to the CNR board of directors, but simply sit as members of the board of TCA; is that right? There is no final report back to the other board; is that correct?

The CHAIRMAN: Unless there are some other questions, or further discussion I am now ready to make a ruling in this regard. I do not think there is any matter of privilege in this case. I am quite satisfied myself that Mr. Gordon is here speaking as the president of the CNR and should not be asked to speak as a director of the board of Trans-Canada Air Lines in regard to matters which we have had fully disclosed through the president of TCA. This would be repetitious, and under the circumstances I rule these questions out of order.

Mr. GRÉGOIRE: Mr. Chairman, I should like to repeat what I said a few moments ago. If a lawyer of the company suggests that the shareholders or directors of the CNR are the shareholders' representatives on the board of directors of TCA and have a duplicate interest I think questions relating to the CNR report in this way should be allowed. Mr. Chairman, I should like you to reserve your decision until we receive a statement from the law officer of the CNR in respect of this point.

The CHAIRMAN: I have made my decision on this matter. You may appeal my decision if you wish.

Mr. GRÉGOIRE: I should like you to reserve your decision.

The CHAIRMAN: No. I am a lawyer myself and I understand the point very well. I do not think this point should be argued any further.

Mr. GRÉGOIRE: Mr. Chairman, I think you have made a decision too quickly, especially in view of the fact you are a lawyer, because until I have made my point I do not think you can realize what it is.

The CHAIRMAN: I know what your point of view is.

Mr. LLOYD: Mr. Chairman, perhaps you should put the question in respect of your ruling.

The CHAIRMAN: Mr. Grégoire has not appealed my ruling.

Mr. GRÉGOIRE: I will appeal it if you require me to.

The CHAIRMAN: Do you appeal my ruling?

Mr. GRÉGOIRE: I can appeal your ruling if you want me to.

The CHAIRMAN: I am not asking you to appeal my ruling. I have made my ruling now.

Mr. MONTEITH: I do not think a ruling of the Chairman of a parliamentary committee can be appealed.

Mr. GRÉGOIRE: If I am right in my supposition and a law officer of the CNR supports me in that position you are closing one avenue of the report. I think you should defer your ruling until after you have received the opinion of a law officer of the CNR.

The CHAIRMAN: I do not think that I would be influenced by the opinion of a CNR lawyer because I do not think such an opinion would be independent. I think I am right in my position.

Mr. DEACHMAN: Mr. Chairman, we are now dealing only with the report of the CNR.

The CHAIRMAN: We shall now proceed to our consideration of the report of the CNR and I will ask you to turn to page 2 under the heading "Financial Review". Does anyone wish to ask any questions in this regard?

Mr. LLOYD: Mr. Chairman, the interest on long term debt is related to other statements in the report.

Mr. GORDON: Yes.

Mr. LLOYD: I am just interested in the reference to this subject in the section headed "The Outlook". Mr. Chairman, I think perhaps we should bypass the sections before the one headed "The Outlook", because most of the subject matters are covered under that section and we can ask our questions in this regard. Financial statements are substantially statements of fact. Matters in respect of interest, long term debt, capital structure and right of way can all be dealt with under the section headed "The Outlook".

Mr. MONTEITH: Actually what you are stating is a precise form of what is detailed in the statement?

Mr. LLOYD: That is right. I wonder whether we could just bypass the financial section and accept it as statements of fact and go to the subsequent sections dealing with the operations of the system and ask any questions in respect of financial matters in respect of these various other sections?

The CHAIRMAN: Would this suggestion be agreeable to the committee?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: The suggestion is that members can discuss matters relating to finances under the other items as we go along, but will not be prevented from asking questions in respect of the financial statement.

Mr. GRÉGOIRE: Will we not be able to ask questions in respect of the financial report?

The CHAIRMAN: Yes, you may ask questions in that regard while we are dealing with the other sections.

Mr. GRÉGOIRE: I should like to ask some general questions which are perhaps not related to any other parts of the report. Mr. Gordon, you mention the upward trend of the Canadian economy stimulating a high potential within the transportation market, and then you arrive at the percentage increase which you give as 2.5 per cent over 1961 in revenue ton miles. Do you think this is in accordance with the general trend of the Canadian economy, higher or lower?

Mr. GORDON: As I understand your question, you are asking me whether the CNR shared at about the same rate in the increase in the economy. I would say yes, generally speaking, it shared relatively in about the same rate of the increase in the economic activity.

Mr. GRÉGOIRE: In your second paragraph you state that the deficit was \$18.4 million less than in 1961?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: You have suggested that the interest depreciation before 1940 was not realistic. Now that this depreciation has been settled in a more reasonable way when do you expect that the deficit of the CNR will be neutralized, and how many years do you expect this to take?

Mr. GORDON: I cannot prophesy how many years this will take because it depends on government action in part. I have pointed out in this report somewhere that if we had received concurrence in respect of our proposals for recapitalization, which have been before the government for some time, to compensate us for the amount of depreciation that we should have had in the earlier years, and if the MacPherson report had been implemented, we would have a surplus at this time.

Mr. GRÉGOIRE: Do you expect a similar reduction in the deficit in the year following that year covered by this report?

Mr. GORDON: This again is part of our trouble in handling this report at this time of the year. Your question relates to 1963. At this moment I do not want to make a forecast in respect of 1963 because this is the time of the year when it is most doubtful what our final result is going to be.

Mr. GRÉGOIRE: I should like to ask one final simple question in this regard. As a former member of the board of directors of the Bank of Canada would you like to have your debt recapitalized or refinanced by the Bank of Canada without interest?

Mr. GORDON: No comment!

Mr. GRÉGOIRE: Would you like to have that done?

Mr. GORDON: I am of two frames of mind in this regard, because a system which would permit the Bank of Canada to refinance without interest is not one that I would approve of personally.

Mr. GRÉGOIRE: I was thinking in terms of one crown corporation in relation to another.

The CHAIRMAN: Can we move on to page 5, research and branch lines?

Mr. PRITTIE: In respect of branch lines, perhaps you could tell us what progress has been made on the Great Slave Lake Railway line in the past year?

Mr. GORDON: Mr. Demcoe, have you the information in that regard?

Mr. J. W. DEMCOE (*Vice President of Transportation and Maintenance, CNR*): We have laid rail to Mile 224 and at the end of the week it will be to Mile 226 at which time we will have completed our work for this year because of cold weather.

Mr. PRITTIE: How many miles will you then have to lay?

Mr. DEMCOE: There are 430 miles in total.

Mr. FORBES: How much grain did you move out of that area; have you any idea?

Mr. GORDON: We might be able to find that information for you.

Mr. R. T. VAUGHAN (*Secretary of the CNR*): At page 5 of the annual report you will see a reference to grain movement over this line.

Mr. J. L. TOOLE (*Vice President of Accounting and Finance, CNR*): There were about 100 cars moved by the end of 1962. I do not know the 1963 figures.

Mr. GORDON: We only had 56 miles in operation, as we say in the report, by the end of October, so we only have about 100 cars in our figures for 1962.

Mr. BALCER: What is the completion date of the railway?

Mr. GORDON: Are you asking when it will be operational?

Mr. BALCER: Yes, when will the line be put into operation?

Mr. DEMCOE: We expect to have it completed and in operation in 1966.

Mr. GORDON: We hoped to make an improvement on that date, but that is the date we are committed to. Our progress will depend a good deal on how the mine itself progresses and whether the officials of the mining company will press us, but we are committed to a 1966 deadline.

Mr. BALCER: Do you expect the mine to be in operation in 1966.

Mr. GORDON: Yes. It may be in operation before that. When we made the 1966 estimate we took into account the fact that the mine was not operating, but certainly our progress will depend on how they get along as well. I am informed that the mine is progressing well and—it could be that they will be looking for service earlier than anticipated. We are discussing the situation with them now, and if we can speed up the completion date we will do so.

Mr. DEACHMAN: Mr. Chairman, we skipped over the section on research so quickly that I did not have an opportunity to ask a question.

The CHAIRMAN: You may ask a question in respect of any section of the report.

Mr. DEACHMAN: I want to ask a question in connection with the development made in 1962 in respect of testing of equipment for the handling and transportation of forest products, including open-top box cars for wood chips, special cars for pulpwood and lumber and cars with high capacity cushioning devices for newsprint. Can you elaborate a little in respect of what has been done in this regard and indicate how soon we might expect to see this new equipment in use?

Mr. GORDON: Some of these things are in use now, in fact quite a number are being used.

Mr. DEACHMAN: As I understood the situation this section deals only with the testing of equipment.

Mr. GORDON: This section is in respect of 1962. At that time we were at the testing stage, but we now have them in operation. The open-top box cars for wood chips, for example, are being used.

Mr. DEACHMAN: You are using open-top box cars for wood chips?

Mr. GORDON: Mr. Demcoe, would you give an explanation in this regard?

Mr. DEMCOE: Yes. We are using hopper cars for wood chips. We have also taken some roofs off the old automobile cars and are using them for chips. We are also using box cars for this. It depends entirely on the loading and unloading facilities that the industry has, and the type of car they wish to use.

Mr. DEACHMAN: Before we leave this subject I should like to ask one more question. I do not know whether I should ask this question while we are dealing with this section or not, but what are the possibilities of using railway cars for additional wheat storage during the present wheat crisis?

Mr. GORDON: There is no possibility in this regard.

Mr. DEACHMAN: Is it possible to accumulate railway cars on sidings for additional wheat storage, or has this possibility been explored?

Mr. GORDON: We do not want to use cars for storage at any time if we can avoid it. As a result of this Russian wheat deal we have put in quite a number of innovations that will enable us to expedite the wheat movement, and we are going to keep on handling it during the winter. We do not want any of our cars to be held for storage purposes because that would be a total economic loss. Moreover, I do not think there is any need for doing this. There is storage capacity elsewhere. The real problem is in moving the wheat from the originating point to the seaboard and getting it into the ships.

Mr. DEACHMAN: What innovations have been introduced in respect of the present crisis?

Mr. GORDON: For example we are using the open-top cars—what do you call those cars—?

Mr. DEMCOE: They are longitudinal hoppers.

Mr. GORDON: The longitudinal hoppers are being used for moving grain. We put them into our shop and designed a cover of plywood on a crash basis so that we could use these hopper cars for transporting wheat. They are working very satisfactorily. We have also made a number of other improvements in regard to speeding up the traffic generally. We make provision, for instance to provide ourselves with locomotive power by renting it from other railways, particularly in the United States.

Mr. Demcoe, can you add any further information in respect of the speeding up provisions?

Mr. DEMCOE: We are trying to get as fast a turn-around as we possibly can from a loading and unloading point of view.

Mr. FORBES: How many bushels do these renovated cars hold?

Mr. DEMCOE: Approximately 2,000 bushels.

Mr. FORBES: That is approximately the same as the other ordinary cars can hold?

Mr. DEMCOE: That is correct.

Mr. GORDON: They actually hold slightly less, do they not?

Mr. DEMCOE: I think on the average they hold approximately 1,980 bushels.

Mr. DEACHMAN: In your opinion is the railway meeting the demand in respect of moving grain in the present crisis or are there any bottlenecks in the system as a result of this present situation?

Mr. GORDON: No. As a matter of fact we have received, recently, letters congratulating both railways for the magnificent way in which we have met the Wheat Board program. I might explain the situation in this way. The Wheat Board sets out for us a program for moving so many cars from certain points to certain other points which is synchronized with their arrangements for getting the grain into the ships. On the basis of the program which they have outlined, we are right on schedule.

Mr. RIDEOUT: Perhaps one of the officials can verify this statement, Wheat may in effect be considered stored in box cars because of the backup of cars from the ports?

Mr. GORDON: They are not being used for storage.

Mr. RIDEOUT: These cars are not earmarked for the storage of wheat, but this does happen as a result of a backup?

Mr. GORDON: I think the point the gentleman was making had to do with whether we would use box cars deliberately for storage during the winter. We do not do that, but we do get a backup at times until the wheat is unloaded.

Mr. GRÉGOIRE: What percentage of the subsidy paid by the government to the Canadian National Railways is in respect of the transportation of wheat?

Mr. GORDON: We do not receive any direct subsidy for the movement of wheat. That would be done on the implementation of the MacPherson Commission report. There has been an interim payment pending the implementation of the MacPherson Commission report, but I do not know what portion of that is attributable to the movement of wheat. This is an over-all payment to us.

Mr. GRÉGOIRE: You do not know what portion is applicable to the movement of wheat?

Mr. GORDON: A certain percentage is not earmarked for the transportation of wheat, no. It is an over-all payment at the moment until the legislation is implemented.

Mr. GRÉGOIRE: I should like to ask the Minister of Transport whether part of this subsidy or interim payment is attributable to movement of wheat?

Mr. McILRAITH: The subsidies you are speaking of, Mr. Grégoire, are all in respect of the year 1962, a period of time in which I had no responsibility. There are a series of subsidies paid, all of which have been announced in the House of Commons, but so far as I know none of them is directly designated as wheat subsidies.

Mr. GRÉGOIRE: As we are dealing with the report of 1962 would it not be better to have the former minister of transport answer the questions on behalf of the government?

Mr. McILRAITH: He has been relieved.

The CHAIRMAN: Order gentlemen.

Mr. BECHARD (*Interpretation*): Mr. Gordon, mention is made in the report in regard to a 57 mile line in the Gaspé region of Quebec between Matane and Ste. Anne des Monts. Could you tell us what the survey consisted of and the cost of the work?

Mr. GORDON: What part of the report are you referring to?

Mr. BECHARD (*Interpretation*): I am referring to page six of the report and that paragraph referring to a 57 mile line between Matane and Ste. Anne des Monts.

Mr. GORDON: All what is stated in the report is all I have to say in this regard. We have made a survey of the 57-mile line in the Gaspé region of Quebec and that report is in the hands of the government.

Mr. BECHARD (*Interpretation*): What was the cost of the survey?

Mr. GORDON: I do not know that I should report that, Mr. McIlraith; this is a report to the minister. You are referring to the cost of the survey?

Mr. BECHARD: Yes.

Mr. GORDON: The actual survey was not, relatively, an expensive matter. It ran to something in the neighbourhood, give or take a few thousand dollars, of \$60,000 to \$70,000.

Mr. GRÉGOIRE: I should like to ask one further question.

Mr. BECHARD (*Interpretation*): Will the development of this proposed line be profitable, or will it increase the accumulated deficit even further?

Mr. GORDON: As I understand your question you are asking me to give an opinion on behalf of the CNR in respect of this line?

Mr. BECHARD: Yes.

Mr. GORDON: Mr. Chairman, I should like to ask the minister whether in his opinion it is in order for me to express a point of view regarding a report which I have tabled with him.

Mr. McILRAITH: No, I would think it is not in order.

Mr. BALCER: Maybe I could answer this question. This question has been raised in the House of Commons on several occasions and was answered during the time I was the minister. The matter has been raised and an explanation was given that this was a development project for a depressed area. That was the basis of the project.

Mr. MUIR (*Lisgar*): I should like to ask a supplementary question. Mr. Gordon, would you expect the Great Slave Lake line to be a long term profitable operation, or is this a project to open up that part of the country?

Mr. GORDON: The Great Slave Lake line was fully discussed in a parliamentary committee at the time the legislation went through. It was made clear at that time that there are certain guarantees in respect of traffic. The company being served will guarantee a minimum amount of traffic, and we will get our operating and maintenance expenses out of it. In other words we are bound to break even in terms of our own actual out of pocket costs. Whether or not we make a profit will depend entirely on the volume of traffic that will take place over and above that minimum guarantee. I personally feel that in the long run it will be satisfactory. I cannot do anything more than express an opinion at this stage.

Mr. MUIR (*Lisgar*): There is no doubt about the development which will take place in that particular part of the country?

Mr. GORDON: There is no doubt about that at all. This will generate new traffic, I am sure I cannot begin to prophesy the time of the development or the nature of it because some of it undoubtedly will result from mineral finds and things of that kind.

In respect of the other point Mr. Balcer made, it should be recalled that there is an act which was passed some time ago, and the parliamentary committee in that regard received all the reasons and justifications for the line. This is fully covered in the *Hansard* reports of that committee meeting.

Mr. ROCK: Mr. Gordon, I notice in this report in respect of development, particularly in regard to research, there is no reference made to cars such as commuter cars. It seems all of the development and research has been directed toward freight lines rather than passenger lines. I am particularly interested in commuter service. I would like to know whether there has been any research done regarding the possibility of purchasing these double-decker commuter cars for commuter service, or do you intend to discontinue commuter services in the metropolitan areas of Canada?

Mr. GORDON: We have done some work in this regard in respect of passenger equipment having to do entirely with our main line services. We have not thought it necessary or advisable to embark on any research in connection with commuter service. We do not wish to encourage commuter service because that is basically a losing proposition. If we do anything along that line it will only be in collaboration with metropolitan areas which may wish to have that service.

We are in discussion at the present time with the city authorities of Montreal and Toronto as well. If we can work out any sort of a joint agreement whereby we could provide a commuter service as our lines become available, with various re-arrangements underway, and if they will guarantee some sort of minimum return we would be prepared to co-operate. But, as I have said several times publicly, we are not going to extend our commuter service as presently constituted if we can avoid it.

Mr. ROCK: I have another question to put. Are you going to co-ordinate in giving up, say, lines to the City of Montreal tunnel system? There were various articles in the newspapers a while back in respect of your north line. Is there any truth in that?

Mr. GORDON: The main thing we have been discussing with the City and on which we have a proposal before them is in connection with the Mount Royal tunnel and how it would tie into a subway system. We have discussions going on with them in this connection. But, you must remember that while we have made adjustments in respect of the tunnel and commuter service to improve their capacity I would not regard that as being basic research work in connection with commuter service.

Secondly, the solution in Montreal and Toronto is really not a commuter service, as we know it; the solution is a rapid transit service which is much different from the railroad service we provide. Therefore, the development, as I see it, has to go along the line of the metropolitan transportation authority developing a rapid transit system for which they will become responsible, using our lines wherever it will be suitable, on a basis where we provide a service for the rapid transit system. But, we are not prepared, as a railway, to go into rapid transit operations; we do not believe it is our business.

Mr. ROCK: So, the discussion you had with the city of Montreal was in respect of whether you would be renting your service line to the metropolitan system rather than selling this property.

Mr. GORDON: There are a number of ways of doing it. As I say, this is under active discussion. We are engaged in discussions at the present time with the City of Montreal, and the same thing is true of Toronto. The main point is to get the discussion sparked so that all interests involved will be included.

One of the difficulties in respect of Montreal and Toronto is that it is an expensive proposition to provide a service which, I think, only in part serves the city; it goes beyond the city, and there is always the difficulty in respect of who is going to pay the cost because the outlying towns, villages, or whoever it may be, are getting all the advantages of the service but the whole burden is on the main city.

Mr. ROCK: I do not agree entirely with your observation in that connection. Whether or not you have that service the line still exists there. If you discontinue the commuter service the upkeep of your lines still has to be carried on. I am not speaking of the Canadian National now but according to another railroad they have shown in their report so much for cost of the maintenance of the line and yet, if the commuter service was not there, they would still have to pay for it.

Mr. GORDON: You are right, in part. It depends where the line is. There are lines now that are not needed for freight services at all, and if you have a situation like that it is different. If you have a joint line you get into the question of division of costs between the freight and passenger service.

The CHAIRMAN: Mr. Rideout, have you a question?

Mr. RIDEOUT: Mr. Chairman, I want to ask a few questions in connection with the redevelopment in Moncton, as set out in the latter part of page 6.

I was speaking with Mr. Rudnikoff earlier this week in Montreal and he advised me there is going to be a new food mart and that negotiations are going ahead with that as well as a motor hotel.

Mr. PRITTE: If I may interrupt, Mr. Chairman, could we finish branch lines before we deal with real estate?

The CHAIRMAN: Well, Mr. Prittie, I think we have been going from one to another. As long as the questions relate to this paragraph, I think we should proceed.

Mr. RIDEOUT: If I remember the agreement properly, one of the clauses was to the effect that the development of the 25 acres would be finished by the end of 1963. As you know, there has been very little activity there over the past year since the terminal centre building and the station were built and I am wondering if these negotiations are going forward for a food mart as well as a motor hotel in the area?

Mr. GORDON: I do not recollect any expiry date. The situation, in a nutshell, is that Mr. Rudnikoff as a promoter has entered into arrangements with us in regard to the development of these 26 acres. He pays the rental for that acreage and I do not think there is any time limit on when he develops it. It

is up to him. As I understand it, he still has under discussion quite a number of projects in respect of what might be a suitable development for that area, and that is up to him.

Mr. RIDEOUT: Then the report I have has no grounds? They are not on the verge of letting Mr. Rudnikoff withdraw from his present legal arrangements in respect of that acreage?

Mr. GORDON: Are you speaking from some knowledge you have in Moncton with which I am not familiar? I have not heard of this at all.

Mr. RIDEOUT: I am sorry but I thought you might have known something about it. I talked with Mr. Rudnikoff earlier in Montreal.

Mr. GORDON: I do not know anything about this.

Mr. RIDEOUT: Now, in respect of the new station in Moncton, as you probably know, there has been a great deal of criticism, and it has been referred to as a musical shoebox and what have you. I am going to ask if you would give consideration to coming to Moncton to look over the facilities and the station set-up there. I do not imagine you have seen it to date, or have you?

Mr. GORDON: Yes, there have been comments on the new station. However, I depend much more on the judgment and the statements made by our Vice President of that region, Mr. Grayston. I have been informed in respect of what was said at city council. However, Mr. Grayston has pointed out that the new station will be adequate to meet all normal traffic requirements. He also pointed out why it is different from the old station which had been standing since 1897. That had many useless nooks and corners, and was constructed for the needs of a different age. We now have a building which is modern and streamlined, and we make efficient use of the available space. Mr. Grayston has certified that in his judgment the station is perfectly adequate for all requirements and, if it proves otherwise, it can easily be corrected.

Mr. RIDEOUT: I was just wondering if you or someone on your behalf would come to Moncton and give an opinion on this.

Mr. GORDON: As you know, I am in Moncton from time to time and, certainly, I will be in Moncton again and I will be glad to do that.

Mr. RIDEOUT: As you know, the people are standing out of doors on the platform and there is no shelter whatsoever. Our people have been used to the shelter provided there. I know the citizens of Moncton, regardless of what Mr. Gordon says—

Mr. GORDON: If I may interrupt, it is not regardless of what I say. Mr. Grayston has the responsibility in that area; he is the Vice-President of the region. Under our organizational system we have decentralized our responsibility and Mr. Grayston is in charge of that area. He is far more familiar with local requirements than I or anyone else in Montreal. He keeps in touch with the local situation.

Mr. Rideout, I have on file here various editorial comments and so forth, which indicate distinctly that various people have made themselves ridiculous by their own criticism.

Mr. RIDEOUT: Yes, I realize that is in part true.

Mr. GORDON: I will read these extracts to you, if I may, in respect of this criticism.

Mr. RIDEOUT: I have read them.

Mr. GORDON: You would rather I did not read them now?

Mr. RIDEOUT: I do not care. I know the setup in respect of the public relations department there and how this all came about.

Mr. GORDON: Perhaps I will not read it.

Mr. LLOYD: On a point of order, Mr. Chairman, I think the latest question directed to Mr. Gordon has to do with the feasibility of covering what was traditionally an outdoor platform.

Mr. RIDEOUT: That is just one of the things.

Mr. LLOYD: Could we get a direct answer from Mr. Gordon in that respect?

Mr. GORDON: What is your question?

Mr. LLOYD: There were specific questions raised by the hon. member and I wondered if you had the information requested?

Mr. GORDON: The question, as I understood it, is in respect of a development project which is now in the hands of Mr. Rudnikoff, who is the promoter. I have forgotten the name of his company. But, you wanted to know whether or not this had been cancelled? I have no information on this but I do not believe it is so at all.

In respect of the specific matter of the station, there have been some statements made about it and, as I have said, Mr. Grayston is our responsible local official there. In my opinion, he has completely answered the criticisms and, moreover, has had the support of the newspapers in so doing.

Mr. RIDEOUT: Well, I do know how the public relations office in Moncton operates.

Mr. GORDON: Mr. Rideout, I do not want to get annoyed; in fact, I am not going to get annoyed, but I do not think an innuendo of that kind should be allowed to pass. Mr. Rideout, who is an employee of the Canadian National Railways has no right to make a statement of that kind.

The CHAIRMAN: Mr. Rideout, did you have a question? I believe your question was in respect of the facilities and you wanted to know if they would be improved. I think we should stick to the facts.

Mr. RIDEOUT: There are facts already and the public are complaining bitterly about the situation in Moncton. I wanted the president to assure me that the next time he is down there he would look over the station and see how the people are out in the weather. I want him to look at the whole situation, and that is all I request.

Mr. VAUGHAN: You are referring to a canopy, I assume?

Mr. RIDEOUT: Yes. We have had one for years and the people now are out of doors.

Mr. GORDON: I will investigate that particular point for you, Mr. Rideout.

Mr. RIDEOUT: In addition, the station is not large enough.

Mr. GORDON: We do not agree with that. Mr. Grayston said quite definitely the railroad was not going to run the risk of overbuilding. He said:

We have stations at other locations which are far larger than needed, but they were built to meet the needs at the time.

Mr. Grayston said the Moncton station would be one of the most modern in Canada and that Canadian National wanted to make its facilities there the showpiece of the Maritimes. Then, Mr. Grayston went on to say:

One thing is certain: Moncton is in no danger of becoming a flag stop.

Mr. RIDEOUT: Well, it has been referred to as a flag station and a musical shoe-box.

Mr. GORDON: Mr. Grayston has replied to that criticism. The facilities there are adequate to the requirements.

Mr. RIDEOUT: Then, you will do nothing about it?

Mr. GORDON: Now, I am not saying that and I did not say that; I said the Vice President is perfectly competent to deal with the local requirements and he has done so.

Mr. RIDEOUT: But the public disagree.

Mr. GORDON: I disagree with you. You are not the public; you are one man.

Mr. GRÉGOIRE: But, Mr. Gordon, although he is one man he represents the public in his area, and that is another point.

Mr. GORDON: I do not believe he does in this particular instance, and I have evidence to prove that. There is a difference of opinion and that does not mean to say he represents all the opinions.

Mr. GRÉGOIRE: But, he is a member of the house and represents the public in this constituency which takes in the city of Moncton.

The CHAIRMAN: I think it is fair to say that Mr. Rideout has expressed his opinion and no one has stopped him from saying how he felt about it.

Have you a question, Mr. Prittie?

Mr. PRITIE: Yes, Mr. Chairman, 3,000 miles the other way. I want to ask a question in respect of the shipping of copper ore from the Bethlehem mine near Ashcroft, British Columbia. In 1962, a trucking company bought the contract to haul hundreds of tons of this copper ore daily to Vancouver for shipment to Japan and I wondered if the Canadian National Railways bid on this or whether the price was too high. As you know, a considerable volume was moved.

Mr. GORDON: I cannot answer your question at the moment. I would have to check my files and take a note of your question. Did you say Ashcroft?

Mr. PRITIE: A trucking company was involved in the movement of one hundred tons a day to Vancouver for shipment to Japan.

Mr. GORDON: I will see if I can find something on that and have it ready for our next session.

Mr. BECHARD (*French*):

Mr. GORDON: I am sorry, Mr. Bechard, but the translation system is not working.

Mr. BECHARD: What has been done with the proposal in respect of Matane since the adoption of that report in December 31, 1962?

Mr. GORDON: There has been nothing done except the survey, which I mentioned in the report. The survey was made by the CNR as an agent of the government. We have produced and laid in front of the former Minister of Transport—and now, I presume, it is in the hands of the present Minister of Transport—a certified report, and we have heard nothing more since that report has been filed.

Mr. GRÉGOIRE: I have a supplementary question, Mr. Chairman. May we ask the minister, in view of the conclusions of the report will this line be built?

Mr. MCILRAITH: There has been no decision taken, as I indicated in the house.

Mr. MUIR (*Lisgar*): If I could take Mr. Gordon another 1,500 miles I would like to ask him this question.

Mr. GRÉGOIRE: Mr. Chairman, could I finish the point I started? This is the second time we have been taken away from the subject.

Mr. MUIR (*Lisgar*): Well, go ahead, but make it short.

Mr. GRÉGOIRE: I can make my questions as long as I like, and you can do likewise when your turn comes. When do you think the house will be given the conclusions of this report?

Mr. McILRAITH: I do not know whether they will ever be given notice of the conclusions of the report because it is a report to the government from the Canadian National Railways. But, in any event, the decision will be taken and announced to the house if the house is in session. In any event, the house is seized of the matter in various ways.

Mr. GRÉGOIRE: Is it possible to give the decision in this session?

Mr. McILRAITH: I would doubt it.

Mr. GRÉGOIRE: I am speaking on the assumption that this session will conclude by agreement before Christmas.

Mr. McILRAITH: I doubt if there would be a decision before then.

Mr. BECHARD: (French):

Mr. McILRAITH: I am sorry but the translation system was disconnected a few minutes ago.

Mr. BECHARD: Was it after the report was submitted by the CNR that the increase in the proposed amount involved in respect of that railroad was discovered? Was it higher than was foreseen before?

Mr. McILRAITH: You are asking me questions about the contents of the report and I do not think they should be disclosed in this haphazard way, if indeed at all. The statute fixes the amount as the estimated cost of the railroad, and there has been a great deal of public discussion about what the cost of building the railroad would be. That discussion has indicated a figure very sharply higher than the figure given in the legislation. But, I would not want to get into that matter until a decision is taken and the whole matter can be adequately discussed then in the house.

Mr. PUGH: I have a supplementary question. Is the main reason for holding up any decision on this one of a matter of cost increase?

Mr. McILRAITH: It is a matter of having to amend the legislation and deciding what is desirable to be done in the circumstances.

Mr. PUGH: But is the cost increase the main reason?

Mr. McILRAITH: I do not think I should be pinned down on that that way.

Mr. PUGH: Then would you say the cost increase is a major factor?

Mr. McILRAITH: Yes, certainly; not cost increase, just cost. You said "cost increase"; increase from what?

Mr. PUGH: Over the initial amount.

Mr. McILRAITH: Well, the initial amount is just a figure in a statute. It is a matter of what the cost is of the proposed railroad. It is one of the factors; there are others as well.

Mr. PUGH: But, originally on this, after considerable engineering, the figure was set.

Mr. McILRAITH: Well, I do not even want to admit that statement, that there was considerable engineering when that figure was set. I merely say there is a figure in the legislation and the whole matter of the basis of that figure being set has to be examined. The whole question has arisen now of what the real cost required to put in that mileage of railroad and that particular increase is.

Mr. PUGH: I think that answers my question now.

Mr. MUIR (*Lisgar*): Mr. Chairman, I think this subject has been exhausted and I am now back on real estate.

I would like to ask Mr. Gordon this question: now that you have developed the Symington yards in Winnipeg have you made or contemplated any plans in respect of the downtown area?

Mr. GORDON: This is one of the places which is under intensive study. There is no specific plan to report yet in respect of Winnipeg.

Mr. MUIR (*Lisgar*): Would you expect that that property will be turned back to the city at some future time?

Mr. GORDON: It will depend on what we are able to establish.

I made a statement on this subject the other day which I think is pertinent. You see, our attitude all through this question of the redevelopment of real estate on which we started paying intensive taxes up to some five years ago is that it was a historical fact that the original industrial centre of most Canadian cities had been strongly influenced by the location of the freight handling and passenger station facilities of a railroad. Therefore, there existed in the heart of most cities railroad property which through joint planning by the railroad, the municipalities and other authorities along with private enterprise, served as a focal point for the redevelopment and renewal of the whole downtown area.

It is fair to say that the Canadian National Railways over these years have displayed a great deal of initiative in assisting in the development of the property but we have not put our own money into it. We are not interested in that. However, we are trying to find a co-operative arrangement whereby we would contribute our property on a reasonable basis for development under the incentive of municipal authorities and private enterprise.

Mr. MUIR (*Lisgar*): Would it be your intention to move the station sometime in the future?

Mr. GORDON: If we can spark an interest which would make that a successful proposition. You see, one of the most spectacular examples of what I am trying to describe is in the centre of Montreal—Place Ville Marie. We started off there, first of all, to attract interest to the property. It used to be called the big hole in the centre of Montreal. Our first step was to build a case which sort of sparked an interest in the property. Then we got after various promoters of real estate and opened up discussions with them. We persuaded them to take an interest. Then there was developed a master plan, in which we worked out a notional development of the property so we would keep up to a plan and not have a helter skelter development, and anyone who was interested in developing the property would come in and talk about it.

For instance, there is an area between the end of the hotel and the International Aviation building that needs to be filled. We called for proposals on that and we received half a dozen from various people as to how they would propose to use the property. Then we worked out a deal with them on the basis on which we would rent the land space to the promoter who was building the building. Included in that may be various things involved in the whole project, whether we ourselves would have some place in it or whether it would be basically a private enterprise development whereby we would gain by rental of the basic land.

Mr. MUIR (*Lisgar*): But you still intend to run your passenger train right into Montreal?

Mr. GORDON: Oh, yes. This is all above the track. It is aerial rights we are developing.

Mr. MUIR (*Lisgar*): Is the same thing going to be done in Winnipeg?

Mr. GORDON: It might be a different proposition altogether. But, if there was developed in Winnipeg,—if I could break off, a good example would be Saskatoon or Edmonton—a plan of redevelopment sponsored by the city which involved our station and if, to get that plan developed, they wanted to get rid of the station, we would co-operate so that the plan would be made effective, but we would have to work a deal out. In other words, we have made it very

clear we have not taken advantage of the fact that in many cases our property is astride the main traffic routes, where we have key parcels of land. We are prepared to inconvenience ourselves in rearranging our properties to co-operate with any local plan. Now, I do not think there is any such plan in Winnipeg at the moment.

Mr. LLOYD: You made several references to the renting of lands. Is it the policy of Canadian National Railways to favour leasing land or selling with freehold titles?

Mr. GORDON: It depends. We favour leasing in most central development areas but we do engage in outright sales as well. It depends whether it holds a future railway interest.

Mr. LLOYD: But, only in that case?

Mr. GORDON: If there is no future railway interest we would be more interested in selling.

Mr. LLOYD: Have you had many sales of freehold titles in respect of railroad lines since 1962 compared with leaseholds

Mr. GORDON: No; they are practically all leaseholds.

Mr. LLOYD: What is the financial result? How do the financial results to the railroad compare generally and in the case of a long term lease would it not give you a better return in most cases?

Mr. GORDON: Usually.

Mr. LLOYD: That is, as compared with freehold title?

Mr. GORDON: Yes. That does depend on the location. I am hesitating now because I am trying to recall whether the particular thing I have in mind now has been announced to date. I will not use names but there is a block of property in Montreal which is being developed by a very large store and in order to collect the property around this particular point they have to assemble the property to get at that development. Now, we had several bits and pieces in that area and, in that case, we would sell outright.

Mr. LLOYD: Usually you try to protect your inherent development costs?

Mr. GORDON: Yes, we want to get advantage from the development. As the development appreciates in value we want to get our share but, at the same time, we do not want to put up a block to a development that would otherwise take place by insisting on leasing a key parcel of land that forms only part of the whole.

Mr. LLOYD: So you favour leasing?

Mr. GORDON: Yes.

Mr. LLOYD: This, of course, calls for a procedure. You mentioned calling for proposals and where you are seeking a leasehold development you then lay down certain guide lines so you can preserve the competitive aspect in the disposal of the land?

Mr. GORDON: Yes.

Mr. LLOYD: But I suppose you do get into the problem of what is the most beneficial development not only in their interests but to the railroad?

Mr. GORDON: Yes, we have to make a judgment of the proposals. It is not like calling for a tender; we do not write specifications. We say we have this land for development and that we are interested in receiving proposals, then we study these proposals in the light of what our best interest is.

Mr. LLOYD: And this leave the problem of local municipal taxes to the developer?

Mr. GORDON: Yes.

Mr. LLOYD: He has to meet and pay them?

Mr. GORDON: Yes.

Mr. LLOYD: And this avoids the question in respect of the local liability of the railroad to pay taxes to the municipalities?

Mr. GORDON: Yes.

Mr. LLOYD: I am not being parochial.

Mr. GORDON: This is a matter for the private developer to work out with the local municipality and to see if he can get encouragement from them.

Mr. RIDEOUT: Mr. Chairman, maybe the president will not want to answer this one question I am going to ask.

Mr. GORDON: Mr. Rideout, I wish you would not make comments of that kind. I have never refused to answer your questions. Why not ask me the question in good humour and I will reply in good humour.

Mr. GRÉGOIRE: I think it is a fact that Mr. Gordon has answered every question put to him and, in fact, he has answered them very politely.

Mr. GORDON: Thank you Mr. Grégoire.

Mr. RIDEOUT: To expand a little more on this question I brought up earlier, would you mind stating how much rental payments you are making to the terminal building per annum?

Mr. GORDON: Do you mean the rental payments we are making to the terminal building?

Mr. RIDEOUT: Yes.

Mr. GORDON: We do not usually give out that information. You want to know the amount of space we are renting in the terminal building, do you?

Mr. RIDEOUT: I know the amount of space but how much are you paying rental per annum?

Mr. GORDON: The rental we are paying?

Mr. RIDEOUT: Yes.

Mr. GORDON: I will take the question as notice, Mr. Rideout, and see if I can get it for you.

Mr. ROCK: In respect of real estate, Mr. Gordon, the CPR have a department which they call the real estate department, where they buy and sell land.

Mr. GORDON: Yes.

Mr. ROCK: And, for instance, they sell it to developers.

Mr. GORDON: Yes.

Mr. ROCK: And, they actually sell this land to industries which will be their future customers for freight.

Mr. GORDON: Yes.

Mr. ROCK: Does the Canadian National Railways real estate department operate in the same manner? Do they buy and sell land to develop industries or create industrial zones in certain areas and thereby create customers or does your real estate department just sell, say, excess land because of abandonments or surplus land which is not of any use to the railroad system?

Mr. GORDON: As a general rule our policy is that we do not buy land speculatively; we buy it basically for railroad purposes. It may well be in the development of a large yard such as we have in Montreal and Toronto; in order to acquire that property effectively we might buy considerably more than we need at that time for railroad purposes knowing that as the railroad goes in and develops we will have industrial land for sale. There may be cases of development of what we call an industrial park and we might get interested in that for the purpose of providing railroad service. Perhaps we would take a line off for that purpose. However, I do not know about the CPR policy and

I cannot give evidence for them. It may well be that they acquired land having in mind that ten years from now it will be valuable land.

Mr. ROCK: It does seem to me that that is the case.

Mr. GORDON: It could be but, as I said, I cannot speak for the Canadian Pacific Railway. It is not our policy to buy land speculatively.

Mr. GRÉGOIRE: Mr. Gordon, I would like to ask a question in respect of the leasing of small shops in Canadian National Railways stations. Are the restaurants in these stations operated by the Canadian National Railways or are they leased to some private interest?

Mr. GORDON: Again, it varies. I would have to know the specific example to which you are referring before I could answer your question. I will give you one example. The shops in our Central Station in Montreal are leased out directly by the Canadian National Railways but the shops in Place Ville Marie across the street belong to Webb and Knapp, the developers of that development, and they lease them out.

Mr. GRÉGOIRE: And, you lease some places to individuals who operate them?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: When you enter into a lease of this nature, say, a tobacco shop, do you lease only one tobacco shop to a station, as a result of which there is no competition?

Mr. GORDON: Well, that is a matter of good business judgment if the area is such it will support only one tobacco shop or say, one barber shop. And, mind you, they will pay a premium lease to get that position.

Mr. GRÉGOIRE: Do you make surveys to see that they do not overcharge the people when they are the only shop of a particular nature in the station?

Mr. GORDON: No.

Mr. GRÉGOIRE: You do not make surveys in this connection?

Mr. GORDON: No.

Mr. GRÉGOIRE: You let them go ahead and charge whatever they wish?

Mr. GORDON: If someone rents space from us for a shop, say a barber shop or a drugstore or anything of that kind, it is entirely their own affair what they charge.

Mr. PRITTE: You are not with the wartime prices and trade board anymore.

Mr. GORDON: No. Sometimes I wish I was.

In the case of renting, the person who wants to open a shop may say in the course of the discussion: "I want a barber shop and I will pay you such and such, provided I have the only barber shop there". Then, we have to make up our mind whether we want to make that deal. But, we do make arrangements where we protect the people who go in there against other competition in that respect.

Mr. GRÉGOIRE: But, Mr. Gordon, the problem is that these lessors who have these shops overcharge in some instances.

Mr. GORDON: Well, if the barber shop in central station overcharged the people would not go there. There are dozens around the same area. They provide their own competition.

Mr. GRÉGOIRE: But some people are only passing through the station for the purpose of making train connections and so on, and when there is only one tobacco shop there they may pay five cents more for cigarettes.

Mr. GORDON: Sure. If they do not like the price in the station they will buy tobacco somewhere else.

Mr. GRÉGOIRE: But, in many cases, the time is short between trains.

Mr. GORDON: None of these people are tied to the fact of having to make their purchases in the station. They can make their purchases elsewhere if they wish.

Mr. ROCK: I have a supplementary question. In respect of the rental of a certain concession, say a new concession that has not been created before in a new station, you do not have in mind one prospective future leaseholder for there?

Mr. GORDON: No.

Mr. ROCK: You usually deal with two or three and you accept usually the best deal, do you?

Mr. GORDON: You see, what happens in practice is this. In the case of a station area everyone in business knows we are developing it because for five years the space will be there. What happens is that we may get 20 or 30 proposals in respect of types of establishments. We do not say that we have this space and we want a barber shop; we say here is space available. Sometimes we advertise and so on. But, when you get an active area like the Montreal area we do not have to advertise; we wait for bids, and we get plenty of them.

Mr. PRITTE: Mr. Gordon, do you consider the Canadian National Railways station in Vancouver adequate for some time in the future in respect of passenger facilities and Canadian National Railways service branches that are located there, or do you contemplate any change?

Mr. GORDON: Well, as a matter of fact, only very recently we amalgamated the station with the Great Northern and on the basis of examinations there the station is adequate as far ahead as I can see in terms of passenger business.

Mr. FORBES: Mr. Gordon, while we are on the subject of real estate, I understand you entered into a lease agreement with an individual in the town of Dauphin, Manitoba, for lease of office space; would it not have been to your advantage to have constructed your own office space in a divisional point such as that?

Mr. GORDON: I remember this case very well. That was thoroughly analysed in terms of whether or not we should build our own building. We made a very careful analysis of it and we finally decided on the basis of the offer we obtained that this would cover our immediate future needs and would be much more advantageous to us.

Mr. FORBES: Would you care to indicate to the committee the type of lease you have and what it is costing you?

Mr. GORDON: I would have to look it up. But, I wonder if I should give out that type of information here?

Mr. FORBES: Well, it would help the committee to decide whether you are on a very sound business basis in respect of it.

Mr. GORDON: Does the committee want to know this?

Mr. DEACHMAN: Mr. Chairman, if I heard the figure I am sure I would be no judge whether or not that was a good bargain.

Mr. GORDON: Mr. Forbes, I would suggest if any particular member has an interest in a situation of that kind I would be glad to talk to him but I would rather not publicize it through this committee.

Mr. FORBES: At the top of page 6 of the report reference is made to three branch lines, one in Alberta, one in Quebec and one in northern Manitoba. Is construction of these branch lines subsidized by the government? Is the operation being subsidized or, if they show a deficit, is it being absorbed by the Canadian National Railways for the purpose of developing our natural resources?

Mr. GORDON: The general principle in the CNR is to provide adequate rail facilities in any particular territory we might be asked. We analyse a given situation and generally what we have developed over the last seven or eight years is a very definite policy; that if we are going in to service one industry, for example, they give us a traffic guarantee; that is, they guarantee us a minimum amount of traffic, which we will estimate. We will tell them how much we must get over a 10 or 15 year period to justify the capital cost of that line. Now, if we obtained such a traffic guarantee we would build the line. However, there are instances where the industry is not prepared to give a traffic guarantee of a size we ask and, in that case, they will contact the government and the government will then make up its mind whether, in the general development interest of that area they are prepared to pay a subsidy of the capital cost to enable the line to be built.

We make our deal on its own merits. In respect of the particular lines in question my recollection is that in all cases these have either traffic guarantees or we are sufficiently confident that they will cover their own costs.

Mr. MUIR (*Lisgar*): Mr. Gordon, in the design of your new stations or the redevelopment of your existing facilities do you contemplate putting in such modern equipment as escalators and that sort of thing?

Mr. GORDON: Yes, certainly, if the circumstances warrant it. Again, it depends on the volume of use and so forth. We have lots of escalators around Montreal and in stations of that size. I agree, Hamilton is a bad spot.

Mr. MUIR (*Lisgar*): I am thinking of Toronto. By the time you are finished running around between trains you wish you had flown.

Mr. GORDON: That is right. I agree the Union station in Toronto is very much outdated and badly in need of modernization. But, at the moment, that is tied in with the study of the whole area. You see, there is a situation in Toronto—and I will try not to make this a long story—which has resulted in the building of a modern electronic hump yard as I mentioned, to the north of Toronto. That is a very expensive proposition and it will run us into approximately \$74 million. The reason for that is we got ourselves into a condition of complete congestion in the waterfront area there and, looking ahead, we could see it would be absolutely intolerable, and we decided on the development north. This development will be finished in 1965 and when it becomes operational at this hump yard or marshalling yard we will be able to release a lot of railroad property in that whole downtown area. This is a very big proposition. It will run into not millions but billions. There is also the problem of getting other property owners to join in. If we can get development going of the size and magnitude that we were successful in arranging in respect of Montreal it might very well involve the abolition of that station, and we may build a completely different kind of structure from what is there now. But, for the time being, the station will have to remain as it is.

Mr. GRÉGOIRE: Is it a fact, Mr. Gordon, that a new fast train will be in operation between Montreal and Quebec along the south shore early next year?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: How long will it take?

Mr. GORDON: Well, provided that we can get some wrinkles worked out, our surveys show we will have a  $2\frac{1}{2}$ - $2\frac{3}{4}$  hour service.

Mr. GRÉGOIRE: Have you received requests to ameliorate the line between Montreal, Chicoutimi, and Lake St. John?

Mr. GORDON: There is nothing specific, to my recollection. We have had complaints but no specific requests in respect of changing it.

Mr. GRÉGOIRE: But have you received complaints about the line?

Mr. GORDON: I must agree it is not a very good line; it is full of curvatures and grades that are not good. We would like to improve it but it costs a lot of money to do that.

Mr. GRÉGOIRE: Do you anticipate doing anything?

Mr. GORDON: We have not any project at the moment in this connection.

Mr. PRITTE: Mr. Chairman, we have a section on passenger service and I think that is more important.

Mr. GRÉGOIRE: But I am on branch lines.

The CHAIRMAN: Gentlemen, I think we have had a long discussion on this section. Are there any further questions?

Mr. PUGH: I have a supplementary question. In respect of the development in Toronto concerning the new hump yard, the availability of the CNR property for further development downtown could work out very well financially for you; could it not?

Mr. GORDON: I hope so; it is hard to say. This is a very big development. Certainly we would not go into it unless we thought we could make some money. In a project of this size, it may be that we would have to take a chance in the early years, having the long term interest in mind; but eventually it will mean a good deal to us.

Mr. MUIR (*Lisgar*): Certainly a good deal of this property in downtown Toronto would have quite a value.

Mr. GORDON: Yes.

Mr. MUIR (*Lisgar*): And out of it you might more than pay for the new hump yards.

Mr. GORDON: Yes, if we went into this; but we see it as a long term lease rather than as a sale; because if we go into the project as a partner and develop it on a lease basis, then we have a chance to benefit from the development in due course.

Mr. BALCER: Could Mr. Gordon tell us when he expects the Union station in Ottawa to be turned back to the national capital commission?

Mr. VAUGHAN: As I understand it they were aiming to have this plan completed by 1967.

Mr. GORDON: The note I have here indicates the track layout, the connections with the main lines, and so on, have a target date of October 31, 1965. However, I think there has been a little delay in this and possibly it will be somewhere between the fall of 1965 and the early part of 1966.

Mr. BALCER: You are building at Hurdman's bridge?

Mr. GORDON: That is right, but it is the National Capital Commission which is doing the actual building; all we did was give them the actual specifications. It is their job. That is why I do not want to be too definite about the date. However, my guess is around that date.

Mr. GRÉGOIRE: Will there be transportation facilities from the centre of Ottawa to the station?

Mr. GORDON: Do you mean some sort of a bus service?

Mr. GRÉGOIRE: A fast service?

Mr. GORDON: We will certainly have that in mind. We have lost all the advantage by giving up the old station.

Mr. GRÉGOIRE: Will there be some kind of a subway to the new station?

Mr. GORDON: I have not heard of that. There is an access road included in the plan, but I have not heard of any subway development; that would not be our job.

Mr. GRÉGOIRE: When you have stations located far away from the centre of a city, and when the people drive there in their own cars, do you anticipate there will be some kind of a parking arrangement?

Mr. GORDON: That is part of the plan.

Mr. GRÉGOIRE: Would you lease this to some private organization?

Mr. GORDON: It would depend; that is not yet worked out. However, part of the deal we made in connection with our being forcibly removed from the old station—we did not go willingly—was that there would be free parking space for our customers. But, there may also be parking space for other than our customers which a concessionaire might operate; I do not know.

Mr. GRÉGOIRE: When your passengers leave a car in the parking lot, it would be free?

Mr. GORDON: That is what I hope we will have worked out; but it is not worked out yet.

Mr. GRÉGOIRE: Will you try to do this in other cities?

Mr. GORDON: I do not know of any other similar situation; but we do look at the parking problem around our stations much more than we used to.

The CHAIRMAN: Are we through with development?

Mr. LLOYD: There might be some over-all questions in respect of future development which will come up in the section entitled "The Outlook".

The CHAIRMAN: Are "operations" going to be long?

Mr. GRÉGOIRE: We did not close the financial item.

The CHAIRMAN: That is right. Will there be a long discussion on the operation item?

Mr. LLOYD: There might very well be.

Mr. GRÉGOIRE: Could we adjourn now?

The CHAIRMAN: We will adjourn until after the orders of the day. Have we finished with the section on development?

Mr. PRITTE: I move that the section entitled "Development" be adopted.

Seconded by Mr. Balcer.

Motion agreed to.

#### AFTERNOON SITTING

Mr. MUIR (*Lisgar*): Mr. Chairman, I think I see a quorum.

The CHAIRMAN: Gentlemen, this morning we were at the paragraph of this annual report headed "Operations", and we were dealing with the first subsection, yards. Are there any further questions?

Mr. RIDEOUT: Mr. Chairman, the president was going to dig up some information for me and I wonder whether he has found it or not.

Mr. GORDON: You had in mind a question in respect of the rental basis at the terminal centres. I looked into that question over the luncheon hour but I do not think we should release that information at this time. The situation, as you probably are aware, is that Mr. Rudnikoff is now heavily engaged in discussions respecting his own partner and other people who are interested in this development. These discussions are at the stage where there may be some kind of rearrangement made in respect of the whole proposition. We are not involved in that discussion as yet but probably will become involved if there is a rearrangement. The information respecting in part the basic deal right now I think would be prejudicial to the interests of the discussions that are now being carried on, and prejudicial to ourselves.

I do not think this is an item of information which at this point of time should be released because it would be disadvantageous to the Canadian National Railways interests and it has always been the rule in this committee that if that is the case then the information is not pressed for, Mr. Chairman.

Mr. PRITTIE: Mr. Chairman, Mr. Fisher has just had to leave for a moment. He wanted to ask a question in respect of yards and said he would be right back.

The CHAIRMAN: Perhaps we could proceed to the next subsection on signals and radio in the meantime.

Mr. PRITTIE: Perhaps we can have the understanding that when Mr. Fisher returns he will be able to refer to the subsection on yards.

Mr. CANTELON: Mr. Chairman, I should like to ask a question in respect of yards, and particularly maintenance facilities such as the CNR car shops at London, Ontario. I have been asked by the member for London, who is not a member of this committee, to ask this question. He wanted to know if it is unreasonable to ask, in respect of maintenance, that facilities such as the CNR car shops in London, Ontario, not be moved to Montreal?

Mr. GORDON: You are asking if it is unreasonable to ask that they be moved?

Mr. CANTELON: I am asking whether it is unreasonable to suggest that the maintenance facilities, such as the CNR car shops at London, Ontario, not be moved to Montreal.

Mr. GORDON: Of course, this raises quite a broad general question in regard to the consolidation of our facilities. We have been engaged in a program of consolidating facilities so that we get the benefits of centralization in the larger shop. With the costs of new equipment and that sort of thing it is much better for us to cut down on the number of small shops and concentrate them into points where we can centralize the particular repair work which you have in mind. That means, of course, that when we make arrangements of that sort the men with preferred seniority have the right to move with that work, and that has been done to a certain extent in connection with the shop you have in mind.

The CHAIRMAN: Mr. Fisher, we are discussing the paragraph under operations but we left open the first subsection in respect of yards for your question.

Mr. FISHER: I should like to ask Mr. Gordon some questions about yards. Mr. Gordon, I have been in Winnipeg once or twice recently and have found that the Symington yard is still referred to by the employees as Disneyland; a sort of a weird and wonderful place. The suggestion is made that it is still not operating as efficiently as was intended and there is still a build-up of cars coming in and going out of the yard resulting in a considerable delay.

At the committee meeting last year you made some comment in this regard, and I received some answers to questions I placed on the order paper which indicated that from the company's point of view everything was going along fine. I wonder whether you would like to make a comment in this regard?

Mr. GORDON: Mr. Demcoe, since this is an operational matter, you are probably closer in touch with the situation than I.

In respect of the Disneyland connotation with the development of electronic operated yards it is, perhaps to a layman, a sort of Disneyland operation, weird and wonderful. As far as the operation itself is concerned, Mr. Demcoe will make a statement.

Mr. GRÉGOIRE: I hear the division bells.

Mr. PUGH: Perhaps we could send a messenger to the house and sit for another five minutes.

Mr. FISHER: Are you sure that is our bell?

Mr. GRÉGOIRE: Yes. It will take us at least six or seven minutes to walk over to the house.

The CHAIRMAN: We will now adjourn until after the division.

The CHAIRMAN: Gentlemen, the meeting is resumed.

Mr. Gordon, will you proceed.

Mr. GORDON: Mr. Demcoe will proceed on yards—

Mr. DEMCOE: It is quite true that the employees, and particularly the older men we have in Winnipeg, are having difficulty in readjusting to the new operation because now we have to switch according to lights and push buttons, and there are actually less men doing it too. They are having difficulty in adjusting. We found in Moncton and also Montreal that the same difficulty arose, but today I think everyone is pretty well adjusted in those two yards; and I would say in Winnipeg in another year or two they will also be adjusted.

Mr. FISHER: That is really the question, and I do not feel responsible in a sense to bring the comments of men who are working in the job here to you, but I am interested much more in whether this yard is working efficiently and whether in effect it is leading to tie-ups of traffic and delay.

Mr. DEMCOE: As far as I am aware, the yard is operating efficiently and there has been no tie-up in traffic.

Mr. FISHER: Have the expenses of these yards been higher than had been anticipated?

Mr. DEMCOE: No. Actually, I think the savings have been in accordance with the original estimate.

Mr. GORDON: I have some figures on that. I think these may have been provided before. A complete estimate of the total savings achieved since the yard commenced is not yet available but an estimate has been made of the internal savings in the yard for the year ending July 31, 1963. You will remember, Mr. Fisher, we opened up the yard in July, 1962. This first year shows that the savings total \$697,000, and that does not include savings effected at other points or car savings of put-through time. In the original report—that is the report from which we based our decision to go ahead—these savings were estimated at \$511,000 and \$471,000 per year. That estimate for the first year, therefore, has been improved. I can also tell you that in recent weeks the cars handled improved very substantially with the heavy grain movement, and we have had encouraging reports to the effect that we have been able to handle this sudden increase in wheat because of those facilities.

I will just emphasize what Mr. Demcoe says. It will take time to get all the men further acclimated and some of them of course never will be. It may have gone a little beyond the stage where they learn early and learn quickly, and there will be some inefficiency in that respect that will gradually be worked out. What we have noticed, particularly in Montreal where we have been able to keep in touch with it, is that when these men do get adjusted to the system and realize what it is, they get a pride in it, and when we reach that stage with them we find it functions much better.

Mr. FISHER: There is no intention of reinstating a double track in any of the ancillary lines coming in in order to feed in and out of the yard?

Mr. GORDON: That would not be necessary, would it Mr. Demcoe?

Mr. DEMCOE: Not at the present time.

Mr. FISHER: Has there been an exchange of information between the two major railways with regard to their yard operation?

Mr. GORDON: No, we do not exchange that kind of information.

Mr. FISHER: In your yards at Toronto, have you made any considerable changes in your original plans as it has been constructed or is being constructed.

Mr. GORDON: Not a great deal, but to some extent.

Mr. FISHER: In the light of your experience with your other yards?

Mr. GORDON: There have been some technical improvements, each yard is a little ahead of the other yard as new gadgets and gimmicks come in.

I will take back what I said about exchange of information. I do not mean there is no cooperation between the railways. We do have visits between each other and we make fully available to them any information we have, but we do not give them figures. In the Toronto yard we were able to reduce some of the expenditures estimated in the original estimates by taking a hard look at the quality of the construction and buildings we are putting up, and we found from a careful reappraisal that we are able to get the results by reducing the quality of the buildings; so we have cut about \$10 million to \$11 million off the original estimated cost in Toronto. Also in the Winnipeg phase, our actual expenditures is about \$1 million to \$1¼ million less than we had anticipated.

Mr. FISHER: In connection with the requests to establish a combined lake-head switching area with the Canadian Pacific, have you made any progress in regard to those recommendations?

Mr. GORDON: I have not been in touch with them lately.

Mr. DEMCOE: No, that is something involved in Winnipeg between the two companies.

Mr. FISHER: There are developments under way?

Mr. DEMCOE: Whatever discussions there are would take place in Winnipeg. I am not aware of any work they are doing at the present time, but that would be done in Winnipeg.

Mr. FISHER: You have already considered real estate, I understand, but the reason this is germane to the lakehead is that a combination there of the switching facilities would enable the release of a considerable acreage for real estate developments. I wondered if you had any information on that aspect of the yard changing.

Mr. DEMCOE: We have received no plan as yet from our Winnipeg territory.

Mr. GORDON: You are still talking of the lakehead?

Mr. FISHER: Yes.

Mr. GORDON: We are in the position in the lakehead that we will have property available, and again it depends on whether we can get a reliable development group to become interested in it, alone or in conjunction with the city itself, as I explained this morning. We would collaborate in every way possible to get that project sparked.

Mr. FISHER: The reason I asked this is because I have the 1963 report before me of the Fort William industrial development committee, which I understand was forwarded to the railways and to the government in May of this year, which is since we last had our meeting. I was curious to know the response of the railways to this. I will not take up any more time, but I hope you can let me know about this.

Mr. GORDON: I would just like to make this comment. As I explained this morning, the railway itself is not anxious to put capital moneys into promotional developments of this kind. What we do is to try to interest private promoters to take an interest in it and then, in conjunction with any city planning arrange-

ments, we bring them together and act as a coordinator and put our property into the venture, so to speak, on a reasonable basis.

Mr. FISHER: This does not quite relate to that, Mr. Gordon; it is a request that the Canadian National Railways carry out the intent of the 1905 agreement that existed between the municipality and the predecessors of the CNR.

Mr. GORDON: I am afraid you have lost me right now but I will make a note of it and look into it.

The CHAIRMAN: Is that all for operations?

Mr. MUIR (*Lisgar*): I have a supplementary question.

Mr. Gordon, what is the volume of cars that you handle through the Winnipeg yard?

Mr. GORDON: In the 15 days of October, 1963, the average per day was 2,490 with a maximum of 2,918. This is up to date, I believe, is it not, Mr. Demcoe?

Mr. DEMCOE: That is right; that is the latest information we have.

Mr. GORDON: Six thousand cars per day is the classification capacity over the dual hump with standing capacity of 7,366 cars.

Mr. MUIR (*Lisgar*): Is that as many as you have ever had to handle?

Mr. GORDON: I do not know if I have a peak figure here.

Mr. DEMCOE: The peak is 2,918 as far as we are aware at the present time. November has been a very good month so they could have surpassed this figure.

Mr. GORDON: I imagine it will go sharply up in November, will it not?

Mr. DEMCOE: Yes.

The CHAIRMAN: Is operations carried?

Mr. FISHER: I want to make sure that if we pass this we can still go into the whole question of the matter of the master agency plan and telecommunications later on.

Mr. GORDON: Yes, we have not come to that yet.

The CHAIRMAN: Will someone move this?

Mr. GRÉGOIRE: I have just one question; I am not sure to which chapter it refers but it might be this one.

When there is an underpass or an overpass built for Canadian National Railways, when the train passes over the automobiles, is the Canadian National Railways responsible for making the plans and do they consult the municipalities with regard to city planning?

Mr. GORDON: Oh yes, of course there is collaboration between the authorities every time. But the question of whether or not an overpass or an underpass is built at a particular level crossing, and the responsibility for financing it becomes a question of fact whether the railroad was there before the road, or the road was there before the railroad.

Mr. GRÉGOIRE: There was discussion between the CNR and the municipalities?

Mr. GORDON: Oh yes, we do discuss it with them. Do you have any particular one in mind?

Mr. GRÉGOIRE: Yes, but it was on the principle that I wanted to know about.

Mr. GORDON: Certainly the planning authorities are always consulted.

Mr. PUGH: What have you to say about the present strategic facilities that might be using that particular yard at Winnipeg?

Mr. DEMCOE: We recommend the classification tracks that we have at the present time. They can take up to 6,000 cars, but so far the maximum has been 2,918 up to October.

Mr. PUGH: What about the concentration?

Mr. DEMCOE: There are cars coming from the north with lumber and concentrates going to the west and to the east. There is classification of cars going east, and going south and north, and there are tracks to serve the industry in the city of Winnipeg. Each of the cars goes into a particular track. In some tracks you have a capacity of from 40 to 50 cars, yet you may only have to handle some 10 to 15 cars a day.

Mr. GORDON: One of the advantages we get out of these four modern yards is that in marshalling at a centre like Winnipeg we form the traffic from the west coming this way, and we decide at Winnipeg how best to handle it coming east. We may classify a train to come east to bypass Toronto altogether—I refer of course to traffic which is not destined for Toronto but for points further east—while under the old system everything coming in that way had to go to Toronto before it could go east. But now we eliminate all of that by reason of the four main yards.

The CHAIRMAN: Will somebody move the adoption of operations?

Item adopted.

Now we are on freight services.

Mr. GRÉGOIRE: We were told yesterday that we could discuss public debt. May we leave open the question of freight services on the CNR until tonight, even though we may go through it now, and come back to the CNR traffic problems?

The CHAIRMAN: Let us go ahead with freight services. Are there any questions?

Mr. PRITTE: I have two questions which come under this general heading and I will ask them both at the same time. One is factual and has to do with the aquatrain service from Prince Rupert to Alaska. How many times a week does that service operate and what volume does it have? My other question deals with marine services. You have one passenger ship operating on the Pacific coast.

Mr. GORDON: Yes.

Mr. PRITTE: During the current season; I believe this has been a profitable operation. Have you considered a second ship on that service which seems to be packed full all the time?

Mr. GORDON: I will answer your last question first. We have no intention of putting a second ship into service. It is true that the ship we have now is doing all right. But examination of these things shows that a second ship would be just too much for the traffic. We have had experience in this in many, many ways. Very often you can turn a profitable operation into a losing one by providing over-capacity. The fact that this ship has "scarcity" value is one of the reasons it pays as well as it does. To construct a ship of that class today would be so costly that we could not see, from an economic point of view, that we could make it pay.

Mr. PRITTE: There have been a number of surplus CPR ships available in the last few years.

Mr. GORDON: To my recollection they have also withdrawn ships.

Mr. PRITTE: When you talk about the cost of building a new ship, it seems to me that a surplus ship might be picked up to take care of some of these summer tourists.

Mr. GORDON: If you mean to buy a ship, I cannot say that we have examined that, but I believe we probably have, because we have made an economic study of the possibility of traffic that is offered and we have ruled against the idea of enlarging that service. But the aquatrain service was inaugurated in 1962 and the aquatrain has been making two round trips per month with an average load of 12 cars. Is that what you had in mind?

Mr. PRITTIE: Yes, thank you. You say two trips per month.

Mr. GORDON: Yes.

Mr. PRITTIE: Is that accounted for under the railway company or under the steamship service?

Mr. GORDON: It would be under the railway company. Yes, it comes under rails.

Mr. PRITTIE: Thank you.

The CHAIRMAN: Are there any other questions?

Mr. DEACHMAN: I have some further questions in connection with marine service. Mr. Gordon, the CNR wharf at Vancouver could be described as a large and fairly important wharf in that harbour.

Mr. GORDON: Yes.

Mr. DEACHMAN: I wonder if you can give us any figures on the experience of that wharf; what volume of traffic does it handle? What volume of passenger traffic and what volume of freight traffic? I would like some information on the general operation of that particular wharf.

Mr. GORDON: It is not very good as I recollect it. It is a poor show, actually. No, I had better skip that. Here are the figures for 1962. You had better give them, Mr. Toole, because you are more familiar with it.

Mr. TOOLE: I can give you the operating revenue for the Vancouver dock; in 1962 it was \$118,584; and in 1961 it was \$127,529.

Mr. DEACHMAN: Those are your operating revenues. What was your operating cost in the period against that.

Mr. TOOLE: We show an over-all profit of \$4,600 in 1962, and \$12,600 in 1961.

Mr. DEACHMAN: You show \$12,000 by way of profit in 1961 and \$4,000 in 1962?

What sort of profit is that? Is it net profit, after you have paid the wharf expenses and so on?

Mr. TOOLE: Yes, it is. There is no interest on investment in that.

Mr. DEACHMAN: Can you tell me the age of that wharf, when was it built, and how old is the property?

Mr. GORDON: We would have to check that for you.

Mr. DEACHMAN: Could anybody take an educated guess on it?

Mr. GORDON: I would say 1926 to 1927.

Mr. DEACHMAN: It is a wooden wharf construction?

Mr. GORDON: Yes.

Mr. DEACHMAN: Have any improvements on that wharf been made in recent years?

Mr. GORDON: Yes, we did some surfacing, as I recollect it. I do not think we have the particulars of it here. But we did surface it for the storage of cars and things like that. It is not a satisfactory operation. If you have a minute to spare I will be glad to discuss it with you.

Mr. DEACHMAN: With a piece of property as important as that, and with a Vancouver harbour wharf, and having regard to the improvements made

to it, there must have been surveys made beforehand in that regard. It is important as a wharf property and for general wharfage is it not?

Mr. GORDON: Yes.

There is a difficult situation in respect of congestion at that wharf. It has not much in the way of alongside capacity for ships, and the depth of the water there is not too satisfactory.

Mr. DEACHMAN: Could that not be improved by dredging?

Mr. GORDON: At the cost which would be involved we do not think it would be worth the effort, economically.

Mr. DEACHMAN: Has there been any engineering survey in recent times from an economical point of view to determine whether or not the modernization and rebuilding of that wharf would be feasible?

Mr. GORDON: I would have to check my file. I have not been in touch with this for the last two years. However, there was an intense examination made a short time ago.

Mr. VAUGHAN: Was not the national harbours board doing a co-ordinated study out there last year in connection with all the facilities?

Mr. DEACHMAN: Perhaps I will ask the minister that question.

Mr. VAUGHAN: I read something about it in the newspapers. Perhaps Mr. Balcer could shed some light on it.

Mr. BALCER: I remember there was a move in that direction. I know they have sort of a port council in Vancouver.

Mr. VAUGHAN: I believe there was a co-ordinated study by all interested parties out there.

Mr. DEACHMAN: Have any offers been made to you for that section of the harbour?

Mr. GORDON: No. We have over the years tried to interest various people in it but have been unsuccessful. Right now, in my opinion, the dock should be regarded as a problem.

Mr. DEACHMAN: Is it a problem you would be interested in disposing of through a sale, let us say, to the harbour people or on a long lease basis to other interested parties?

Mr. GORDON: Yes, I would look at any reasonable offer.

Mr. PUGH: From where do you get your revenue?

Mr. GORDON: Some of it is from storage. I have been over the dock in the last year and I am just recalling from what I know; there is temporary storage, cans of salmon, and some automobile storage for which we resurfaced the dock to make it possible. Largely it is a question of storage.

Mr. PUGH: Is there any revenue from the Canadian National Railways itself?

Mr. GORDON: No. Do you mean in regard to the railroad going in there?

Mr. PUGH: No. I was thinking of the revenue from the cost accounting point of view in connection with this property. Does the CNR charge for service supplied to the CNR?

Mr. GORDON: No.

Mr. PUGH: Does the CNR use it very much?

Mr. GORDON: There are no direct services to the CNR as such.

Mr. FORBES: There is a steamship operation out of there?

Mr. GORDON: Yes, and that would be charged.

Mr. PUGH: On a cost accounting basis?

Mr. GORDON: Yes.

Mr. BALCER: Mr. Gordon, there is a ferry by the name of *Père Nouvel* which runs between Rimouski and Baie Comeau. This afternoon we heard in the house that this ferry service might be suspended. I recall last year an intention by the officials of this company to get in touch with the Canadian National Railways to see if there was any possibility of some traffic between Rimouski or Father point and Baie Comeau.

Mr. GORDON: You are referring to what was formerly the "Vacationland"?

Mr. BALCER: Yes. Was there any progress made in that direction? At the time the ferry company told me it would be possible to have tracks put on the ship so that we might have boxcars which could be used for grain and ore for movement across the St. Lawrence.

Mr. GORDON: There have been discussions going on. Apparently they have not gone very far because of the cost. The establishment of the service would involve considerable expenditures for switching and additional siding facilities. Also, the federal Department of Public Works advised that the provision of suitable loading and unloading facilities at Pointe-au-Père would be quite expensive. There was also the question that if it was eventually extended to Seven Islands a new wharf there would be quite an expensive proposition. My impression is that the matter is bogged down at the moment.

Mr. BALCER: Would one of the reasons for that be that the Baie Comeau end of the ferry wharf is not complete yet?

Mr. GORDON: That is correct.

Mr. BALCER: That is one of the reasons?

Mr. GORDON: Yes, for the rail.

Mr. GRÉGOIRE: I note that you have many lines in the United States in connection with freight service. What is the amount of business you do in the United States in respect of the lines operated by the CNR there?

Mr. GORDON: It is a very difficult question to answer because you get the question of originated freight and freight coming back. But, we have a study here from which I think we could give you some figures. One of the problems of cost accounting is to determine which part of the revenue should get credit for the business. Some say it depends where the traffic originated, but would it have been originated at another point if we did not have a railroad at a particular point? We have to make arbitrary assumptions in this connection.

I wish I could tell you the whole story but it is not available. We are in a situation vis-à-vis the United States operation as to the apportionment of business there and that affects our position vis-à-vis the United States government in regard to their charges, so we have to be very careful how these figures are used because they can be misunderstood. But, subject to that qualification, I will give you the round figures on the basis of the revenue side—and that is in regard to traffic originated on the three railways we have in the United States, namely the Grand Trunk Western, the Central Vermont and the Duluth-Winnipeg-Pacific. When we allow for the feeder value of traffic that comes to us by reason of the operation of these railways we can show an advantage to the Canadian National Railways in our figures of roughly about \$6 million.

Mr. GRÉGOIRE: Are there American rail lines operating freight service in Canada the same as you are in the United States?

Mr. GORDON: Yes, there are American companies operating in and out of Canada but I do not know whether or not they use the same kind of mix of traffic.

Mr. GRÉGOIRE: In other words, would you be able to say which is doing the most business, the American railroads operating in Canada or the Canadian National Railways operating in the United States?

Mr. GORDON: You want to know whether they are getting more of an advantage operating in Canada than we are operating in the United States?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: I doubt whether I could establish that. We would have to have access to their books to establish it and I do not think they would permit that. But, I would say my guess is that the advantage lies with Canada.

Mr. GRÉGOIRE: That is your guess?

Mr. GORDON: My guess is that the advantage lies with Canada.

Mr. GRÉGOIRE: That the advantage lies with Canada?

Mr. GORDON: Yes, that would be my guess.

Mr. DEMCOE: There are two or three railroads that operate from Windsor-Detroit over to Buffalo and Niagara Falls that are strictly a bridge operation from Chicago through to the eastern seaboard, so actually they operate through our country. But, it is strictly a bridge operation.

Mr. GORDON: That is what is known as the overhead traffic.

Mr. DEMCOE: There is the Wabash and the New York Central traffic which starts in the United States.

Mr. GORDON: Yes, it runs through Canada and is discharged in the United States.

Mr. DEMCOE: It is a form of in bond traffic?

Mr. GORDON: Yes.

Mr. DEMCOE: It is carried in bond from locations such as Chicago and goes through to Buffalo and down to the New England states. We have lines that go down to central Vermont and Maine.

Mr. GORDON: Were you thinking of American railroads entering Canada and discharging freight here?

Mr. GRÉGOIRE: All the operations.

Mr. GORDON: Well, that is not the practical method of operations. This involves interline traffic.

Mr. DEMCOE: Say, a car of fruit starts in California; it would be brought into Chicago by the Santa Fe Railroad. It would be handed to the Grand Trunk Western, which would haul it to Sarnia. The CNR would then haul it to Montreal and it would go down to a consignee in the New England states. We would be a bridge operator in the carrying of the goods from Chicago through to the destination. We may even give it to another railroad, if it is to a station that is not on our railroad.

Mr. ROCK: Mr. Gordon, I am referring to the road-rail co-ordination and to the last sentence in that paragraph, which states:

The master agency plan is also a means of continuing service to the public in cases where unprofitable branch lines must be abandoned.

I am not too clear on that sentence and I would like to know whether you mean that where you have the branch lines which will be abandoned you will have a trucking system which will take over the freight and express in that area?

Mr. GORDON: Yes.

Mr. ROCK: Or, is it that you will discontinue the abandonment of branch lines?

Mr. GORDON: It depends what the circumstances will be. What we mean is that in circumstances where we have received permission to abandon a branch line by reason of our master agency plan we would then be able to provide an alternative trucking service and that would be one of the considerations that

the Board of Transport would take into account when giving us permission whether or not to abandon the line.

Mr. ROCK: It is a type of protection?

Mr. GORDON: If we are able to demonstrate there is an alternative service which would be adequate to service the community in which we are interested in regard to the branch line, we would be in a much better position to get permission to abandon the line.

Mr. ROCK: If or when this happens in a certain area do you also see to it that the employees who are on the railroad system are transferred to this trucking system or are you allowed to do that according to the contracts of the union?

Mr. GORDON: Usually we do not transfer rail employees into the trucking part of our business. That is not the way it is done. The whole arrangement in regard to the master agency development is that we would abandon small stations largely on a basis of attrition and the men would be transferred or moved, as the case may be, and gradually would not be replaced, and over a period of years the number of jobs would actually be reduced.

Mr. FISHER: Have you a general statement that we could have in that connection, Mr. Gordon?

Mr. GORDON: If you would permit me I will read what I have in the file, and I think this will make it clear:

#### Express Freight Services

The "report on the proposed integration of express and less-carload freight traffic", prepared by the department of highway services and dated October 24, 1962 outlines a method for the effective and economical handling of express and l.c.l. on an integrated basis. The aim is to take the best elements of both services and provide one superior high speed service at rates competitive with other forms of transportation. The ultimate goal is to present to the shipping public one department and one form of documentation for all non-carload consignments. Eventually it is anticipated that the railway will have a combination of rates and service on other-than-carload traffic that will permit solicitation directed specifically to non-carload traffic with the same effort and cohesion that is now being expended on carload traffic.

In the course of carrying forth this plan, progress has already been made in certain areas on the necessary basic distributing plan for the various types of non-carload traffic. The term "railhead" is used to describe this plan, and involves the despatch of heavily laden rail cars to a centrally situated railhead location loaded with goods for various destinations, from which point final distribution is made, usually by highway vehicle. The broad application of the railhead principle is being expanded across the country in varying degrees, consistent with the amount of freedom allowed by the individual provincial highway regulatory bodies.

Under the railhead proposal, it is the intention to eliminate a number of agencies at the smaller points and establish "master agencies". The master agency would be a centralized freight and express handling station serving a defined area. It would be readily adaptable to the proposed integration of express and less-carload freight. The concept of consolidating the workload of agencies will result in direct economies in administrative costs and provide the customer, at smaller points, with a service comparable to that in larger centres.

Developments have already taken place with respect to initiating the integrated service. As an exploratory step in the decentralization of control,

general superintendents, express freight, have been appointed on the Atlantic, mountain and prairie regions, reporting to the regional vice presidents, and these officers are responsible for directing all phases of the integration proposal on their respective regions. However, the vice president—Highway services, through the co-ordinator of express freight services, maintains a strong staff direction and final authority while the program is being implemented. A further step in the decentralization of control took place in early 1963 with the appointment of a general superintendent express freight on the St. Lawrence region. Plans are now in progress to decentralize the last region (Great Lakes) in January, 1964.

That, I say, is the general concept that is under way in connection with it. It is very much still in the testing period and there have to be many adjustments worked out in regard to the actual stations, labour implications, and the consolidation of wage agreements and so forth. We are making progress in that respect gradually, in consultation with the appropriate labour leaders.

Mr. FISHER: Have you an estimate of how many jobs will disappear if it moves ahead?

Mr. GORDON: That is not a question I can answer, and for this reason. First of all, it is going to be a very gradual process. Secondly, it will depend how successful it is. If it is successful and we are able to retain or, as we hope, increase staffing, then the net result may be an enlargement of job opportunities rather than a reduction. Therefore it depends on the timing and success of the plan. I am hopeful that it will be sufficiently successful that it will in the long run mean more job opportunities in the Canadian National Railways than exist at the present time.

Mr. FISHER: Have you any indication at all from what you have done so far that this may happen.

Mr. GORDON: We have not gone far enough with it actually. We still have it on such a test basis that we are retaining employees at stations where they are not needed at all; they are just waiting there for the result of the tests. Therefore I cannot give any figures that mean anything until we get through the test period.

Mr. FISHER: But it could be generalized that whatever effect it may have in terms of jobs it will mean a considerable amount of dislocation or at least some movement.

Mr. GORDON: Yes, I am afraid that is right, and it will be dislocation of a type of skills. We will not need the type of skills that were needed before; and we will have to retrain some of the men and some of them will be moved. We are doing this very carefully and we are most anxious in regard to the human problem. So, as I say, in this test period we are really keeping on men both with the idea of seeing how best to displace them and how to move them around in the course of making this actually workable.

Mr. FISHER: Is there any model available to you that is applied anywhere else in North America?

Mr. GORDON: Not exactly, not one that would be comparable to the Canadian situation. This type of thing has been done elsewhere, yes; but we have originated part of the principle ourselves.

Mr. HORNER (*Acadia*): In other words, Mr. Gordon, on the master agency plan can I gather from your remarks that you really have no plan yet or are not prepared to divulge it?

Mr. GORDON: On the contrary, we have a plan but it is on a test basis. We are testing the plan now.

Mr. HORNER (*Acadia*): But you are not prepared to divulge it?

Mr. GORDON: I have told you what the plan is but I cannot tell you the rate of progress in regard to it; I do not know.

Mr. HORNER (*Acadia*): When you say you have told us what it is, that is not quite correct because you have not really told us what it is in relation to the numbers of agencies that are concerned, have you?

Mr. GORDON: Again, that depends on the test. Let me try to put it this way. We are using the facilities of the railway to get the maximum advantage of the heavy loading of cars and bring them to a central point—almost like the hub of a wheel. We will then survey what is around in the spokes of the wheel, so to speak, to determine whether or not we can better handle the traffic at the subsidiary stations around the spokes of the wheel and whether they would fit naturally into the hub. If that is so, we will provide a trucking service, but if the amount of traffic is such at any particular spoke that it still would be to our advantage to run the train there rather than use trucks, this is what we will do. This is what we have to test.

Mr. HORNER (*Acadia*): Along that same line, could you give me a better example with regard to the province of Alberta, for example. Are you only studying this for northern Alberta?

Mr. GORDON: I can give you a list, if that is what you want, in the Edmonton master plan with regard to four of the subdivisions there. In the Athabasca subdivision we are looking at Morinville, Legal, Rochester, Colinton and Athabasca. In the Sangudo subdivision we are looking at St. Albert, Onoway, Sangudo, Mayerthorpe, and Whitecourt. There is another qualification here in regard to train operation but I do not need to go into it at the moment. With regard to the Edson subdivision we are looking at Spruce Grove, Stony Plain, Wabamun, Gainford, Entwistle, Evansburg, Wildwood, Peers and Edson. In the Wainwright subdivision we are looking at Tofield, Ryley, Holden, Viking and Irma. These are under examination now.

Let me make this clear. This is a very, very forthright effort to try to stem deterioration in our traffic, particularly in non-carload freight. For example, in 1951, we had 1,766,000 tons as compared with 634,000 tons in 1961. So we have come to the conclusion that it is perfectly clear that the railways are losing this traffic—and mind you, it is high-value traffic—because we are providing inferior service at higher cost. In order to stem this we decided we must eliminate the existing differential between rail and highway transportation in so far as the quality price of service relationship is concerned. We felt that a substantial improvement in the less-carload freight situation could best be obtained by first adopting a system for handling this type of traffic that would not only increase service but reduce costs, and therefore bring about a parallel lowering of rates. So if we do not do anything, it is not going to help the situation in regard to employment at all because the traffic is falling off so rapidly that in many places we will not have any at all. We are trying to stem the erosion by providing a service that will in fact be competitive.

Mr. HORNER (*Acadia*): Here again you seem to be moving in the direction, as you move in many other ways, of hoping to reduce costs and thereby reduce the freight rate on various goods; but in reducing costs your first step is to reduce service, and it seems as though this is going to be the way in which this is going to work.

Mr. GORDON: No, that is completely contrary. In this way we are not reducing service; we are improving the quality of service, which makes this competitive.

Mr. HORNER (*Acadia*): How can you improve the quality of service when you are going to discontinue an agency in 25 towns in northern Alberta.

Mr. GORDON: We are providing for facilities in each one of those towns. We may close the agency or the station, as the case may be, but we have worked out a telephone system which will be available to anybody in the particular

village or town. In the few communities where it is necessary to discontinue a full time agency, existing facilities of local business will be utilized at delivery points. The new service works as follows. A centralized direct line customer service organization—that is the master agency—is established at the key point. Residents of the surrounding area can contact us by telephoning an advertised number which will put them through, even over long distance lines, at no cost to themselves. At the central point, board operators will connect the caller with the railway department best suited to handle the caller's request, whether it is a matter of rate quotations, shipping a parcel out, or sending a telegram. The express freight department will be part of the new customer service organization, and this will make it possible for Canadian National Railways to operate a pickup and delivery service in a much larger area than in the past. So they do not lose the service; they have a quicker service, and we hope to be able to offer a cheaper and better quality service.

Mr. HORNER (*Acadia*): In your examination of this theory, what are your steps? You are now closing out, as I see it; you are now taking the agents out of these localities. Am I right or wrong?

Mr. GORDON: Not yet. Let me clear another point. We cannot close any station without the permission of the Board of Transport Commissioners. In getting that permission we have to demonstrate to the Board of Transport Commissioners that we are servicing the community in a reasonable way. In other words, we have to demonstrate that we are providing the alternative service I have attempted to describe, and we would not obtain permission to close that station otherwise.

Mr. HORNER (*Acadia*): Has the Board of Transport Commissioners ruled on any of these applications yet?

Mr. GORDON: We have not actually made any applications under this plan yet.

I do want to repeat this because I know this is being misunderstood. In the course of this test there are places right now where the agent has nothing to do; he is just sitting. We are leaving him in that position until we work out the test sufficiently far to be able to determine (a) what stations we are going to close to demonstrate the system is workable, and (b) also to see how we can handle the matter of the employees concerned.

Mr. HORNER (*Acadia*): Do I understand you right that in some localities where you say the agent has nothing to do this telephone service is now working?

Mr. GORDON: Yes.

Mr. HORNER (*Acadia*): It is now working?

Mr. GORDON: Yes, it is.

Mr. HORNER (*Acadia*): What have been the results, before the removal of the agent, with regard to business picking up or falling off?

Mr. GORDON: The last report I recall from the test area showed a very encouraging response. We have to educate the public, and this takes a little time. I think the test is going to show that it is practicable. If it is not practical, I say the situation is such that we are losing business anyway.

Mr. HORNER (*Acadia*): I realize that you are losing business, but it seems to me that a step to provide greater service might recuperate some of that business.

Mr. GORDON: You mean by the railway?

Mr. HORNER (*Acadia*): Yes, rather than a discontinuance, or making a little extra work. Perhaps you are doing it, I do not know.

Mr. GORDON: I will tell you. The plain fact is that in respect to this less-carload traffic we are licked before we start, in most places where we are

looking at it; because when you start off with this high value traffic—l.c.l. is regarded as high value freight—you have to put it on a train, and it has to get into some terminal, and it takes time to get it through and on its way east. Counting the time from when it starts and the handling, we are sometimes two days longer in transmission than if we did it by truck ourselves. So we are just licked before we start in regard to competition by truck. That is where we have been losing traffic.

Mr. HORNER (*Acadia*): I am not an advocate of your trucking system. While it may work very successfully in eastern Canada I think it is a pretty costly operation in the west. If Mr. Fisher has some questions on the matter I am prepared to defer to him.

Mr. FISHER: I want to know about these plans for rail line abandonment, and whether they just deal with western Canada, or whether your service is integrated with the general traffic picture? Does it seem to be part of the general direction?

Mr. GORDON: No. The abandonment of lines in western Canada has nothing to do with this master agency principle. It has been confused with it in that way, but it is not so. It is a completely separate proposition. Our branch line abandonment program in regard to grain is a separate problem altogether. It is true I said earlier that if a line is going to be abandoned anywhere, following reasons that we can discuss separately, then it may be possible under the master agency principle that we can provide service by truck. Would you like me to discuss branch line abandonment now?

Mr. FISHER: No. I wanted to know whether in your general planning you were looking at these three things as being related?

Mr. GORDON: No. Definitely, the branch line abandonment problem as such is not related to the master agency principle.

Mr. FISHER: What are the prospects of this master agency service, if it is integrated with trucking, leading you into more and more trucking of a short haul kind? Are you limited by your franchise situation, or are you getting to a situation where your master agency would actually be handling l.c.l. when you would never see a rail car?

Mr. GORDON: No. I have not made myself clear. The master agency principle means that the railway handles the maximum possible amount of traffic by rail to a particular master agency point.

Mr. FISHER: You are also setting up an organization in which trucks play a very large part, and I imagine you will have a sales organization related to it. What are the limitations on your developing into a trucking service?

Mr. GORDON: In toto, you mean?

Mr. FISHER: Yes.

Mr. GORDON: I do not know if I could answer that question specifically. I think it depends on the sort of control and your area of approach.

Mr. FISHER: I have heard the fear expressed on the part of truckers of a trend of service in which the Canadian National will be operating under this master agency plan and that it is another invasion of a field by the railroads which they think is properly one of trucking. I wanted to get your response to that kind of thing.

Mr. GORDON: We are getting into the question of trucking now. You must remember—perhaps I should have made it clear earlier—that in respect of the master agency, and the trucking services which will flow out from that master agency into various points, we are not setting up in every case our own trucking service. We often hire local trucks. We examine it on the merits. But we are not out to put truckers as such out of business. We have nearly 1,200 independent truckers working for us.

Mr. FISHER: We can expect a simple rule that any traffic either coming in or going out of the system which is being handled by truck will travel at some time by rail.

Mr. DEMCOE: It could come in from points, let us say, 25 miles east of Edmonton by truck, and go to another location, 25 miles west of Edmonton, and not be on the rails at all.

You are aware of how we enlarged our cartage system. For example, in Toronto at one time it was very small, and it covered only one or two miles. But as that city grew, the cartage system was extended to 10 or 15 miles. And it is the same thing here. We are actually expanding to 40 or 50 mile routes from the city, let us say, Edmonton, to pick up small goods. We have found that we just could not give pick up and delivering service by the type of operation that we have had in the past and still serve any large number of locations. And in order to be in the small goods business we have to use some other type of conveyance.

Mr. FISHER: It is very logical. I just wanted to get the boundaries of it. Now you have long haul trucking subsidiaries; is it possible that any of this traffic that goes into Regina or Saskatoon by truck could go into one of your traffic subsidiaries, say, for haul to Toronto?

Mr. GORDON: Yes, it is possible, because we have traffic requirements there where the type of traffic will best be moved by truck. There are types of traffic for which our truck facilities are far better than our train facilities.

Mr. FISHER: You see the concept that I have in my mind. It is that trucking will be integrated all across the country and operated by the CNR.

Mr. GORDON: Yes, but focussed on central areas of the railway.

Mr. FISHER: You say central areas of the railway, but would you also be duplicating or matching the trucking services which may be operated by truckers per se?

Mr. GORDON: Well, we will have competition, yes.

Mr. FISHER: Competition on their basis; that is, with trucks. That is the reason for developing your agencies that are based in a sense on your rail service. Again, I am not expressing an opinion one way or another.

Mr. GORDON: We would certainly hope, and we intend, to use to the maximum possible extent the advantages of the railway as a volume carrier to be able to deliver from one point to another on a basis which will be competitive with trucks.

Mr. FISHER: In this case the master agency plan is in some way the final step to your entrance into the trucking field?

Mr. GORDON: I do not know just how to answer that. I suppose you are right to say that? It belongs to the whole concept of why we went into the trucking business.

Mr. SOUTHAM: Supplementary to that, and to the questions initiated by Mr. Horner and Mr. Fisher, I may not have heard your remark about the exact time concerning this test plant that you referred to, as far as developing this master agency is concerned. Would this test period, you refer to, terminate at the time when the government will be reconsidering this whole problem of rail line abandonment, or will it be tied in with it? How long do you expect to be considering this whole test period before finalizing your conclusions on it?

Mr. GORDON: This is a very difficult thing on which to put a time limit because there are so many things to do in connection with it, including arrangements with labour. We made a very successful arrangement with labour about a year ago in regard to integration of the shed service, when we got the freight

and express handling put under one agreement. It is a most complex situation and we find in some areas it is easier than others.

Mr. Demcoe, have you any view in regard to this?

Mr. DEMCOE: We still have to work out an agreement in respect of the clerical staff. In regard to the expansion we have had it in operation in Moncton for almost a year, I should think. It started in Edmonton last June and we gradually worked out a system of distributing and picking up the small goods with our trucks and using the telephone system; in other words, if you have a parcel to ship you call our agent at Edmonton and say you have a parcel you want picked up today. A truck would then call at that particular locality, if you are on the main route; if not, you may have to bring it into a collection point where it is picked up and taken to Edmonton, and then put in an l.c.l. car. If it is going to Toronto that particular car will go to Toronto, from where it will be distributed. Actually, we are going at it just as fast as we possibly can to get our people trained and make agreements with the labour organizations, get telephones in, and the trucking operation organized, whether it is our own or by contract.

Mr. SOUTHAM: Mr. Chairman, my question is prompted by the feeling that this is an integral part of the whole rail line abandonment. However, I do not wish to discuss this now as we will be coming to it later.

Mr. GORDON: This is not basically part of the line abandonment program. We have two test places functioning now, Moncton and Edmonton. We felt we should take these two points and check the category of traffic classification, type and so on.

Mr. SOUTHAM: Well, that answers my question; the final conclusion would depend on the steps that would be taken in respect of the railway abandonments.

Mr. FORBES: In respect of incentive rates, are you doing anything about your l.c.l. rates? For years you had a special seed grain rate; you abolished that rate and now the general rate applies. We find that to ship grain a short distance the freight rate costs more than the producer receives for the grain in the first place. Have you any intention of re-instating this rate on seed grain or any other merchantable product?

Mr. GORDON: I have not been in touch with your specific example. However, we are not reducing l.c.l. rates as such because we are losing money heavily now on it. The way we are attacking the problem is this: if we can give this other type of service it may result in lower rates when we get the integration working.

Mr. ROCK: Mr. Chairman, could we possibly approve the freight service and then adjourn until 8 o'clock? It is now 6 o'clock.

Mr. GRÉGOIRE: I have some questions to ask.

The CHAIRMAN: I think we should adjourn now until 8 o'clock.

Mr. GRÉGOIRE: On this motion of adjournment, may we ask the president of the Canadian National Railways if he would be able to furnish us with a separate estimate on the trucking association of the Canadian National Railways?

Mr. GORDON: I have covered that in the report.

Mr. GRÉGOIRE: Yes, but if we tried to see the operations of trucking more specifically, if we were to see the trucking business it would be helpful.

Mr. GORDON: Is what you have in mind at the top of page 11?

Mr. GRÉGOIRE: On page 11?

Mr. GORDON: Yes, page 11 at the top.

Mr. GRÉGOIRE: No, I mean a special budget or estimates of your operations in trucking.

Mr. FISHER: I could perhaps make the comment that we have tried to get this information in previous years and it has not been made available to us. Is that not right, Mr. Gordon?

Mr. GORDON: It is not right, if I understood the question correctly. We have not given the individual results of trucking companies but we have always given the over-all result.

Mr. GRÉGOIRE (*Interpretation*): Would it not be possible to obtain a separate statement of the Canadian National Railways operations in so far as trucking only is concerned?

Mr. GORDON: In so far as trucking only is concerned?

Mr. GRÉGOIRE (*Interpretation*): Yes, the number of truck miles travelled, the cost of transportation on the trucks, the expenditures, the income.

Mr. GORDON: If you will allow me to think about that I will see if I can produce something about which at least we can start talking when we come back.

Mr. PRITTIE: I think if we put the question in another way we could ask: Are the reports of the subsidiary companies listed on page 20 available or not?

Mr. GORDON: No, we do not wish to give the results of individual trucking companies, for reasons I will give later.

Mr. GRÉGOIRE: Will it be possible also to invite some members of the trucking association?

The CHAIRMAN: We will adjourn now until 8 o'clock tonight.

## EVENING SITTING

THURSDAY, December 12, 1963.

The CHAIRMAN: Gentlemen, I see a quorum.

Mr. GRÉGOIRE: Mr. Chairman, I received a lot of 'phone calls asking me for issues of the proceedings of this session of the committee. I think that the committee agreed that there would be 850 copies printed in English and 400 in French. However, I received lots of demands for them. Do you think it could be proposed now that we raise the number of copies in French?

The CHAIRMAN: It is up to the committee to make a motion.

Mr. PRITTIE: We should find out first if all the number of the copies that were taken up from last year in either language, and base it on that.

The CHAIRMAN: I do not think that is the question now. Mr. Grégoire is raising the point that there has been a demand for the present issue. Last year 800 copies were printed in English and 250 in French.

Mr. FISHER: We are indebted to Mr. McGregor and Mr. Gordon for extending the cause of the French language.

The CHAIRMAN: Have you any special request for the number of copies to be printed this year?

Mr. RIDEOUT: I never could get near the amount I wanted last year.

Mr. GRÉGOIRE: Last year it was impossible to get enough copies in French.

Mr. RIDEOUT: The same applies to the English copies.

Mr. FISHER: Let us say 1,000 in English and 500 in French.

Mr. RIDEOUT: Let us say 1,200 in English.

Mr. PRITTE: You sound like an auction.

The CHAIRMAN: The suggestion is for 1,200 in English and 600 in French. Will somebody make that motion?

Mr. GRÉGOIRE (*Interpretation*): I move that we increase the number of copies to 1,200 in English and 600 in French.

The CHAIRMAN: The motion is seconded by Mr. Rideout.

Mr. GRÉGOIRE: I had asked a question before the adjournment of the meeting this afternoon and Mr. Gordon was supposed to answer it.

Mr. GORDON: There was not much time and I am not yet sure whether this covers what you had in mind. However, I will give you this information to meet your request.

Canadian National Transportation Limited owns 100 per cent of the capital stock of eight (8) trucking companies and two (2) terminal companies as follows:

Sydney Transfer and Storage Limited  
 Eastern Transport Limited  
 The Toronto-Peterborough Transport Company Limited  
 Hoar Transport company Limited  
 East-West Transport Ltd.  
 Empire Freightways Limited  
 Midland Superior Express Limited  
 Husband Transport Limited  
 Wacos Holdings Limited  
 Montalta Holdings Limited

The total investment in the foregoing companies as at December 31, 1962 was \$15,248,546.

Route Miles .....	19,000
Units Owned .....	2,092
Persons Employed .....	1,423

	Year 1962
Line Haul Miles .....	36,404,355
Pounds Handled-cwts. ....	18,005,030
Revenue Per Mile of Line Haul .....	58¢
Gross Revenues .....	\$21,620,432
Gross Expenditures .....	20,838,484

Operating Profit for full twelve months after provision for depreciation .....	\$ 781,948
	=====

Mr. GRÉGOIRE: Would you let me have a copy of this, please?

Mr. RIDEOUT: Why should Mr. Grégoire receive preferential treatment?

Mr. GORDON: I was trying to be courteous to Mr. Grégoire.

Mr. GRÉGOIRE: We could send a messenger to have a photostat made.

Mr. FISHER: Do not do it for me, I am not betting on that information.

Mr. LLOYD: This was done as a courtesy because Mr. Grégoire wished to proceed with some questioning, I understand.

Mr. GRÉGOIRE: You speak of investments on page four of your brief. Can you tell us in which item appears the \$5 million which served to complete the payment of the Midland Superior Express Limited and the Husband Transport Limited in December of 1962?

Mr. GORDON: The \$5 million has no bearing here. It is just a round figure in the capital budget covering the proposed purchases as the case may be.

Mr. GRÉGOIRE: But you have paid this \$5 million in December of 1962 to complete the payment of the Midland Superior Express and the Husband Transport, so that was in the capital expenditures.

Mr. VAUGHAN: It is not all trucking.

Mr. GORDON: I do not follow the question.

Mr. TOOLE: This is a statement of property on page four. These are assets such as buildings and trucks. Anything that we have added during 1962 for the existing trucking companies and on property of that type is in these figures; but the trucking companies also have cash, accounts receivable, liabilities and other items all of which net out to our net investment in these companies.

Mr. LLOYD: May I be permitted a supplementary question on this? Are you saying that on page four the schedule of road property, large terminals, telecommunication facilities, and the like, represents a consolidation of all of your controlled companies' assets?

Mr. TOOLE: Yes, of the change during the year.

Mr. LLOYD: In road property, large terminals, telecommunication facilities; in other words, to break it down, you would have to have the balance sheets for these companies in order to set the makeup of each one of these changes, would you not?

Mr. TOOLE: Yes, for the part of the property that came into the picture during the year.

Mr. GRÉGOIRE: So then this \$5 million would come under the item road property?

Mr. TOOLE: No.

Mr. GRÉGOIRE: It is not in here?

Mr. TOOLE: No.

Mr. GRÉGOIRE: These are the capital expenditures of all the companies together. If the department of trucking has incurred expenditures and final payment has been made to the trucking companies, it should be here, should it not?

Mr. TOOLE: The money had been set aside in the previous year for these companies, in order to complete the payments. There was no new expenditure in 1962 because the money had been set aside in 1961. If you look at our investment at the end of 1962, there is a small change; it went from \$15,600,000 to \$15,200,000. There is no figure of the type you talk about in here.

Mr. GRÉGOIRE: They might have been set aside years before, but this money was spent in 1962. You talk here about capital expenditures that were spent in 1962.

Mr. TOOLE: This money was spent. The \$113 million shown on page four which represents the additions to our property during that year; that is additions to buildings, and that type of thing. There may be some trucks in the equipment, but not these particular trucks as they were acquired earlier. You are dealing with two things, one of them is the recording of physical assets in the books, and the other is the expenditure of money, for shares.

Mr. GRÉGOIRE: When you say \$113 million, is that the down payment?

Mr. TOOLE: No.

Mr. FISHER: What is the point of your question, Mr. Grégoire?

Mr. GRÉGOIRE: I wanted to know in which of these items was the \$5 million which served to pay the final payment to Midland Superior Express Limited and to Husband Transport Limited.

Mr. ROCK: Who said the final payment was paid in the first place?

Mr. GRÉGOIRE: It says here in the report:

In late December, Canadian National Transportation Limited completed the purchase of the capital stock of Midland Superior Express Limited, and Husband Transport Limited.

Mr. GORDON: But we go on to say:

These transactions had been held in suspension and were completed following the withdrawal of an appeal before the Quebec Court of Appeal by the Quebec Trucking Association and other parties.

What Mr. Toole is saying is, knowing that this court case was going to be settled, we set aside the funds during the previous year and held them on deposit pending the settlement of this legal case; so, while we paid over the money in 1962, the money was set aside in 1961. I think the important point is that our total investment in trucking is \$15.2 million as we say, all things considered.

Mr. LLOYD: Presumably this is accrued accounting?

Mr. GORDON: Yes.

Mr. LLOYD: If you accounted for the purchase in 1961 for the companies mentioned on page 11, then this would mean you would have to take up the assets in your distribution on page 4 in 1961.

Mr. GORDON: Well, yes; it would appear in that figure of \$5.3 million in 1961, I believe; would it not, Mr. Toole?

Mr. LLOYD: You are dealing with a consolidated report and talking about capital expenditures on a consolidated basis.

Mr. TOOLE: If you will look at page 26, part way down in the property investment statement, you will see the figure you mentioned of \$113 million, and underneath that you will see properties of companies acquired, \$7,948,679.

Mr. LLOYD: In the schedule on page 4 you do not attempt to distribute those assets.

Mr. TOOLE: No.

Mr. FISHER: I would like to ask Mr. Gordon a question in respect of the suit before the Quebec superior court, in which the CNR was involved in relation to trucking. Was this settlement reached on the basis, as indicated in some reports, of the payment of \$20,000 from Husband Transportation to the plaintiff and on the basis that you would withdraw from some 21 routes in Quebec and add the legal costs of the action up to that point?

Mr. GORDON: Yes; you have pretty much the case. We got into a lawsuit. In October 1958, a summons was served on the Canadian National Railway Company to appear before the Court of Sessions to answer the accusation by the Quebec Trucking Association that it was operating a highway service, without the authority of the Quebec Transportation Board, between Montreal and Joliette. The case was heard in June, 1959, and the railway was found guilty, being ordered to pay a fine in the amount of \$25. That was deliberate, because we wanted to have this case tested. The fine was not paid, and the railway was successful in having a restricting order issued against the court to prevent it executing its judgment on the grounds that it had no jurisdiction in the matter. The case subsequently was brought before the Superior Court, but held in abeyance.

There was a very, very bitter and long court case which I will not attempt to go into. However, in the process we got into a complete impasse. We had a talk with the Quebec Transportation Board in respect of the case. We

had been operating motor vehicles intraprovincially over 21 routes in Quebec in substitution for or in conjunction with the rail services. These trucking operations were conducted without a licence from the Quebec Transportation Board in the belief that the railway's special corporate powers so permitted.

We still hold that opinion. During the hearing of the Midland application, Canadian National Transportation Limited reiterated its intention to continue to atton to the jurisdiction of the Quebec Transportation Board. We made it known at that time that in so far as the highway services then being operated in the province by the railway were concerned, applications had already been filed seeking authority to have these services performed on its behalf by Canadian National Transportation Limited. The whole thing then got completely bogged down, and in order that we could get on with our major task of getting the licence through for Midland, we entered into an understanding in which the Quebec Trucking Association agreed to abandon and withdraw from proceedings pending before the Quebec Court of Appeal, in consideration of our withdrawing from certain of these services; they were turned over, so to speak, to other trucking organizations.

Included in the memorandum of understanding, Husband Transport Limited—remember it was Husband Transport Limited which was involved in the case at that time and not the CN—undertook to share in the Quebec Trucking Association's legal expenses to the extent of \$20,000. That being the case, the Quebec Trucking Association subsequently withdrew from the two cases pending before the Court of Sessions of the peace, and the writ of prohibition also was successfully disposed of. The four cases instituted by the province of Quebec before the Court of Sessions also were withdrawn.

Mr. FISHER: What about the 21 routes you have withdrawn from? Is it the understanding that this is in permanency?

Mr. GORDON: We have not, as I understand it, abandoned our position that we have the right to operate. We have not abandoned that position.

Mr. FISHER: When can you get a ruling on it?

Mr. GORDON: I suppose we will have to wait until we get the case which now is pending before the Quebec Superior Court; there is a case pending there.

Mr. FISHER: Is this with Husband, or with one of the other companies?

Mr. VAUGHAN: This is the main case in which the Quebec Trucking Association questions the validity of CNTL's right to operate. That has nothing to do with individual routes.

Mr. FISHER: Is that likely to go to the Supreme Court of Canada?

Mr. VAUGHAN: After it is heard in the Quebec Superior Court, I suppose the decision is appealable.

Mr. FISHER: Is it your intention to appeal it beyond the Quebec Superior Court?

Mr. GORDON: It would depend on the result. If the decision went against us and it was convincing, we would rest with it; if we do not think it is convincing, we will appeal.

Mr. FISHER: What about legal actions in which you were involved with other lines?

Mr. GORDON: They still are pending.

Mr. FISHER: There is no settlement on that?

Mr. GORDON: No. I don't think so.

Mr. FISHER: Is there any way in which we ever will be able to examine the worth of the benefits you get in the trucking field and whether it is a good cleancut operation.

Mr. GORDON: I do not quite follow that. I think we talked about this before. We have bought a number of trucking operations and, as they are turning out now, they are going to be all right. We did get into a great deal of difficulty in regard to legal and early teething troubles which made us for a while very uncomfortable, but we are quite satisfied now that as these trucking companies are being integrated and form part of our organization they are going to turn out to be all right. I do not know how this committee can ever sit in judgment on it.

Mr. FISHER: This is the part that interests me. My understanding from evidence given here in previous years was that when you were going to get into this field the assurance was that these companies you bought would retain their corporate identities and that the people who were in charge were to carry on. Yet, most of the indications seem to be that you have gone ahead and integrated them very fully.

Mr. GORDON: The reference to the corporate identity has to do with the franchises and licences attached to that particular name, but we never at any time suggested—and I do not think I ever suggested in any of my previous evidence—that we would not use any company to the best advantage of the over-all result. The operation of these companies has to be integrated to get the best results because we merge them in the form of joint terminals or joint solicitation staff for business, joint pickup and delivery fleets, joint advertising, joint accounting, joint supervisory staff and even right through to the headquarters level. That is the natural thing. But we will keep the corporate entity for licences and merge to give the companies the advantage rather than give it to another company because it suits our corporate purpose.

Mr. FISHER: In other words, between the reality and form there is a real distinction.

Mr. GORDON: It is meaningless to try to follow through individual companies. The only meaningful result is the over-all operation of the companies.

Mr. FISHER: This again is part of your over-all entry into another mode of transportation, to put it that way? Suppose I put it in these terms: in fact, you are offering a kind of supermarket in transportation. Where do we find an answer to those people in trucking who are concerned over the fact that you are offering such a wide variety of services, an integrated type of service, right in their field, when they argue that they cannot compete if in any specific area you decide to put them out of business?

Mr. GORDON: I do not know how to answer that apart from saying the fact is that the proportion of our business in trucking is so small in relation to the total trucking operations that it becomes rather ridiculous for them to talk in that way. I have not yet seen any specific case where any trucking company has successfully alleged in any specific case that we have engaged, for instance, in cutting rates or putting forward an unfair competitive service. I have not seen any specific example of that at all.

Mr. FISHER: But the fact remains that with the master agency plan, with your long haul trucking franchises you are in a position to compete with existing long haul companies and with short haul and contract people in specific areas on a pretty effective basis.

Mr. VAUGHAN: We do not compete with short haul people. We have said we have local independent truckers under contract to assist us, and I mentioned the figure of 1,200.

Mr. LLOYD: On the same subject, I share some of the curiosity of Mr. Fisher on this need to do our job with some degree of comprehension. These statements, Mr. Gordon, are very well consolidated statements and from them it is rather difficult quickly to determine what you are accomplishing in the

trucking field. Do you have in the financial statements a separate revenue and expense operating statement on trucking operations?

Mr. GORDON: Yes, I just gave those figures to Mr. Gregoire.

Mr. LLOYD: Those are over-all figures?

Mr. GORDON: Those are the over-all figures.

Mr. LLOYD: Those are the figures that he has requested and they are not here.

Mr. VAUGHAN: They are in the report, Mr. Lloyd. The over-all return is given. You will see it at the top of page 11. The other figures given a moment ago were the over-all revenues and expenses. What Mr. Gordon was saying was that he did not want to break them down into individual companies.

Mr. LLOYD: I think he said he would give us the reason. I think he said that before adjournment. I think he said he would tell us why he did not wish to break them down.

Mr. VAUGHAN: He just did that.

Mr. GORDON: I just did that; I told that to Mr. Fisher, but I will repeat it. The fact is that we talked about individual results. It is certain to place the Canadian National at a disadvantage vis-à-vis its competitors. I have made very careful inquiries on this point and we discussed it last year. I say that no other trucking company in Canada makes public its operating results. That certainly is true in the case of Canadian Pacific.

Mr. LLOYD: You are director of Trans-Canada Air Lines, Mr. Gordon, and you issue a separate statement on the operation of Trans-Canada Air Lines and it operates in a competitive position with CPR. Is that a different situation?

Mr. GORDON: Yes, I think it is.

Mr. GRÉGOIRE: Who are the competitors of Canadian National Railways in that field?

Mr. GORDON: All the truckers are competitors in that field. Canadian Pacific have a very large trucking arm—a very large trucking arm indeed.

Mr. GRÉGOIRE: You are a crown corporation. How can the subjects of the crown compete with the crown and how can the crown compete with their own subjects?

Mr. GORDON: Then you had better arrange with parliament to put Canadian National Railways out of business.

Mr. GRÉGOIRE: If the competitors were not paying taxes to pay the deficits of Canadian National Railways you would not be operating.

Mr. GORDON: You are not paying the deficits as a favour to me. We are dealing with a fact and the fact is that Canadian National Railways exists. It exists because of the history that some six companies went bankrupt and the government of the day decided in the public interest they could not afford to let those railways collapse, so they were put together in the form of a crown company as Canadian National Railways, and my duty as president of Canadian National Railways is to operate those assets which are public assets, owned by the public of Canada, to the best possible advantage. There are \$3½ billion of investments in those companies, put up by the public of Canada, and my job is to see to it that they are operated in as reasonable a way as possible to extract the best advantage in that operation in a competitive field.

Mr. GRÉGOIRE: But the problem is entering a new field—trucking. There are lots of trucking companies in Canada, and, as you said, you are their competitors. Canadian National is bigger because they have more funds and they endanger the survival of all those small companies.

Mr. GORDON: Mr. Grégoire, you are putting the cart before the horse again. It is the truckers who have invaded our field.

Mr. ROCK: Sure they have. Wake up, Mr. Grégoire.

Mr. GORDON: They have started taking the traffic away from the railways. We are simply trying now to organize recognition of the modern form of transport so we provide our shippers with a service.

Mr. GRÉGOIRE: You surprise me with an argument that the truckers entered your field. You were in the railway business.

Mr. GORDON: We were in transportation.

Mr. GRÉGOIRE: By rail, not by motors.

Mr. GORDON: Any form of transportation was our business. The Canadian National Railways have had the right to go into the trucking business or any form of transport since its formation. We have always had that right.

Mr. GRÉGOIRE: Until a couple of years ago or a few years ago you were not in trucking as a business.

Mr. GORDON: Oh, yes, we were.

Mr. GRÉGOIRE: Some other companies were in the trucking business.

Mr. DEMCOE: We were always in cartage.

Mr. ROCK: Canadian National Railways have been in the cartage business ever since I was a little child.

Mr. GRÉGOIRE: Express.

Mr. ROCK: Cartage also, not only express. They had freight, too.

The CHAIRMAN: Order.

Mr. ROCK: I do not think this has any bearing on this report whatsoever and I do not think it has any bearing to criticize the Canadian National Railways for being in the trucking business. I do not think we are here to judge whether they should or should not be in the trucking business.

The CHAIRMAN: Perhaps this will bring out the facts. Mr. Grégoire perhaps wants to find out whether the Canadian National Railways were entitled to be in the trucking business or not, or had been in the trucking business in the past and whether the trucking business, as a matter of fact, was enjoying a monopoly of the business which the Canadian National Railways were losing. I do not know. That is what has come out of the statement and I suppose we should go on with the questions now.

Mr. FISHER: I do not think it follows that Canadian National Railways have a right to be in the business. I think most of the employees and many of the people of the country would want to see them in the business. The whole question is, as this kind of business is extended by Canadian National Railways and Canadian Pacific Railway what happens to the private trucking industry?

Mr. LLOYD: Mr. Gordon, following up Mr. Fisher's question, I have not had time to read the reports of the royal commission on transportation, but therein I understand this question of the competitive position of transportation generally is dealt with extensively and is described, and the relationship of the railway to the truckers is set forth.

I am concerned at the moment only with one thing, and that is the accountability of crown corporations. You declared a moment ago the responsibility of working out a rather costly position, that is, the bankruptcy of six railway companies which came into the hands of the Canadian National Railways and had to be salvaged in the Canadian national interests; now, in this process of salvaging and maintaining rail services, you have embarked upon the expansion of your trucking service. The concern of the members of

the committee, if I judge it correctly, and in which I share, is this simply, how far do you go with this? Is it wide open? What is the policy, or is it simply confined? And how do you measure it? What is the criterion you use to judge how far you should go to make the best use of the railway assets?

Mr. GORDON: I think in the transport business we go as far as we possibly can in using any tool of transportation that we can use effectively and make money out of it. It does not matter what it is.

Mr. FISHER: Do you think there is any possibility of separating or of drawing any line beyond which the railways should or should not go in the trucking business?

Mr. GORDON: No, I do not, any more than you can draw a line as to how far the private trucking business can go.

Mr. FISHER: I would assume that the private trucking business can only go somewhere in the trucking business. It is difficult, I would think, for them to get into rails.

Mr. GORDON: Oh, they could build a railway if they wanted, but I would not advise them to.

Mr. GRÉGOIRE: You said a moment ago that you should go as far as possible and to make as much money as possible. But you could say the same thing about the hotels in Canada, or the restaurants, or even automobiles, such as in the selling of automobiles, and there would be no end to it. That is what Mr. Fisher would like to know. If you go as far as you want to, as you have started, where is the line to be drawn?

Mr. GORDON: In my own experience in the management of the Canadian National Railways, I know of nothing that has been more carefully considered, or more carefully cleared through government circles than the entry of the Canadian National Railways into trucking operations. We are under challenge with respect to our right to be in trucking, and that challenge has already been put forward in various briefs presented by the trucking associations, and it is also before the Quebec courts. We are prepared to answer that challenge, and we are now before the courts in respect of it. I am perfectly certain that we can make a perfectly good case in respect of it.

Mr. FISHER: Do you mean a good case in law or in economics?

Mr. GORDON: In both law and economics.

Mr. FISHER: I think there is a policy matter here which probably relates more to the Minister of Transport than it does to the president of the Canadian National Railways. Therefore I would like the minister to tell us whether the limits to which the Canadian National Railways should be allowed to go in trucking has been a matter of policy consideration.

Mr. McILRAITH: No, but perhaps I should not give as short an answer as that because there are briefs in from the trucking industry which want to establish a monopoly in the transportation field for themselves. Those briefs are being given careful consideration, and representation because they contain a great many points. Some points appear to be at conflict solely with other points in the same brief. These briefs have been considered. But to answer your question, if I understood you correctly, as to the Canadian National Railways and how far it should go in relation to what it is doing at the moment, that matter has not received detailed attention in policy yet.

Mr. FISHER: Perhaps the word is a little bit unfair. They would like to confine trucking or that particular mode of transportation to the trucking companies.

Mr. McILRAITH: No, that is not so. That was the very argument I had with them. No, that would be a clear position. There are different interpretations

put by different firms on the meaning of their brief. At least a segment of the industry—and I cannot evaluate just off the cuff now how much that segment of the industry is, but I think it is rather a small one—takes the position that other forms of transportation should be restricted, so that they might have a free field in the transportation industry in which to bring about a workable plan which would best serve the public interest in Canada. But that is a matter which presents difficulty.

Mr. FISHER: What are your views on the topic we have been discussing here?

Mr. McILRAITH: I have listened rather attentively to the questions and answers since eight o'clock. I do not know whether you expect me to comment on the questions and answers, or what.

Mr. FISHER: Not on the questions, but where if any the line should be drawn.

Mr. McILRAITH: Let me answer this by saying that in the 24 years I have seen this committee function, it is rather interesting to observe a certain swing in the pendulum. Formerly the management of the Canadian National Railways were being urged by representations made to them or by letters sent to the government, to get into trucking business, or into the pipe line business; tonight I hear what I took to be inherent in the line of questioning the concept that they should now get out of the trucking business, and just run a railway.

Mr. GRÉGOIRE: I do not think that is fair. We have never asked the Canadian National Railways to go into the pipe line business, or anything like that. I think if you will follow the reports of last year you will see that our position was to the contrary. But we do not mean that the Canadian National Railways should go into trucking as far as it can go to serve their own purpose; that is, to go as far as Mr. Gordon mentioned a few moments ago when he said that the sky was the limit.

Mr. GORDON: I don't think I said that.

Mr. GRÉGOIRE: You said as far as you could go?

Mr. GORDON: But I did not say that.

Mr. McILRAITH: Perhaps I might finish my answer when I was seeking to indicate the change that had come about in 24 years in the approach of members to this problem. I was seeking to do that in order to show that it was a question of judgment in arriving at what would best serve transportation and the public interest. That is what I was seeking to do.

Mr. FISHER: This is a very valuable kind of questioning in the light of the MacPherson report and its recommendations. Mr. Gordon hammers on this matter of competition between modes and within modes.

Mr. GORDON: I am prepared to give a complete statement of the trucking policy of the Canadian National Railways. I have already put it on the record three times, but if you have the patience, I will do so again. It is five pages long, and I will give you the whole thing.

Mr. McILRAITH: I have some quite good representations from the trucking industry before me now and I am getting work done on them. There are some real questions of measurement raised in it and it is a carefully prepared bit of documentation.

Mr. FISHER: By the Canadian Trucking Association?

Mr. McILRAITH: I am not sure whether it is by the Canadian Trucking Association or by one of its branches. They do have regional or provincial branches.

Mr. FISHER: I do not want a restatement of the Canadian National Railways trucking policy. It is the question of government policy in respect to it which interests me.

The CHAIRMAN: I appreciate your view, but I would like to know whether members want Mr. Gordon to put the statement to which he referred on the record?

Mr. BALCER: Before Mr. Gordon does that I would like to ask a few questions.

At the present time I understand the Canadian Pacific Railway has sole ownership of Smith Transport?

Mr. GORDON: I believe that is right.

Mr. BALCER: And, that is one of your competitors?

Mr. GORDON: Yes.

Mr. BALCER: Do you know how long they have owned this fleet of trucks which, I understand, is the largest in Canada?

Mr. GORDON: Oh, I cannot remember too well; the years pass by so quickly. However, I think it possibly would be seven or eight years. Of course, they had another trucking company before that called Dench trucking, which was in western Canada. They have had that company for a long time. It was quite a large company. But, I believe it has been amalgamated. As I say, to the best of my knowledge, Smith Transport was taken over six or seven years ago and Canadian Pacific Railway in a statement, claimed they are the largest trucking organization in Canada.

There is one thing we should keep in mind and that is this question of control of the size of our operations. It must be remembered the control of the size of our operations at any given point is through our budget. We come before Parliament every year and, in fact, come before this committee every year, and you can see the size of our operation. Right now, we have spent \$15,200,000 in an investment for trucking.

Mr. BALCER: How does that compare with Kingsway Transport which belongs to the Canada Steamship Lines?

Mr. GORDON: I do not know. You cannot get any figures from the Canadian Pacific Railway or the Canada Steamship Lines which own and operate Kingsway Transport, or the company which owns and operates Motorways limited.

At the Quebec Transportation Board hearing in connection with the Midland-Superior case the chairman of that board ruled that the financial results of the Canadian National Railways would not be disclosed unless all other truckers in the Province of Quebec were willing to disclose the same information, and not one of them have done that. On that basis the chairman did not require it to be disclosed.

Mr. BALCER: That is one of the questions I used to ask the truckers, why they did not ask Smith Transport or Kingsway Transport, which were really in the business to a much larger scale than Canadian National Railways.

Mr. GORDON: What is the percentage in respect of our trucking operations in this whole general operation? I know it is very low.

Mr. TOOLE: It is less than 5 per cent of our operations.

Mr. FISHER: But, if you added to that the contract arrangements you have and Canadian National Transportation you would get a bit bigger picture?

Mr. GORDON: Do you mean where we are employing private truckers?

Mr. FISHER: Yes.

Mr. GORDON: You cannot win; they are private truckers, and we are using their services; that is right.

Mr. DEACHMAN: Mr. Gordon, I am concerned that parliament is gradually losing its privilege in this committee to question the Canadian National Railways officials in respect of the whole area of l.c.l. freight.

Let me put it this way: the growth of the trucking industry is resulting in the transfer of l.c.l. shipments from rail to truck, and as these shipments of express and l.c.l. freight are removed and placed in trucks our capacity as a committee, for the reasons you have given, to examine that freight and what is happening is very limited. These figures are disappearing. On these grounds we are being barred from the examination of a section of freight movement in Canada, which matters previous committees had an opportunity to examine. Now, if the master agency concept which you were putting forward is successful, and we hope it would be, this would be simulated more so and as you come before the committee more and more each year the committee will find itself removed further and further from the examination of this whole business of small package and short haul freight movement, and we would not be able to get our hands on these figures or have an adequate consultation in respect of what is happening.

One of the reasons given is that these figures are not given to us by private truck carriers. Perhaps the Canadian government and perhaps this committee should get on with the business of putting these figures on the line so that this nation can get a look at what the figures are behind the trucking industry. I think we should put forth this effort and begin to find out what the economics and the financial statistics are. Perhaps if we, as parliamentarians, insisted in a full examination of this, as was the case in the days of rail, we would find out how this whole thing functions in the country.

Mr. GORDON: You see, that is going against the principles of the MacPherson Commission recommendations.

Mr. DEACHMAN: Perhaps. I was not a parliamentarian when that report came out so I am not necessarily bound by it.

Mr. GORDON: It is set out in that report that the most effective control of rates you can get is competition and they are proposing that the railroads be free from this control of rates; let us have competition and the mode of transport that is the most economic and efficient will get the business.

Mr. DEACHMAN: So, according to the recommendations of the MacPherson report we would be denied more and more the right to examine this area of freight handling. Is that my understanding of it?

Mr. GORDON: In terms of the rates fixed?

Mr. DEACHMAN: In terms of the rates and financing and in terms of the financing of the agencies involved, in the way we are able to examine, for instance, the express and freight carried by the Canadian National Railways today.

Mr. GORDON: Well, the same bulk of the traffic in respect of trucks will still be in the hands of private truckers and you do not have it available to you. You have not jurisdiction over the private truckers in the various provinces.

Mr. DEACHMAN: But the point I am coming to is that the Canadian National Railways is gradually preventing this committee from examining an area of freight handling and, as your master agency business increases and becomes more successful this will mean that this committee will be more and more denied access to the examination of these figures.

Mr. GORDON: I cannot follow that at all because you are not going to get anything like an over-all picture by merely examining the accounts of the Canadian National Railways. In any event, we are only a segment.

Mr. DEACHMAN: Before the trucking business existed I understand the railway committee had the fullest privileges in the examination of any figures relating to express and freight business today.

Mr. BALZER: It always has been the practice in this committee when putting questions that the witness will answer as long as it is not damaging to the

crown owned company. This has been the practice with the Conservatives and the Liberals alike and every previous minister of transport. There is nothing new in that.

Mr. GORDON: I have given you the figures of the over-all operation.

Mr. BALCER: The witness gives the information as long as it does not hurt the crown company.

Mr. DEACHMAN: I am sure the figures of that day are much fuller than the figures you have given us today in respect of short haul and l.c.l.

Mr. GORDON: With great respect, I would doubt that. If you will go back to the examinations of this committee in years before I arrived it was much more perfunctory than it is today.

Mr. GRÉGOIRE: I think there is also a difference between the Canadian National Railways and the other companies. I note your operating profit for 12 months is in the amount of \$781,000. If it was a private corporation the government would come and take about half of it as income tax. The Canadian National Railways will not pay it so they have an advantage, and a big one, over any other private companies.

Mr. GORDON: This is the point of view that has been expressed many times. I have tried hard over the years to explain this. I have explained the reasons for the Canadian National deficit. If we can get a bookkeeping adjustment which ought to be made, and if we could put ourselves in the same position in regard to depreciation as the CPR then we would show a profit.

Mr. GRÉGOIRE: That is what I was referring to.

Mr. GORDON: That being the case, the reference to our being subsidized because we have a deficit is merely a bookkeeping argument. On our current operations, if we could get the legacy of the past out of the picture, we will show you that the Canadian National is as efficient, as progressive, as imaginative as any other transportation company on this continent or in the world; then we will pay taxes. We are subject to income tax. We pay a lot of tax that people do not know anything about. We are subject to income tax just as any other company is when we are making a profit. The reason we do not make a profit is this paper work of which I spoke.

Mr. PUGH: What would it cost to put CNR on a profit basis at this time?

Mr. GORDON: I have forgotten the figure in respect of our deficit for last year. I think it is somewhere in the neighbourhood of \$48 million. We would have to eliminate the \$48 million.

Mr. PUGH: How much would it cost?

Mr. GORDON: It is not a matter of cost. It would not cost the government anything. This involves a matter of bookkeeping adjustments. The cost is already there.

Let me give you an example. If you took the CNR property account which is \$3,890,909,000, and we have depreciation reserves of \$738,344,000, and then looked at the CPR property account which is \$2,391,694,000 and their depreciation account, which is shown as \$998,364,000, and if we had the reserves figure at the same rate of depreciation as the CPR has had over the years then our depreciation account would show \$1,651,000,000, instead of \$738,000,000. So, right away there is a differential in our depreciation reserve, right? There are other factors involved. I am only dealing with a narrow point now. The differential is roughly \$915 million, the difference between the kind of bookkeeping account shown for the CPR and ourselves.

I want to get it correct. I have submitted our recapitalization plan to the government but it will not cost anything because the money is already spent.

This involves merely a matter of bookkeeping transfer between the government's account and our own.

Mr. PUGH: Is there a vote in parliament each year to cover a certain amount in this regard?

Mr. GORDON: There is a vote to cover the annual deficit, yes. The annual deficit is written off each year.

Mr. PUGH: What is the result of this annual write off?

Mr. VAUGHAN: This means that you are short that much at the end of the year.

Mr. GORDON: I think I see your point. We set this forth in the first page of the statement and I have covered this quite clearly there, I hope.

Mr. LLOYD: Mr. Chairman, on a question of order; we were talking about the trucking business and we are now getting quite far afield.

Mr. PUGH: Mr. Chairman, my questions have regard to the fact that it has been brought out that the CTA have always held that they were in a worse position because the railways are being subsidized and therefore they can cut rates. I think these questions are very pertinent to this discussion.

Mr. LLOYD: Mr. Chairman, I am quite agreeable to going back to a discussion of finances but I would not want to see our questions taking a jumping back and forth.

Mr. FISHER: I should like to point out, Mr. Chairman, that Mr. Grégoire made a point not in this regard at all. His point was that the trucking operations of the CNR have provided \$700,000 some odd, and that any private trucking organization which had a profit of that kind would pay a certain per cent in taxes, but this profit of the CNR trucking organization goes into the general revenues of the company and disappears as profit in terms of the over-all total picture. Is that not the point?

Mr. GORDON: What really happens under present conditions is that it reduces our deficit.

Mr. PUGH: That is precisely the point.

The CHAIRMAN: One moment, Mr. Pugh. Mr. Fisher, you were not here this morning when we went very quickly over the financial section. It was understood at that time that if anyone wanted to refer back to the financial section at a later stage this would be satisfactory.

Mr. PUGH: I was only referring to the members point which was referred to here.

Mr. GRÉGOIRE: Mr. Chairman, I was referring precisely to this same point. The Canadian National Railways had an advantage over private companies because private companies have to pay corporation taxes. Mr. Fisher pointed out that this \$781,000 will not go into a separate fund established in respect of the trucking business of the CNR but will go in the over-all fund of the CNR to pay off the deficit incurred by the other branches of the general business of the CNR. It is for that fact, and that fact alone, that the trucking business will not show a profit; is that right?

Mr. GORDON: Your question is such a mixture that I cannot follow it. Do you realize that if the CNR business showed a profit the government would take all of it and not just the income tax?

Mr. GRÉGOIRE: You will not be allowed to pay off your debts with that profit?

Mr. GORDON: No, and the act specifically says that we cannot do that. If we are making a profit we pay all of it to the government and we have done so. If you will look at the back of the report you will see in those years for which we

showed a profit, 1955 and 1956 of \$10,700,000 and \$26 million roughly, that surplus was payable to the government. For accounting purposes we are subject to income tax. We pay it, and then if anything is over it is taken by the government.

Mr. GRÉGOIRE: I suggest this is not logical.

Mr. GORDON: I quite agree. I could not agree with you more. I think we should make a special note that Mr. Grégoire and I have reached an agreement.

Mr. GRÉGOIRE: I will agree with you that if the government wants to be logical it will take that into consideration. The first thing a private company would do with a surplus would be to pay the debt, and I think perhaps the government should do this in respect of the Canadian National Railways so that it will not have that burden of interest each year.

Mr. GORDON: Mr. Grégoire, I will be most indiscreet and tell you that you might find that part of our proposal for recapitalization may contain that very suggestion.

Perhaps I may finish the answer I started to give. You were asking about costs. You will see this referred to in the first page where we point out that the surplus before interest on long term debt is \$13,600,000. That was shown in our operating account. However, this surplus fell \$48,900,000 short of the \$62,500,000 required for the interest on long term debt. If we could get recapitalization the major portion of our interest burden would be wiped out and then, as I say, we would show a surplus. This surplus would be further increased with the implementation of the MacPherson commission recommendations.

Mr. PUGH: When you refer to the recapitalization, this would involve some form of a bookkeeping entry?

Mr. GORDON: Yes.

Mr. PUGH: Would this require any actual parliamentary vote of money?

Mr. GORDON: This would require an act of parliament to enable transfer of the liability for some of the bonds which we have outstanding to government responsibility, and it would take capital stock against this bond obligation.

Mr. PUGH: In other words this is just a transfer of the obligation to the parliament of Canada and would set you on your own feet?

Mr. GRÉGOIRE: Then the parliament of Canada would have to pay the interest instead of CNR.

Mr. PUGH: Somebody has to pay it.

Mr. GORDON: It depends on whether they pay it in the form of paying our deficits or whether it is paid on the bonds outstanding.

Mr. PUGH: This would be the basis of the submission which you are going to make.

Mr. GORDON: We have a proposition before the government—I am afraid I already disclosed too much of it because it has not been cleared with the government and I do not know whether they are going to accept our recommendations. It has been standing for a long time.

Mr. FISHER: We can ask the minister.

Mr. McILRAITH: It is the Minister of Finance who comes into the picture.

Mr. PUGH: Could I go on, Mr. Chairman? I got the answer to my question and I would like to ask another one of Mr. Gordon. As I understood it; the last time the committee met, your statement was that wherever necessary to further the business of the CNR you would go into the trucking business. On this monopoly idea, I want to qualify the statement you made tonight: "Whenever we can make a nickel". It is a question of policy as to how far you are going.

What I would like to know is whether you are going to continue extending to make this nickel or whether you are going to go just as far as necessary to stay in business? For instance, we have been talking a lot about less than carload lots.

Mr. GORDON: I just cannot answer intelligently these piecemeal questions. The only way to really get a comprehension of this complex matter is to listen to the trucking policy of the Canadian National. I would like to read that, and if any one of you want to stop at a point, I will try to explain that. You have to get the full policy to understand and to follow.

Mr. PRITTE: Mr. Chairman, I protest. I do not mind hearing this report but it seems to me that if some members come in here without knowing what is in the MacPherson commission report, not having read the CNR's brief nor perhaps having read last year's committee proceedings, no wonder these questions keep cropping up.

Mr. GORDON: I covered it last year. It is available in last year's *Hansard*. This is not the MacPherson report, this is our statement of policy.

Mr. LLOYD: I mentioned earlier that I had only read the MacPherson report superficially, but I have no difficulty in following your balance sheet, and I do not have any difficulty in observing that you have a great deal of preferred and common stock and capital investment of the Canadian government on which you pay no interest. I have no difficulty whatsoever in observing the volume of bonds you have outstanding, including some debenture stock which goes back to the Buffalo and Lake Huron operations, back in 1852 or thereabouts. I presume that some of that debenture stock is perpetual, is not callable, and that you continue to pay, and nothing short of an act of parliament will get rid of it. I merely mention these things, even though I have been a member of parliament heretofore, so that you can read the record and see which way things are going. I would like to get back to the trucking business where we started. I agree with this, and I think a statement from Mr. Gordon at this point on the trucking business, with the right to go back to the financial picture later, would be appropriate.

Mr. GRÉGOIRE: I think Mr. Prittie might have been right. We should have read that statement of policy. I did not, I am a young member and I have not had the opportunity of meeting Mr. Gordon very often.

The CHAIRMAN: We will proceed with the reading.

Mr. GRÉGOIRE: I will read it tonight and tomorrow we can continue with the questions. It will save the time of the committee.

Mr. GORDON: It would be useful to have this on the record because it will become current. Remember this is a statement of policy of the Canadian National Railways. It is the managerial approach to the trucking policy of the railway.

Since the Turgeon Royal Commission on Transportation made its report in 1951, one of the factors affecting rail transportation in Canada has been the great increase in the size of the trucking industry and the pervasiveness of that form of competition. This development, which has occurred during a period when Canadian National's expenses have been steadily rising, has produced a marked effect upon the ability of the company to increase its net revenue.

When railways had a monopoly in the transportation of large segments of traffic it was possible to meet increased expense by raising the price of rail services. This method of relief has grown more and more inadequate as the areas and intensity of such competition have broadened. In addition, the effectiveness of such competition has forced the railways to make vast expenditures for modernization and upgrading of plant and equipment in order to remain competitive with the truck in the national transportation market.

These changes and effects have, of course, been intensified over the period of the past few years. While during that time active and energetic steps have been taken by Canadian National to meet the problems presented to it, the clear fact emerges that despite its efforts the railway's share of the total Canadian transportation market is declining. These facts point to the need for further changes in order to attract a greater volume of freight traffic to the rails and at the same time the urgency of stringent economy in operation, not only in the methods and means of handling traffic but in respect of the elimination of burdens of unproductive services.

Canadian National is making strenuous efforts to meet the problem of erosion of its share of the transportation market. In addition to examining pricing techniques, it is convinced of the necessity of effecting a close co-ordination of road and rail operations. Considerable progress has already been made in this regard. The company's aim is to offer the kind of transportation service that is best suited to public demand, both in terms of cost and efficiency, always remembering that its basic interest is the provision of service through railway facilities, in which Canadian National has a very large capital investment.

The major interest of the railway is the long distance haulage of bulk and packaged commodities. Generally speaking, this can be done most economically by railway but certainly there exists and will remain a large field for long haul road transport. In addition road transport is a better agency for the collection and distribution of much traffic and is more economical and faster for short-distance service. This statement is, of course, a generalization. It is not possible in every instance to draw a hard and fast line, since the character and conditions of the traffic itself provide infinite variation in which one method of transportation may have an advantage over the other, or in which combinations of both methods may be the most efficient answer. Canadian National plans to use both its rail and road services for long haul traffic as circumstances dictate and at the same time closely co-ordinate them for both long and short haul carriage when that type of service is what a customer requires.

To further this concept, Canadian National decided to supplement its railway services with collateral trucking facilities wherever close cooperation or integration of operations would effectively improve its services, and, therefore, its competitive position. In implementing that policy, Canadian National has been proceeding cautiously and, as a general rule, has been endeavouring to enlarge its trucking facilities through a very selective purchase of existing highway operators. In this way, it is not adding suddenly to the total transportation facilities of the country since that would likely produce an undesirable surplus and lead to a period of uneconomic competition by the weaker operators striving to maintain their position. Canadian National's objective is to acquire a trucking pattern so as to obtain for its own operations the benefits of co-ordination with railway facilities or even replacement of them in those cases in which the truck is the better tool.

The acquisition of the trucking companies now owned by the Canadian National is a step toward implementation of this policy. This is a logical follow-up of competitive rates, agreed charges, piggyback services, and the railhead and master agency principles of operation. Effort has been made to select those highway services that best fit into an over-all plan of making the best use of all transportation media. Thus the acquisition of truck lines, in addition to improving the competitive position of the railway and gaining access to markets not served by rails, provides opportunities of economy through co-ordination of rail and highway services, substitution of highway for rail services and substitution of rail service for highway services through increased use of rail piggyback.

It was recognized at the outset that to be effective a highway operation must have adequate licences to and from productive areas. It was recognized too that with the number of highway operators in the productive areas it was most unlikely that the Canadian National would be successful in applications to provincial regulatory boards for licences in these areas. The only alternative then was to buy out existing operators whose areas of licensed operation offered the best opportunity to the Railway of achieving its over-all objective.

Numerous trucking companies were examined. In Western Canada alone the licences and operations of 10 separate companies were analyzed.

This analysis revealed that no one company had the licence coverage that would suit the Canadian National plan at a price that was acceptable, and that it would be necessary to acquire several truck firms and then merge the licences and operations into one unit operating within the four western provinces and between those provinces and central and eastern Canada. The firms of Empire Freightways Limited, East-West Transport Limited, and Midland Superior Express Limited, were then selected, as offering the best market coverage and opportunities for road-rail co-ordination at prices that were considered reasonable.

Empire Freightways Limited holds licences for intraprovincial services in the Saskatoon-Melfort-Prince Albert-North Battleford area of Saskatchewan, and interprovincial service between that area and Winnipeg.

At the time East-West Transport Limited was acquired, its licences permitted it to operate interprovincially between the major western Canadian cities of Vancouver, Calgary, Edmonton, Saskatoon, Regina and Winnipeg. In addition, the Ontario points of Toronto, Hamilton, Windsor, Sarnia and Kitchener were served interprovincially from and to the four western provinces. However, when Midland Superior Express Limited was acquired, the operating franchises of East-West Transport were transferred to Midland and East-West now acts merely as a "leasing" company renting its rolling stock and facilities to the western trucking subsidiaries of the railway.

In addition to the highway franchises transferred from East-West Transport, Midland Superior Express Limited is authorized to carry freight from Edmonton and Calgary to Sault Ste. Marie, North Bay, Sudbury, Windsor, Hamilton, Toronto, Ottawa, Montreal and return.

In dealing with the three trucking companies in western Canada they must be considered as a unit because the individual characteristics which existed at the time of purchase have disappeared in some measure. It is true that the separate corporate entities still exist, but the operations bear little relationship to those of the original companies. Thus, it is not appropriate to take any one company's operations or results as they exist today and relate them to the operations or results existing at the time of purchase, or to relate results to the purchase prices. It is noteworthy here to say that the plan I piggyback revenue of the railway obtained from these companies since acquisition has increased by \$1,360,000 or 500 per cent.

In central and eastern Canada numerous trucking companies have been examined. Two have been purchased in eastern Canada, i.e., Sydney Transfer and Storage Limited and Eastern Transport Limited.

Sydney Transfer and Storage Limited holds intraprovincial licences in Nova Scotia serving Sydney, New Glasgow, Halifax among other points, as well as interprovincial licences between Nova Scotia and Moncton and Saint John in New Brunswick.

Eastern Transport Limited operates between Halifax, Truro, New Glasgow and Moncton, providing intercity and peddler service throughout this territory.

The operations of these two eastern companies have now been placed under the jurisdiction of one General Manager, and integrated one with the other. However, their separate corporate entities still exist.

In central Canada, acquisitions necessary to provide the trunk line operations between major cities have also been made. The firms of Toronto-Peterborough Transport Company, Hoar Transport Company and Husband Transport Limited were selected as offering the best market coverage and opportunities for road-rail integration, at prices that were considered reasonable.

Toronto-Peterborough Transport operates between metropolitan Toronto and such points as Hamilton, Oakville, Oshawa, Belleville, Peterborough, Lindsay, Campbellford and points north to and including Barry's Bay.

Hoar Transport holds licences to operate between metropolitan Toronto and such points as Orillia, Gravenhurst, Bracebridge, Huntsville, Parry Sound, North Bay and Sudbury; also between Toronto and Bowmanville.

Husband Transport provides interprovincial service between London, Toronto, Ottawa and Montreal, including major points in the heavily industrialized southwestern peninsula of Ontario. Additionally, it serves intraprovincially the southwestern Ontario area reaching from Toronto to Windsor.

It should be made clear that Canadian National has no intention of building anything like a trucking monopoly. Canadian National's business is railroading, and it has too large a capital investment in railroading equipment ever to desert that primary investment. It is in no way interested in driving the independent trucker out of business. Both the railway and the truck are tools of transportation, and in the best interests of the shippers and receivers—the users of the service—each tool should be used as it is best suited. Therefore, what is needed is an intelligent recognition of a competitive co-existence and the development of a co-ordinated rail-highway system in which each form of transportation would play the role it best fits.

It has been stated repeatedly that if an examination is made of estimates by the Dominion Bureau of Statistics with regard to intercity *commercial* trucking operations in Canada, it will be found that the railways' total Canadian trucking operations represent no more than 5 or 6 per cent of the total intercity highway business. If *private* trucking is included, the percentage of the railways' share of the intercity trucking industry—and this would include all the railways of Canada, and not just the Canadian National—the railways' share accounts for only 2 or 3 per cent of the total—and I am talking about the railways now—. Thus it is apparent how remote is the possibility that the railways could ever monopolize the trucking field.

Added to this is the fact that provincial regulatory boards make a strong point of ensuring competition on each highway route, and it is certainly unlikely that they will change their established approach to highway services.

Fear has been expressed by some with regard to rate cutting by truck lines owned by Canadian National. It is the company's positive policy that rates filed with provincial regulatory authorities or with the various tariff bureaux *must* be maintained. Furthermore, if rate reductions are necessary to meet rates reduced by other motor carriers each such rate must be carefully analysed to make sure that it covers all expenses, plus a profit, before it is put into effect. It must be emphasized that the truck lines operated by Canadian National do not, and will not, indulge in unfair competition or in unfair competitive practices.

Critics sometimes overlook the fact that in addition to its own highway services, Canadian National has contracts with many independent truckers, in whom it has no financial interest, to provide motor vehicle services in conjunction with rail services. It employs some 1165 local cartage contractors

across Canada and, in addition, it has contracts with some 80 independent truckers throughout the country to provide over-the-road services for express and freight traffic. Canadian National does not intend to depart from this practice. In fact, the trend is the other way. The company recognizes that the best way of conducting this type of operation, which includes local pick-up and delivery and over-the-road services, is by contracting with a local highway operator. While these services on their own are marginal to the independent operator, they become profitable when the Canadian National enters into a contract with him to carry its traffic. These independent trucking services all fit into CN's plan to make the best use of all transportation media and to provide a service responsive to the needs of its customers.

In the operation of its highway services, it is Canadian National's desire and intention to conform to the best traditions of the highway industry.

I would like to add that there is another note which is important; that is, there are many places in Canada which are exclusive to Canadian National's requirements. In other words, there are many cities and towns where only Canadian National service is available. The same is true of the CPR; there are certain places which are exclusive to the Canadian Pacific. If we in the Canadian National did not offer a similar type of service, including the co-ordinated trucking service which I have been describing, then those points which are serviced exclusively by the Canadian National would be discriminated against. It would mean those other towns serviced by the CPR would be getting a more flexible service than the Canadian National towns could get unless we are prepared to do what we have done here. That is a very important point.

Mr. PUGH: I take it from that statement that what you said last week is true; at this time you are only going where it is absolutely necessary for the preservation of the rail function, the prime function. You said it was not only wherever you could make a nickel. What I want to have clarified is you are not going into a large monopoly business with the idea of putting other trucking firms out of business.

Mr. GORDON: I see your point. The answer is no.

Mr. PUGH: That is all my questioning and that is precisely all I wanted to know.

Mr. GORDON: I am glad you brought it out. I forgot I had used the context "wherever we can make a nickel". What I had in mind there was that in the process of acquiring trucking companies we are not acquiring any trucking company just for the sake of acquiring it. We must be certain in getting that trucking company that we can fit it in our operations and make money out of it. We have been accused of buying trucking companies just for the fun of buying them and I assure you that is not the case. Furthermore, the modest investment we have is \$15.2 million and, as I said before any additional requirements will have to go through our budgets. They will have to be approved by the government of the day, the Minister of Finance, and finally this committee. In fact, I do not know how we manage to do business with all the checks we have against us. Nothing of this kind has to be done by Canadian Pacific Railways nor by the trucking companies themselves.

Mr. PUGH: It was only the sum total of a number of statements that I wanted to get this clarified.

Mr. GORDON: Yes, I am glad you brought up the point. It is a good point.

Mr. PUGH: In the first instance the minister said trucking companies, or the whole trucking association, wanted to preserve a monopoly.

Mr. McILRAITH: I did not say the whole association wanted to preserve a monopoly.

Mr. PUGH: No; you clarified it after, but the sum total of all those remarks added up to one thing, that probably the government would say "Go ahead as far as you want", and I think we have had it clarified now.

Mr. ROCK: Mr. Chairman, I would like to ask something of Mr. Gordon.

The Canadian National Railways have never created a new trucking transport firm? They have purchased firms that existed in the past which were in competition with other trucking firms in the area?

Mr. GORDON: Yes.

Mr. ROCK: In other words, you have not created anything new which is new in competition. They had been competitive in the past and all you are doing is purchasing these to create a better service within the Canadian National Railways.

Mr. GORDON: That is quite right. That is why we went out and acquired these trucking companies. It was in order to acquire the licences. We did not try to create a new supply, so to speak, because we figured in that way we might enlarge the market and that it would damage the weaker companies.

Mr. PUGH: Since the purchase, what is the percentage growth over each year? What is the percentage growth of those trucking firms controlled by Canadian National Railways?

Mr. GORDON: One thing that I should have pointed out before—and this is a reference again to Mr. Gregoire—is that the 1962 year that we are discussing here is not typical; it is not typical for the reason that we were very much in a new business at that time and we had a great deal of trouble. We brought ourselves into some trouble and we have a couple of lawsuits outstanding in regard to it. You can say that is a reflection on management. Sure it is. But you have to remember that is one of the great handicaps under which we work. No group of men can do their best work in anything unless they are prepared to make mistakes. But when we make a mistake the whole world knows about it. When Canadian Pacific Railway makes a mistake nobody knows about it.

Mr. LLOYD: Do I get something out of this statement? As Mr. Gregoire has said, when we receive a copy of the transcript of this meeting that transcript may generate more informed questions on your statement, but your biggest competitor in this field is the Canadian Pacific Railway, is it?

Mr. GORDON: Yes. The biggest single competitor in terms of trucking is Canadian Pacific Railway.

Mr. LLOYD: Because they are in the railway business and they are using the trucking operations to maintain their position in the railway operations?

Mr. GORDON: Yes.

Mr. LLOYD: You are competitive with them and you have to do likewise?

Mr. GORDON: Yes that is what we feel. Moreover, not just for the sake of being competitive but to provide a service at these places where only we serve the community.

Mr. LLOYD: You mentioned earlier that you wondered why anyone wanted to be in the railway business. That, of course, is not the purpose of this committee. The purpose of this committee is not to question why the Canadian Pacific Railway remains in it. That might be an area of solution if one or the other got out.

Mr. GORDON: I hope you are not attributing that remark to me.

Mr. LLOYD: I think that you suggested that some trucker might be curious about getting into the railway business, but you doubted whether they would. My point is this, Mr. Gordon: When the Canadian National Railways took over these six companies did you among the assets acquire any large acreage of undeveloped lands?

Mr. GORDON: In the trucking companies?

Mr. LLOYD: No, no; I am coming back to the trucking companies in a minute; this is leading into it. When you took over these six companies that were in a state of bankruptcy, did you take over any great acreage of land.

Mr. GORDON: This was in 1922.

Mr. LLOYD: Did you have a residue of large acreages of undeveloped lands.

Mr. GORDON: Yes.

Mr. LLOYD: Large acreages?

Mr. GORDON: Yes, quite large acreages. For instance, in western Canada we had quite large acreages of lands which had been turned over on a subsidy basis to previous owners. Unfortunately, the previous owners had been very clever about the subsidy lands and they sold them as farm lands. Later on it turned out there was oil in it, but by this time they had been sold.

Mr. LLOYD: They received the benefit of it?

Mr. GORDON: Yes.

Mr. LLOYD: When the Canadian Pacific was organized they went through the same experience and acquired 20 acres per mile, did they not?

Mr. GORDON: They had large tracts of land given to them and were more fortunate because they were able to retain them and today they are finding oil.

Mr. LLOYD: Does this enlighten us on why the Canadian Pacific Railways stays in the railway business?

Mr. GORDON: I had better claim privilege here and say that I cannot give evidence on behalf of Canadian Pacific Railway.

Mr. LLOYD: It would look to me as though, if they still had large quantities of land, this might be an explanation why they remained in the railway business in Canada. They have an ultimate value. But coming back to trucking, this would also lead to the fact that they are in the trucking business and therefore you are compelled, in order to preserve the investment of the Canadian people in the railway system, to do this.

Mr. GORDON: Yes.

Mr. LLOYD: Earlier you mentioned finances related to trucking. Are you saying to us that if a recapitalization program along the lines that you have proposed is accepted this would clarify your accounting reporting?

Mr. GORDON: Yes.

Mr. LLOYD: It will put you in a better position to evaluate the need for a depreciation policy, if one indeed exists?

Mr. GORDON: Yes, most definitely. I made that statement very specifically in my report in which I said, looking ahead in regard to the survey we made:

These indicate that the deficit position is by no means chronic and that a surplus position could be achieved in the foreseeable future. In fact, had the recommendations of the MacPherson commission been in full force and effect in 1962, together with the capital revision proposals, the yearend result would have produced a modest net profit of approximately \$10 million.

Mr. GRÉGOIRE: How do you arrive at that amount?

Mr. GORDON: It is a simple calculation. You take the relief that is proposed generally in the MacPherson commission report, offset against that the present interim payments that would be cancelled when the report goes in, because that is what the MacPherson commission recommendations entail, take the net difference between that and the amount of relief we have asked in capital revision, the interest cost, add them together and subtract the interest charges we have, and you get the figure.

Mr. LLOYD: Does the MacPherson commission report contain a section giving an analysis of the Canadian National Railways?

Mr. GORDON: No, not on the Canadian National alone.

Mr. LLOYD: I looked through it but I wanted to be sure I had not missed a volume. The MacPherson commission report was not on Canadian National.

Mr. GORDON: No.

Mr. LLOYD: I will stop there if I may and shift my questioning to another point.

Mr. GRÉGOIRE: I would like to ask three questions on this point of trucking. How much money have you set aside in your actual budget for buying new trucking companies or lines or roads, and when you mention all those companies you mentioned—that was up to December 31, 1962, and 1963,—did you buy other companies, trucking companies?

Mr. GORDON: Let me be careful about that. There were some purchases completed but there were no new purchases. I do not mind saying that we have had a number of offers from various trucking companies. We have examined them carefully and, for two reasons usually we have turned them down. One reason was that they did not fit into the pattern I am talking of here and secondly the prices were too much for us. We have a number of companies we are still exploring, but we have not made up our minds about any specific purchase. If we do we will have to provide for it in our budget.

Mr. GRÉGOIRE: You have some money set aside to buy some other routes you may be interested in?

Mr. GORDON: We have no reserve for that purpose.

Mr. GRÉGOIRE: What function does the lawyer Mr. Chateauguay Perrault occupy in the Canadian National Railways? Is he an employee or is he only a lawyer?

Mr. GORDON: What is his name?

Mr. GRÉGOIRE: It is Perreault. He is an officer of the company, the same as Mr. Pinsonnault. These are the ones who are acting for the Canadian National Railways in the pending cases.

Mr. VAUGHAN: That is right, they are members of our legal department.

Mr. GRÉGOIRE: You say they are officers in the Canadian National Railways?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Can you give us an approximate figure of how many other cases there are before the tribunals? I mean with respect to the Canadian National Railways before the Quebec Transport Board, how many cases are there?

Mr. GORDON: Just the one main case.

Mr. VAUGHAN: Do you mean that is before the superior court?

Mr. GRÉGOIRE: I mean before the Quebec Transport Board. How many cases are there?

Mr. VAUGHAN: There are no new applications before that board now. You may be referring to local hauls or something like that. Is that what you mean?

Mr. GRÉGOIRE: Yes.

Mr. VAUGHAN: I think there is one.

Mr. GRÉGOIRE: And before the superior court you say there is one case?

Mr. GORDON: Yes.

Mr. LLOYD: I have a question on freight services.

Mr. CANTELON: I have a question on trucking. As you intend to proceed with rail line abandonment in the next few years, this will leave quite a few

grain elevators out in the wild blue yonder. Have you considered in your trucking services making arrangements to bring grain from those elevators to terminals which would be on your main line?

Mr. GORDON: That opens up the whole question of line abandonments, and how they will be dealt with. Since this question has come up I think with your permission it will be wise for me to deal with our actual policy in respect to branch lines at the moment.

Mr. FORBES: I thought we were to have one specific time to deal with branch lines.

Mr. GORDON: I want to give an answer. Since our trucking policy is not related to the subject of branch line abandonment except incidentally, I would have to explain branch line abandonment before I could get into a real answer to your question. I think we could come to it when we discuss the major question later.

Mr. LLOYD: Under this section of freight services I see a subheading of equipment, and the statement that you have bought 1,617 new freight cars in 1962, and 150 tri-level automobile transporters, and various types of equipment, as noted on page nine.

Mr. GORDON: Yes, sir, I have it.

Mr. LLOYD: This equipment I presume was bought in Canada?

Mr. GORDON: Oh, yes.

Mr. LLOYD: All of it?

Mr. GORDON: Well, not necessarily. Some of the equipment there may have been used on our United States lines and would be acquired in the United States, but it would be very small. I am not sure about it, but I could give it to you in a moment. Oh yes, there were 112, 70-ton box cars for the Grand Trunk Western, and 50, 70-ton covered hoppers which were bought in the United States for use on the United States lines. That is all. The rest was all bought in Canada.

Mr. LLOYD: How did you go about these orders for cars? Did you purchase them after the submission of bids or on the basis of any allocation?

Mr. GORDON: We sent out requests for tenders in respect of the specifications.

Mr. LLOYD: To plants in central Canada, even in my province, even at Trenton?

Mr. GORDON: Yes, in Trenton; in fact to anybody who was in a position to supply.

Mr. LLOYD: No mention was made of locomotives.

Mr. GORDON: The same general policy applies to locomotives. If they were to be used in the United States we would buy them in the United States, but anything else would be bought in Canada. And apart from anything else there is a heavy duty situation which makes it impossible to buy in Canada and send to the United States, and also vice versa.

Mr. PUGH: Would that apply to Canadian National Railways rolling stock in the United States?

Mr. GORDON: Yes. If we purchased rolling stock and brought it in from the United States for use in Canada we would have to pay duty. I do not mean just for an overrun. And it would apply the other way around as well.

Mr. LLOYD: Do you lease any equipment from any Canadian or American corporations?

Mr. GORDON: Yes, we do on occasion in connection with the movement of the wheat crop. We have an arrangement to lease some locomotives from American lines now. And incidentally we have to pay duty in order to bring them in.

Mr. LLOYD: In view of the grain movement do you contemplate more purchase of rail cars or the leasing of rail cars?

Mr. GORDON: Do you mean locomotives?

Mr. LLOYD: I suppose that would come under the category of freight cars.

Mr. GORDON: Yes, but we are not leasing any freight cars.

Mr. LLOYD: In view of the fact, and it is unfortunate, that we are in December of 1963 do you see in this recent sale of wheat to the U.S.S.R. and to other countries the need for an increased quantity of new freight cars to be constructed in Canada?

Mr. GORDON: If we could establish that the quantity of movement is going to be a continuing thing, yes, but as of now we consider it as a peak load and we do not try to acquire equipment in order to take care of peak loads because if we did so we would lose our shirts.

The CHAIRMAN: We have freight service. Are there any more questions?

Mr. PUGH: What is the percentage figure of growth on your truck lines?

Mr. VAUGHAN: We do not have one. I think we said that we were new in the business and we just recently purchased these companies, and there was not any comparative figure.

Mr. GORDON: There was not any figure as of 1962. We are starting from scratch in 1962 with the equipment of these companies. In 1963 when we finish up, and our report comes before you next March, we will have a comparative figure for you then.

Mr. PUGH: There is an indication that your business is increasing?

Mr. GORDON: Yes.

Mr. PUGH: But there is no percentage?

Mr. GORDON: No, I could not give you one yet. We have not got the information.

Mr. FORBES: Mr. Gordon referred to having to pay duty on locomotives which he rented in the United States. Would he get a return of that duty when the locomotives are returned to the United States?

Mr. GORDON: No. The duty is worked out on the basis of a formula and having regard to the length of time they are used in Canada. We tried to get it waived, but despite the good offices of Mr. McIlraith, we were not able to get a ruling.

Mr. FISHER: What about your plan to introduce runthroughs specifically with respect to Rivers to Melville, and Watrous to Biggar and so on, as indicated to the chairman of the various brotherhoods last May, in an attempt to make your freight service more efficient or more economic? I would draw a distinction there.

Mr. GORDON: I do not know if there is a distinction.

Mr. FISHER: I mean more efficient in terms of bringing about more savings in money, and in terms of having fewer runs.

Mr. GORDON: I think Mr. Demcoe who is in charge of operating matters should deal with this question. It is basic to the fact that with dieselization and so on we thought that our turn around points were too close together.

Mr. DEMCOE: Well, I can take you back 25 to 50 years ago when the railroads were first built, when it took freight trains from 12 to 14 to 16 hours to go 100 miles.

Mr. FISHER: I know that part of it. I know you have estimates of the savings to be made in connection with the introduction of such things as the

Symington yards. Have you an estimate of savings which would come about through the introduction of run-throughs?

Mr. DEMCOE: We expect to save approximately an hour through these various terminals, where one crew would run over two subdivisions of approximately 225 to 250 miles. That is number one. Number two: we will get better utilization of our equipment, and thus save in per diem expense, and we will also get better utilization of our locomotives.

Mr. FISHER: Would your locomotives not run through anyway?

Mr. GORDON: They have to stop in one case, and in the other case, no.

Mr. FISHER: What I mean is since when do you stop an hour for that kind of a stop if the tailend crew just move on and off the caboose?

Mr. DEMCOE: Generally going through a terminal it takes an hour, and if you have four terminals, which we intend to run through in western Canada, that is four hours and, multiplied over a year, it is so many hours. Therefore, we actually hope to get better utilization from our equipment.

Mr. FISHER: Why did you decide not to go through with the run-throughs on August 18?

Mr. GORDON: Perhaps I should answer that question, because it is a question of policy.

We were involved in discussion with the various labour organizations to ascertain with them the real type of adjustment that would be involved and the kind of men that would be displaced or changed around. Now, there is a curious situation in the sense that a run-through will often benefit one type of seniority and displace another. So, there was a lot of adjustment and discussion going on. Moreover, we did not have it properly co-ordinated in respect of all the points and the discussion of supervisory procedure was becoming intensive when we became involved in the wheat deal and we just had so much work to do we put it to one side.

Mr. FISHER: How long are you putting it to one side?

Mr. GORDON: I do not know. It depends when we get time to get back to it.

Mr. FISHER: I am curious whether or not you can tell me how the plan, as it was projected, and as you may introduce it again, will affect the seniority districts.

Mr. GORDON: That was one of our wrinkles on which we were having a discussion. This is an example of what we have talked about before, Mr. Fisher, giving the unions advance notice as well as the communities concerned, and we found as we did before that advance notice for the purpose of discussion, which is what we were doing, always raises a fair amount of agitation and we get into difficulties. Now, I am not complaining about that but explaining why there was so much talk.

Mr. FISHER: I will give you an example of a divisional point which probably was going to be taken up with the board in the long run, namely Nakina, and the difficulty I found, when I landed there, was that there were a few people, particularly local chairmen of brotherhood organizations who knew something about it or had some kind of indication from the upper level of their organization when the community did not have a clue, and all they had to go on was rumour.

Mr. GORDON: Are you thinking of that in terms of the labour organizations themselves?

Mr. FISHER: In terms of the communities.

Mr. DEMCOE: That was one location on which we really had not decided whether it would be better to run through, Nakina—that is, between Hornepayne and Armstrong—which would have involved some people who had homes in Nakina or whether to run between Nakina and Sioux Lookout, where we get involved in two seniority districts. We had resolved that, but it is unfortunate it caused some concern to the people.

Mr. FISHER: I am not the only member of parliament who received representations from all these communities in some form or another, and also from the labour organizations.

I wanted to put this question to you: the situation of the CPR as it affects running trade employees is that there is a protection for the employees in the light of any change like this because their agreements relate to terminals rather than to seniority districts. Now, I think this is going to be a very very troublesome issue if you go ahead with it without expressing any opinions pro and con. I do think it will be troublesome and there will be a great deal of misunderstanding. Is there any possibility of having this introduced as a subject in your negotiations? I know the unions will try to get it introduced, but I am referring to management itself. Is there any possibility of the Canadian National Railways taking the initiative in this?

Mr. GORDON: I think most of our agreements already touch on these points.

Mr. DEMCOE: Yes, it is one of the things that has been submitted to us by running trades. That is one of the things they want to discuss in the negotiations that are taking place at the present time. However, we have extended these runs in various parts of the country, particularly in eastern Canada from Armstrong right through to the east coast, between Joffre and Edmundston, New Brunswick; Edmundston to Moncton; Moncton to Halifax, and Truro on to Sydney. Wherever we have put that in, there has been some repercussion; however, now the people are very happy and, as far as my understanding of it goes, they would not want to revert for the simple reason they are able to put in their miles within ten, twelve or fourteen days and then go on furlough.

Mr. FISHER: This confirms my point; if there is something here that has been proven intrinsically good should not management be prepared to take the initiative at negotiation time to make this a prime point in the negotiations instead of having a situation which is likely to happen if on the other hand you go through the stage and it finally leads to the appointment of a board, at which time the tendency of the judges is to shove this issue to one side, because they think this is something that is a matter of policy or that parliament should decide?

Mr. GORDON: Mr. Fisher, that suggestion is worth exploring. However, I have found that it is not wise to make an offhand commitment. You get into the complexities of the wage agreement and the differences which exist in respect of various areas, and we like to discuss it with the labour people first. I will take note of that. If we could get it agreed at the time it would perhaps take the swelling down a bit. Part of our difficulty was—and I do not want to make it sound like a complaint, but I am afraid I did—that we got into a situation and we did not know ourselves what we wanted to do. We wanted to have a discussion on it and determine after looking at it every way we could, what course we would take. When we were in that position we did not want to talk to all the communities involved. We did not know ourselves what we were going to do. If you have a small discussion group and establish what is perhaps the best thing to do, it becomes a rumour, is enlarged and spreads about and grows.

Mr. FISHER: I believe Mr. Gonder was the one from whom I got the information. But in respect of this meeting last May—and there were subsequent meetings—I would hate to express an opinion on what developed, but obviously a great deal of misunderstanding developed.

Mr. GORDON: I think that is right.

Mr. FISHER: I do know that Mr. Horner and Mr. Cooper received loads of representations and, of course, I did. These representations were very strong and, I put it to you, it is very difficult for representatives to deal with something like this. I am quite prepared to encourage the keeping of this kind of arrangement between unions and management, but it is a bigger issue when communities become involved. I do not know how you turn away the pleas of people from Rainy River, Nakina or Biggar when they come at you from the community point of view. I say, with respect, I would like to see this become much more a matter of full negotiation between management and the union so that the unions at least would not have the argument that this was sprung on them as something new in between agreements.

Mr. GORDON: This is certainly our objective. I would be the last to say we have found the best way possible of achieving it. These things are always difficult when it means change, and when it involves old established customs, traditions and the displacement of people. This is an open question of how best to handle it. I will certainly take note of your suggestion and have a talk with the labour relations people.

Mr. ROCK: Mr. Chairman, I understood we were now considering the section on freight services. Mr. Fisher started his question in relation to that section but I find we have now moved to personnel and labour relations.

Mr. FISHER: The justification for the run-through is really because it is related to freight.

Mr. RIDEOUT: Mr. Chairman, it is ten o'clock.

Mr. GRÉGOIRE: I should like to ask one short question. I have the English and French copies of this annual report, and in the second paragraph in respect of sales I note the following phrase: "a national advertising campaign entitled 'CNgeineering'." In looking at the French report I do not see that phrase translated. How would you translate that slogan?

Mr. GORDON: There is, of course, no English word "CNgeineering"; this is purely a manufactured word.

Mr. GRÉGOIRE: I realize this is not an English word.

Mr. GORDON: I suppose the French word would be the same. I have no authority for this, but it would be the same in French as in English because there is no such word. This is a made word, manufactured by ourselves. However, I think our advertising in the French language covers the point.

Mr. GRÉGOIRE: You did not put it in the French version of the annual report.

Mr. GORDON: Does it not appear in the French text?

Mr. GRÉGOIRE: No.

The CHAIRMAN: Perhaps we could take five minutes more and complete this section on freight services.

Mr. GRÉGOIRE: I should like to ask a question in respect of the paragraph on incentive rates. On occasion you pick up merchandise with your trucks, deliver it to the station, put it on a train, carry it to its destination, take it off the train, put it on the truck and then deliver the same merchandise. There are subsidies paid in respect of the railways. Is it possible that the trucking operation might indirectly receive part of this subsidy which is provided for the railways so that the trucking part of the operation would be in effect unfair competition because of the subsidies to private enterprise?

Mr. GORDON: I do not think so. We are always very careful with our incentive rates to make sure that they cover our out of pocket costs and leave a margin of profit. They are compensatory rates in every case.

Mr. GRÉGOIRE: Do you use these incentive rates where you have subsidies from the government?

Mr. GORDON: I am wondering how the interim payment that we received pending the MacPherson Commission would be considered in here. My answer is no, there are no specific subsidies.

Mr. GRÉGOIRE: In respect of the interim payments, would you use incentive rates in competition with private enterprise where you have received the interim payments, or some kind of subsidy?

Mr. GORDON: Not in respect of any specific kind of traffic.

Mr. LLOYD: You do not use incentive rates, for example, in respect of export to the winter ports in Canada to offset the traffic on the seaway and thus make greater utilization of the railway?

Mr. GORDON: No.

Mr. GRÉGOIRE: You are quite convinced that you would not be unfair or abnormally competing with private enterprise as a result of these interim payments of subsidies which you receive?

Mr. GORDON: Absolutely, no.

Mr. VAUGHAN: The interim payments were related to the Royal Commission recommendations.

Mr. GRÉGOIRE: Would you object if those subsidies were paid to the shippers of the merchandise instead of the carriers? If such were done the shippers would be able to use the railroads or trucking companies for those specific things which are subsidized in transportation.

Mr. GORDON: I think I see your point. I personally would have no objection to seeing the subsidies paid to the shippers, but I hasten to add that such a system would be completely impractical and unworkable.

Mr. GRÉGOIRE: But you would have no objection to this being done if it was practical or workable?

Mr. GORDON: No.

Mr. GRÉGOIRE: This of course would be a problem for the government to solve. You would not object to the shippers receiving the subsidies rather than the railways if this could be made practical?

Mr. GORDON: In principle, if I understand your question, if the government could find an administrative way to pay the subsidies to the shipper I would have no objection to it. In fact I would welcome it because the shipper then would use the transportation tool of his choice. I do want to make it clear that administratively this is not practical.

Mr. GRÉGOIRE: That is a problem for the Minister of Transport.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Perhaps we could ask a question of the Minister of Transport. Would you object to having these payments made to the shippers instead of the railroads?

Mr. GORDON: This would not work.

Mr. GRÉGOIRE: That is not a problem facing the CNR, this is a problem for the government to solve.

Mr. MUIR: (*Lisgar*): Mr. Grégoire, I wonder whether you would ask this question during the question period in the House of Commons so that we may now adjourn?

Mr. CANTELON: I understand the Canadian Pacific has a division which deals with lots of heavy industry. I wonder if the CNR would ever consider embarking in such things as the potash industry in Saskatchewan or the fertilizer industry, or something of that sort.

Mr. GORDON: That is a most refreshing question.

Mr. GRÉGOIRE: In closing off the subject, and because we have received the declaration of principles from the CNR, would it not be a good thing to finish that subject of the trucking question now?

The CHAIRMAN: We are through with trucking.

Mr. GRÉGOIRE: It is only in the last few years that this whole system has been organized. We have received some good information and I think the president of the CNR was very kind to give us all this information.

The CHAIRMAN: Mr. Grégoire, I see you are smiling.

Mr. GRÉGOIRE: If you let me finish, Mr. Chairman, I think it would be good for all members here to think about this information and the principles which were given to us. I know that Mr. Fisher has been receiving this information for many years because he was elected before me.

Mr. LLOYD: We passed freight services subject to the questions on trucking.

Mr. FISHER: Let us make a deal: No questions on bilingualism, no questions on biculturalism. We will give you what you want.

Mr. GRÉGOIRE: I would like to know why you are against being questioned on bilingualism. Why do you object to those kinds of questions?

The CHAIRMAN: Order, gentlemen. We will adjourn on that understanding.

Mr. HAHN: Is the adoption of the freight service subject to trucking?

Mr. PRITTIE: I do not think we can go back to trucking. We should consider how long we are going to sit here and how long we are going to keep the officials of the CNR. If we finish tomorrow night, we cannot go back to the subject of trucking.

The CHAIRMAN: I was going to suggest to Mr. Grégoire that surely he does not intend to go into the whole subject of trucking again as we did today.

Mr. GRÉGOIRE: No, Mr. Chairman. I was very pleased with the declaration of principles which Mr. Gordon has given us.

The CHAIRMAN: It would probably take only fifteen minutes tomorrow. On the understanding that Mr. Grégoire will take only fifteen minutes on the subject of trucking tomorrow, we can go on to passenger service.

Mr. FISHER: Will we try to finish tomorrow night?

The CHAIRMAN: The first meeting tomorrow will be at 9:30.

Mr. MUIR (*Lisgar*): Can we decide this evening to finish tomorrow night?

Mr. GRÉGOIRE: No, that would be a kind of closure.

The CHAIRMAN: We will have your co-operation, I am sure, Mr. Grégoire. The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-sixth Parliament

1963

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SESSIONAL COMMITTEE

ON

**RAILWAYS, AIR LINES  
AND SHIPPING**

Owned and Controlled by the Government

*Chairman:* JEAN T. RICHARD, Esq.

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

FRIDAY, DECEMBER 13, 1963

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Canadian National Railways 1962 Annual Report, 1963 Capital Budget,  
Securities Trust 1962 Annual Report and 1962 Auditor's Report

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INCLUDING FOURTH REPORT TO THE HOUSE

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WITNESSES:

The Honourable George McIlraith, Minister of Transport. *From the Canadian National Railways:* Messrs. Donald Gordon, President; J. L. Toole, Vice-President, Accounting and Finance; J. W. Demcoe, Vice-President, Transportation and Maintenance and R. T. Vaughan, Secretary.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

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ON  
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Fisher	Lloyd	Rideout
Forbes	Mitchell	Rock
Foy	Monteith	Southam—26.

Quorum—(14)

Maxime Guitard,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

FRIDAY, November 15, 1963.

*Resolved*,—That a Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government be appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines and such other matters as may be placed before it, 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 67 in relation to the limitation of the number of Members, the said Committee shall consist of 26 members.

WEDNESDAY, November 20, 1963.

*Ordered*,—That the Annual Reports for 1962 of the Canadian National Railways and of the Canadian National Railways Securities Trust, the Auditor's Report to Parliament for 1962 in respect of the Canadian National Railways, the budget for 1963 of the Canadian National Railways, the Annual Report of Trans-Canada Air Lines for 1962, the Auditor's Report to Parliament for 1962 in respect of Trans-Canada Air Lines, and the budget for 1963 of Trans-Canada Air Lines, tabled on May 17, 1963, be referred to the Sessional Committee on Railways, Air Lines and Shipping.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House.*

## REPORT TO THE HOUSE

FRIDAY, December 20, 1963.

The Sessional Committee on Railways, Air Lines and Shipping owned and controlled by the Government has the honour to present its

### FOURTH REPORT

Pursuant to Order of Reference of Friday, November 15, 1963, your Committee was appointed to consider the accounts, estimates and bills relating to the Canadian National Railways and Trans-Canada Air Lines.

Later, on Wednesday, November 20, 1963, by further Order, the House referred to the Committee the following:

1. The Annual Report of the Canadian National Railways for the year ending on December 31, 1962;
2. The Annual Report of the Canadian National Railways Securities Trust;
3. The Auditor's Report to Parliament for the year ending on December 31, 1962, in respect of the Canadian National Railways;
4. The budget for 1963 of the Canadian National Railways;
5. The Annual Report of Trans-Canada Air Lines for 1962;
6. The Auditor's Report to Parliament for the year ending on December 31, 1962, in respect of Trans-Canada Air Lines;
7. The budget for 1963 of Trans-Canada Air Lines.

Your Committee held 15 meetings during which, under the authority granted by the Order of Reference of November 15, 1963, the following persons were called and examined, namely:

The Honourable George McIlraith, Minister of Transport;  
Mr. G. R. McGregor, President, Trans-Canada Air Lines,  
Mr. W. S. Harvey, Vice-President, Finance and Comptroller,  
Mr. H. W. Seagrim, Senior Vice-President, Operations,  
Mr. A. C. MacInnes, Director of Public Relations,  
Mr. André Gauthier, Area Manager, Government and Public Relations,  
Mr. H. D. Laing, General Auditor,  
Mr. H. S. Bowman, Finance Accountant,  
Mr. N. E. Taylor, Chief of Economic Research,  
Mr. Donald Gordon, Chairman and President, Canadian National Railways,  
Mr. J. L. Toole, Vice-President, Accounting and Finance,  
Mr. J. W. Demcoe, Vice-President, Transportation and Maintenance,  
Mr. R. T. Vaughan, Secretary.

Your Committee having examined the above-mentioned reports 1 to 7 both inclusive, recommends them to the approval of the House.

A copy of the Minutes of Proceedings and Evidence Issues Nos. 1, 2, 3, 4, is appended hereto.

Respectfully submitted,  
JEAN T. RICHARD,  
*Chairman.*

## MINUTES OF PROCEEDINGS

FRIDAY, December 13, 1963.

(11)

The Sessional Committee on Railways, Air Lines and Shipping met at 9:45 o'clock a.m. this day. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Cantelon, Deachman, Fisher, Forbes, Granger, Grégoire, Lloyd, Mitchell, Prittie, Pugh, Richard, Rideout, Rock, Southam (15).

*Also present:* The Honourable George McIlraith, Minister of Transport.

*In attendance:* From the *Canadian National Railways:* Messrs. Donald Gordon, President; J. L. Toole, Vice-President, Accounting and Finance, J. W. Demcoe, Vice-President, Transportation and Maintenance, and R. T. Vaughan, Secretary.

The Committee resumed its consideration of the section intituled Freight Services of the 1962 Canadian National Railways Annual Report.

On motion of Mr. Prittie, seconded by Mr. Rock,

*Resolved,*—That the section intituled *Freight Services* of the 1962 Canadian National Annual Report be adopted as read.

At 10:55 o'clock a.m. the Committee adjourned until this afternoon at 2:00 o'clock p.m.

### AFTERNOON SITTING

(12)

At 2:00 o'clock p.m. the Committee convened. The Chairman, Mr. Jean T. Richard, presided.

*Members present:* Messrs. Balcer, Béchard, Cantelon, Fisher, Forbes, Granger, Grégoire, Lloyd, Mitchell, Prittie, Pugh, Richard, Rideout, Rock, Southam (15).

*Also present:* The Honourable George McIlraith, Minister of Transport and Mr. Charles Cantin, Parliamentary Secretary to the Minister.

*In attendance:* The same as at this morning's sitting.

The Committee resumed its consideration of the 1962 Canadian National Railways Annual Report.

The following resolutions were adopted.

On motion of Mr. Pugh, seconded by Mr. Mitchell,

*Resolved,*—That the section intituled *Passenger Services* of the 1962 Canadian National Railways Annual Report be adopted as read.

Moved by Mr. Granger, seconded by Mr. Southam,

*Resolved,*—That the section intituled *Hotels* of the 1962 Canadian National Railways Annual Report be adopted as read.

On motion of Mr. Pugh, seconded by Mr. Lloyd,

*Resolved*,—That the section intituled *Telecommunications* of the 1962 Canadian National Railways Annual Report be adopted as read.

At 5:45 o'clock p.m. the Committee adjourned until this evening at 8:00 o'clock p.m. without question put on the Section intituled *Personnel and Labour Relations* of the 1962 Canadian National Railways Annual Report under consideration.

### EVENING SITTING

(13)

The Chairman, Mr. Jean T. Richard, presiding, at 8:07 o'clock p.m. the Committee resumed its consideration of the Section intituled *Personnel and Labour Relations* of the 1962 Canadian National Railways Annual Report.

*Members present*: Messrs. Balcer, Béchard, Cantelon, Fisher, Forbes, Granger, Grégoire, Lloyd, Muir (*Lisgar*), Prittie, Pugh, Richard, Rideout and Southam,—(14).

*Also present*: The Honourable George McIlraith, Minister of Transport and his Parliamentary Secretary, Mr. Charles Cantin, M.P.

*In attendance*: The same as at this morning and this afternoon's sittings.

The following resolutions were adopted:

Moved by Mr. Prittie, seconded by Mr. Béchard,

*Resolved*,—That the Section intituled *Personnel and Labour Relations* of the 1962 Canadian National Railways Annual Report be adopted as read.

On motion of Mr. Lloyd, seconded by Mr. Muir (*Lisgar*),

*Resolved*,—That the Section intituled *Pensions* of the 1962 Canadian National Railways Annual Report be adopted as read.

Moved by Mr. Lloyd, seconded by Mr. Béchard,

*Resolved*,—That the Sections intituled *Outlook and Financial Review* of the 1962 Canadian National Railways Annual Report be adopted as read.

On motion of Mr. Lloyd, seconded by Mr. Rideout,

*Resolved*,—That the 1963 Canadian National Railways Capital Budget be adopted as submitted.

Moved by Mr. Balcer, seconded by Mr. Forbes,

*Resolved*,—That the Annual Report of the Canadian National Railways *Securities Trust* for the year ended on December 31, 1962, be adopted as submitted.

On motion of Mr. Fisher, seconded by Mr. Cantelon,

*Resolved*,—That the Canadian National Railways System, *Auditor's Report to Parliament* for the year ended on December 31, 1962 be adopted as submitted.

By unanimous consent, Mr. Southam was granted leave to affix as an appendix to this evening's Minutes of Proceedings and Evidence a brief intituled, First Saskatchewan Conference Local Railways Retention Committee. (*See Appendix A*).

Mr. Donald Gordon read a brief intituled Canadian National Railways, in which his undertakings to stimulate bilingualism among the Canadian National Railways' organization as well as a plan to give the French-Speaking employees an equal chance to attain the highest levels of administration of this Crown Corporation were clearly laid out.

Thereupon, the Committee expressed unanimously its full confidence and appreciation in Mr. Gordon, as a successful President of the Canadian National Railways.

On motion of Mr. Grégoire, seconded by Mr. Balcer,

*Resolved*,—That the brief intituled "Canadian National Railways" be considered as satisfactory. (*re: staffing*).

The Committee having completed its consideration of the 1962 Canadian National Railways Annual Report, the 1963 Canadian National Railways Capital Budget; the Annual Report of the Canadian National Railways Securities Trust and the Canadian National System Auditor's Report to Parliament for the year ended on December 31, 1962, the Chairman thanked the witnesses who retired.

Thanks were also extended, by the Chairman, to the Minister of Transport, to his Parliamentary Secretary, as well as to the Members, to the interpreters and to the Clerk of the Committee, for the co-operation he received in discharging his duty, notwithstanding the long and tiresome sittings of this important Sessional Committee.

Merry Christmas and Happy New Year to all of you, concluded the Chairman.

At 10:30 o'clock p.m. the Committee adjourned to the call of the Chair, in order to prepare its final Report to the House.

Maxime Guitard,  
*Clerk of the Committee.*

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## EVIDENCE

FRIDAY, December 13, 1963.

The CHAIRMAN: Gentlemen, when the schedule of meetings was made up we did not take into consideration the fact that today was Friday. Since the house opens at 11 o'clock it has been suggested that instead of meeting at 3.30 we make it 2.00 p.m. this afternoon.

Agreed.

Last night it was also agreed that freight services have been carried except that one of our very good members, Mr. Grégoire, has stated he might have from 15 to 20 minutes of questioning on that subject.

Mr. GRÉGOIRE: No questions, just the suggestion that this committee might meet at the next session to study, before the problems arise too strongly between the railroads and the trucking association, sectors or fields of each organization and delimit them in order to avoid such problems arising in the future.

The CHAIRMAN: I think that is a good suggestion.

Mr. LLOYD: Yes, I think that is a good suggestion, but as Mr. Prittie pointed out the other day, before that decision is made every member should be provided with an extensive treatment of this subject such as was done under the MacPherson commission. I think you would find that with that kind of information in our hands we might come with more comprehensive and constructive criticisms.

The CHAIRMAN: May I have a motion to carry the subject of "freight services"?

It is moved by Mr. Prittie and seconded by Mr. Granger.

Motion agreed to.

Now we pass on to "passenger services". Before we go on with this subject of "passenger services" I want to know if this is the appropriate time for the consolidation of the questions which relate to the bilingual or bicultural character of the Canadian National Railways on which I understand there will be a number of questions? The idea of the steering committee was that they might be consolidated at one point. That might be done under "personnel", or it might be done here. I am in the hands of the committee.

Mr. ROCK: I think that the president intends to make a general statement, because I have heard it said in the past that he has some sort of program in the Canadian National Railways in the matter. Before we question the president I believe he should make a general statement to us.

The CHAIRMAN: Is the committee willing?

Mr. PRITTIE: I would prefer that the matter of bilingualism in the Canadian National Railways be discussed under personnel and labour relations.

Mr. BALCER: There is a special paragraph on page 15 which would cover everything.

Mr. GRÉGOIRE: We agree to that. There are some problems arising out of passenger service and telecommunications, but I think we could agree to that.

The CHAIRMAN: Yes, let us cover the whole subject on page 15. Now, we are on "passenger services".

Mr. DEACHMAN: A question was asked yesterday when railway line abandonment would be brought up. In case we should lose track of that subject which is an important one I would like to raise a question here to find out at what section of the report we are going to deal with the question of railway line abandonment.

Mr. LLOYD: On page 18 the question is raised.

Mr. DEACHMAN: I do not want to hold it to some section of the report where it would receive a hurried treatment at the last, because I think the subject is of considerable importance to the committee.

The CHAIRMAN: If there is to be an extensive discussion on that, it will have to come under "outlook". I suggest that for the present we carry the section which relates to Canadian National Railways operations in 1962 and then go on to discuss "outlook" and the subject which you mentioned as the last item.

Mr. McILRAITH: May I raise a question? Rail line abandonment is a matter of general railway legislation. It is not a Canadian National Railways question as such. It is rather for the committee to decide whether it is a subject referred to them, or rather one of general legislative concern relating to railways.

Mr. FISHER: Is Mr. Gordon privy to the legislation which you have given indication that you have?

Mr. McILRAITH: No.

Mr. FISHER: In that case I am inclined to agree with you. In other words, he is not aware of the terms of the policy that is implicit in the bills you will be introducing.

Mr. McILRAITH: He has made some representations along with the president of the Canadian Pacific Railway, the same as a great many persons, but he has not been told the contents of the legislation and I do not propose to tell him that before it is presented in the house.

Mr. BALCER: It may be that we should direct our questions then to you.

Mr. McILRAITH: No, I feel it is another subject. This committee should be dealing with the Canadian National Railways and its report. When the proposed legislation is placed on the order paper then you will see what I mean.

Mr. BALCER: The Canadian National Railways has its own policy as far as line abandonment goes, which is different from that of the Canadian Pacific Railway. I think it would be a good thing for the committee to deal with it, and with the present policy of the Canadian National Railways on branch line abandonment.

Mr. McILRAITH: That aspect of it belongs to the committee, but not the question of general railway legislation.

Mr. CANTELON: There is a possibility that one railway might lose business to another railway, and they are probably very concerned about it. It is on that ground that we might be permitted to ask questions.

The CHAIRMAN: Perhaps I did not make it clear. I understood that if any discussion was going to be held on the abandonment of lines it would relate to the facts as they affect the Canadian National Railways at the present time. Shall we now proceed with "passenger services"?

Mr. PRITTIE: I have just one question. Has the company bought any dome cars yet, or is the company proposing to do so.

Mr. GORDON: We have no dome cars and we do not intend to buy any.

Mr. PRITTIE: Why?

Mr. GORDON: First of all, they are very, very expensive and from our observations they have not provided the attraction that they were calculated

to do in terms of an increasing passenger flow. We think we can spend our money to better advantage in connection with other passenger equipment generally.

Mr. CANTELON: In relation to passenger equipment, one of the big difficulties is the matter of meeting competition from the air lines. I wonder. The modern automobile has the ability to attain a high rate of speed. It would seem that for a rail line with a level track, you should be able to design equipment which would probably carry you across Canada at an average rate of from 80, 90 to 100 miles an hour, and if you did so I feel that much of the attraction which the air lines now have would disappear.

Mr. GORDON: If you will turn to page 10 of the report, you will find a chart there on the right hand side of the page. You will see that we are not nearly as interested in competing with the air lines or the buses, but that our real market lies in the big section, the private automobile. This is a chart showing the total market of intercity passenger miles. The white portion represents what the air has. The sort of light black lines represent the portion of the market that the buses have. From there on down on this line, all the way down, that represents what is handled now by the passenger automobile. The little green portion down below shows what other rails have. The little black portion at the very bottom shows the percentage which we have of passenger business.

The share that the Canadian National has of the total market has decreased steadily over a time from 6.6 per cent in 1949 to two (2) per cent in 1961. What is our strategy? We are making a direct effort to try to persuade people to give up the use of private automobiles and get back on the rails. We fully recognize that we are foolish to try to compete with the specialized market of the air lines for anything in the way of long haul traffic. We can never compete with them in that respect.

We can never compete with them for example in giving service between Montreal and Vancouver. But we do believe that on intercity passenger traffic we can get a lot of it back, let us say, between Montreal and Toronto, Montreal and Ottawa, and so on, and I personally believe that we can both give a faster service and a more comfortable service than people will get on the crowded highways. That is what we are designing our service and our equipment to do.

In speed we have improved materially. We are doing much better than we were three, four or five years ago. As we see the market developing we have a very definite market research procedure under way, and we will design our equipment and develop it to meet what we consider that the passengers want.

Mr. ROCK: This chart is of great interest. You made a statement before on the transportation of freight by truck. You said that because of certain competition, you felt that in order to give better service your company had purchased certain trucking firms across the country. I wondered about this, and your having vehicle passenger transport on the road, for instance, like the buses. They are also giving you a certain amount of competition. Why has the C.N.R. not thought of buying some of these transport firms such as Colonial or Provincial Transport?

Mr. GORDON: Well, that is a good question. We have thought of it, and we decided against it. We decided that the inherent advantages in railways respecting the passenger business is quite sufficient for us to specialize in that phase of it and leave the buses to look after their own specialized market.

The special market for the railways is the volume market and the mileage market for trips, let us say, of over 100 miles. We can compete with any form of competition, we believe, on a price basis, provided that we get a certain volume. We recognize that these figures are tied to volume. As a result, with

the level of fares under the red white and blue plan—the red fares are our cheapest fares on particular days. As an illustration with the level of red fares set for trans-continental service, and an over-all passenger occupancy of 62 per cent a break even position will result. On “white” days the break even would be at 56 per cent, and on “blue” days 50 per cent. The number of passengers represented by these percentages, is only a very small portion of people travelling on any day of the year. If we can direct attention to this big vulnerable market here and get occupancy in our trains on a volume basis, we will have a profitable passenger service.

Buses are a special type of service. They have actual advantages in regard to flexibility and so on which give them a particular type of market.

Mr. FORBES: It seems to me that on the one hand you are trying to build up business and on the other hand you are losing it. I have in mind the abandonment of trains Nos. 9 and 10 from Saskatoon to Winnipeg, which gave a very good passenger service before. People have missed them very much since the discontinuance of that service. What has been the result since you discontinued them? Are you losing a lot of business to buses, or what has taken place?

Mr. GORDON: In the course of this policy we are going to eliminate proven unprofitable services. If the public do not demonstrate they are willing and anxious to support a particular service, we do not feel that we have an obligation to continue it.

Mr. FORBES: It seems to me that instead of the incentives you are creating to induce people to travel by train, you would have obtained those same results with lower rates and that type of thing.

Mr. GORDON: That is a matter of the studies that we are making in regard to it. We have made a market cost study for all of these services. Perhaps I might first of all generalize by saying that our policy is to operate passenger service at an over-all profit. Therefore, we compete vigorously for passenger business in those areas where rail facilities and the size of the market provide a reasonable expectancy that the system can obtain a profit. In no case have we abandoned a service until as a result of our analysis we have determined that we did not think that the market existed.

Mr. FORBES: I think it would have greatly improved if the incentives you have had been put on last year.

Mr. GORDON: That is a general statement that you make as a result of your observations. But we reached our decision as a result of a very careful market analysis.

The CHAIRMAN: Are there any other questions?

Mr. PUGH: What main lines do you have for passenger revenues now which you hope to increase through improved passenger service?

Mr. GORDON: Your question answers itself. It is the main line, it is the service on our main line.

Mr. PUGH: Would this indicate that off the main line services would probably be thrown out?

Mr. GORDON: No, not necessarily. I would go so far as to say that we are making a very careful analysis of each and every case. But there is an additional part of the policy when we decide to abandon a service. I do not mean that we are abandoning lines, but a service. It may be that we have several services on that line, but if we decide to abandon a particular train, or to reduce the trains, when we do so we are always very conscious of the needs of the travelling public, and we determine that there are other alternative services, or that we can consolidate some services of our own. We do not leave the public without service.

Mr. PUGH: Getting back to the Saskatoon to Winnipeg train which Mr. Forbes mentioned, I take it that Nos. 9 and 10 were one each way a day, and that they were taken off?

Mr. GORDON: That is right.

Mr. DEMCOE: Yes.

Mr. FORBES: And it has been transferred to Nos. 64 and 73?

Mr. GORDON: That is my point. It was not an abandonment of service as such but rather a reorientation of the service. It is a question of economics.

Mr. FORBES: Some days now we do not have a passenger train at all.

Mr. GORDON: That is only a matter of convenience. But we do not leave a community isolated.

Mr. GRÉGOIRE: Do you have some suggestions in the way of a comparison of the speed between French line trains and the Canadian National Railways trains?

Mr. GORDON: Yes, but I do not have them with me.

Mr. GRÉGOIRE: Which ones are the faster.

Mr. GORDON: It depends on which line you take. I think the French lines are running the fastest passenger service in the world.

Mr. GRÉGOIRE: Are we trying to reach the same speed?

Mr. GORDON: No, I do not think so. Then again, speed is a matter of economics. Speed costs money. If we determine in the course of providing a service that it becomes sufficiently popular so that we reach the opinion that a higher speed will get us more traffic, we will make an economic analysis to see what high speed is going to cost, to determine whether the market would support it.

Mr. GRÉGOIRE: If we can come to Quebec from Montreal in 2½ hours, do you think we will be able to get more people in that passenger service?

Mr. GORDON: That remains to be proven.

Mr. GRÉGOIRE: The question of speed would be one of the factors in your reorganization, would it not?

Mr. GORDON: It would be. However to increase speed implies not only equipment which can take it, but also the roadbed. And when you have to put in a different quality of roadbed to take high speed, you get into very high costs. So we have to determine whether or not there is enough market to justify it.

Mr. GRÉGOIRE: Have you any statistics concerning accidents comparing passenger trains vis-à-vis airplanes, and buses?

Mr. GORDON: You mean an accident analysis according to modes of transportation?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: No, I do not think we have.

Mr. GRÉGOIRE: Do you think it would be to the advantage of the railways?

Mr. GORDON: No, I do not think so, because personally I would never advertise or try to advertise on the basis of impugning safety anywhere.

Mr. GRÉGOIRE: I do not mean minor accidents, but serious accidents.

Mr. GORDON: We have a slogan which says "the way of the worry free." I never like to put up a competitive argument by pointing a finger at the other fellow's accident record. Perhaps I am too superstitious for that.

Mr. GRÉGOIRE: Is your railway satisfied with the way your connections are organized today?

Mr. GORDON: With connections?

Mr. GRÉGOIRE: With the way that your connections are organized?

Mr. GORDON: No, I am not. We have a very massive examination underway with respect to all our connection records, and we have a pretty imaginative rearrangement which is being very carefully examined and which I think will provide a better utilization of equipment and better connections than we have now. These are very tricky technical subjects, and we are giving them definite attention now.

Mr. DEMCOE: Our passenger people are making a very detailed study of all our train operations right across the system, and are attempting to tie in all the branch line operations so that they may connect with our main line trains, having regard to the best hours of arrival and departure at the main cities.

Mr. GRÉGOIRE: When we come from Quebec to Ottawa, or go from Ottawa to Quebec, it is impossible to have a good train all the way. We have a good train from Quebec to Montreal, and from there we have to go into a small rail liner.

Mr. ROCK: I noticed that you have either to wait 1½ or two hours, or take a day liner.

Mr. GRÉGOIRE: We do not necessarily wait, but I think we would like to have a good train.

Mr. GORDON: This is all part of the new look. I am looking at a press release which Mr. Delagrave, our general passenger sales manager, gave when he spoke to the Canadian Tourists Association. He takes a look into the future. I think he is probably a little ahead of his time, but I do like to see a fellow get out in front of the crowd. He had this to say:

It will be possible for a Canadian railway, in this case Canadian National, to offer a type of inter-city passenger service which would greatly reduce the demand made on main highways. This would be a series of typically Canadian trains, designed entirely in terms of passenger requirements, that would average 80 miles per hour between terminals with maximum speeds of 125 miles per hour, said Mr. Delagrave.

With such a train, he added, it would be possible to travel from Quebec to Montreal in less than two and one-half hours; Quebec to Ottawa in four hours; Toronto to Windsor in about three hours, and Toronto to Chicago in six and one-half hours. Departures would be frequent, schedules convenient and stops reduced to a minimum.

I say at the moment that this is his dream, but it is also our dream in the sense that we are having an analysis and studies made in order to bring it into being. Part of the dream will include a vast improvement in delays at terminals, and in passenger connections. But it can be done.

Mr. GRÉGOIRE: I was referring to passenger service when I asked this question. Do you foresee within a short time a reorganization of your track between Montreal and the Lac-Saint-Jean area?

Mr. GORDON: There is no project of that kind in hand at the present time. That again is a matter of traffic potential, and also a matter of very high cost. We now have a better degree of maintenance than we had in the past, but in order to correct the situation which you have in mind it would mean a major reorientation of the railways, and it is very, very costly. So I must say there is no project in mind at this moment.

Mr. PRITTE: I would not want to go through certain sections in northern Ontario at any great speed, or any faster than it is now.

Mr. RIDEOUT: The matter of speed, I believe, is an engineering one. Mr. Demcoe will realize that in the elevation of curves and the reduction of tonnage, where your line is a dual one, that is for freight and passenger, it

would become far too expensive to operate trains at 120 miles an hour, because you would have to reduce the tonnage tremendously in your freight service.

Mr. DEMCOE: That is right. Actually, in order to operate above 80 miles an hour you have to have a curvature of under 2 degrees, and even with a 2 degree curve, you must have about  $5\frac{1}{2}$ , or almost six inches of super elevation in order to get around the curve safely. Therefore, in any territory like from here up to Lac-Saint-Jean, where your curvature is five, six, seven, and sometimes up to ten degrees, we would almost have to rebuild our line to do so.

In Japan at the present time they are building a high speed line, and the maximum curvature of that line from Kyoto to Tokyo is going to be 42 minutes. It is to be an almost flat level grade. You cannot have any sharp curves. I think the power we have now can only pull itself at a speed of 125 miles an hour. If you put two units together, those two units can pull only two coaches at 125 miles an hour. We would have to get a new type of power as well if we were going to operate at those high speeds.

Mr. ROCK: Did you say that you can now get up to 80 miles an hour?

Mr. DEMCOE: We could operate at 80 miles an hour.

Mr. ROCK: Right across the system at 80 miles an hour flat?

Mr. PUGH: Are you suggesting re-laying of tracks?

Mr. GORDON: No. There are areas right now where it could be done. It is a function of the type of passenger equipment, the equipment itself, the elimination of delays which take place now with passenger connections, and that sort of thing. There is a lot that could be done in that area without getting into more cost. But if we found any specific case where the passenger response was such that we believed that by increasing the speed, we could gain more traffic, then we would sit down and figure out how much it would cost us to improve the tracks, and decide whether or not it was worth while.

Mr. PUGH: What I was getting at is this: apparently a great deal of thought and study has gone into providing passenger service, which is obviously to get more passengers to travel on the trains. But you do not put any time down when you think you might bring this about.

Mr. GORDON: No, it would not be brought in all at one time. It would be a gradual operation. The service which Mr. Grégoire mentioned is a very good example of it, I mean Quebec to Montreal. That is where we plan to put on a specially fast service, and included in it will be a different kind of equipment. It may be multi-unit equipment. Our problem would be that if we had that particular equipment, it would be permanently coupled, that is, with respect to the lounge and the dining facilities, in proportion to the capacity of the train, but it would be tied to the particular service and we would not be able to use that type of equipment in other parts of the service. So we have to be very sure that we have enough traffic to handle it.

Mr. PUGH: I take it that this equipment has not yet been ordered?

Mr. GORDON: No. But when I say ordered, I mean not in terms of new equipment necessarily, because it may be that we can use old equipment, or take some old equipment and redesign it. So it does not mean that we have to go out and buy new equipment to do it.

Mr. PUGH: Have you made a decision on it yet?

Mr. GORDON: We have made a decision to run the train, but there are a lot of practical problems involved such as our pool operations with the Canadian Pacific and so on. It should not be greatly delayed now.

Mr. PUGH: Would this operate between certain points in the nature of a pool train?

Mr. GORDON: No, it would be taken out of pool operation.

Mr. FORBES: One of the things that has happened since the discontinuing of Nos. 9 and 10 is this: when you take the Supercontinental from here to Winnipeg you may make a connection to go up on the Dauphin line, yet you have to stay over a day and pay your expenses, and it is quite inconvenient.

Mr. GORDON: I agree with you. I do not have the particular schedule to which you refer in my mind, but the thing you are talking about boils down to this: are you talking about two people? Do we inconvenience just two people, or 200 people a day? If it is 200 a day, the situation is quite different.

Mr. FORBES: Your incentive for people to travel by rail was that in rail service they would get a lot more.

Mr. MITCHELL: I would like to ask if your feeding the travelling public is still a losing proposition on your lines?

Mr. GORDON: Yes.

Mr. MITCHELL: And you expect that it always will be?

Mr. GORDON: Yes, we think so, but I think we can do a great deal to reduce it. We now regard our feeding services as more or less designed to attract passengers. It is sometimes called a loss leader in marketing operations. In the course of looking at this problem we always try to find ways and means of standardizing the meals and things of that kind in order to reduce the costs in that respect. But it may always be a loss item, so to speak.

Mr. MITCHELL: And in connection with the sleeping car service, is it profitable or non-profitable?

Mr. GORDON: It is hard to say. We do not keep an analysis of that kind. We can only analyse the passenger service. In the red, white and blue fares meals are calculated in the ticket now in some cases, and in certain cases we also include the sleeping arrangements.

Mr. MITCHELL: Are the meals compulsory?

Mr. GORDON: You have the right to get a meal, but we do not force you to eat it.

Mr. FORBES: Do you serve drinks with them, too?

Mr. GORDON: Yes, but not included in the ticket. Mr. Vaughan reminds me that included in the meal, as a modern up to date approach to life, we might offer a glass of wine to go with the meal, but when you get to scotch, we do not, because it costs money!

Mr. MITCHELL: In the air lines, as far as snacks are concerned, you do not have to eat them, even though they are offered.

Mr. GORDON: That is right. The air lines include meals in the price of their ticket. We calculate of course that a certain percentage of people will not eat. We figure the significant economics of it, and that by including a meal in the ticket certain people probably will not eat it. We do not want to encourage people to eat it!

Mr. BALZER: At the present time the Canadian Pacific Railway and yourself are competing between two points in Canada, and you are running exactly the same service on practically parallel tracks. At the present time I am reading the biography of Mackenzie King. And in 1924 the minister of railways called in the two major railways and asked them to make their choice more or less between certain routes, let us say, between Montreal and Ottawa, where the Canadian National could give the service, and let us say, between Montreal and Toronto where it would be the Canadian Pacific, and between Quebec City and Montreal where it would be the Canadian Pacific and so on.

Now, if you are going to have this improved service between Montreal and Quebec city, in view of the fact that the Canadian Pacific is running all the way between those two points at the present time, as well as between

Montreal and Ottawa—the two railways are competing on practically the same track and giving the same service—would it not be to some advantage if you could split the work?

Mr. GORDON: You are referring to pool service?

Mr. BALCER: There is pool service. I am thinking of the run from Ottawa to Montreal. Do you think it is useful to have two railways giving that same service?

Mr. GORDON: Except that if you look at the actual line you will find that they are not completely parallel. There are places that the Canadian Pacific goes through, and we do not, and vice versa. They still have to get service to those places somehow. Where there is direct competition I would agree that it would be very useful if we could agree on which line of railway should handle it. We have discussed it with them, but there are a lot of technicalities involved in it.

When you talk about 1924, and the matter of passenger service, I think I must say that there has been very little original thinking in regard to passenger service until quite recently. We have been the innovators and originators of a lot of studies in respect of passenger service which have been quite startling, and which have actually drawn a lot of attention not only in Canada but in the United States, and we are being asked by American railways for our plans. There has been new thinking done in this respect, and a lot of things that we now have in the "cooker" we are trying to work out.

Mr. BALCER: I have been around here about 14 years. The Canadian Pacific Railway is involved in this case and not the Canadian National. We used to have a train from Quebec city to Montreal and we could make a connection to come here. But we could not do it all in one evening. We might leave Quebec city at six o'clock and would travel in a parlour car, a most pleasant way. But at the present time if you leave Quebec city you have to start the night before in order to be here at 10.00 a.m., because you cannot make a connection through the loss of connection by five minutes at Montreal west. And the same thing happens going the other way. You miss your train at Montreal west by five minutes. Sometimes I get by through hiring a taxi at Dorval and rushing to Park avenue and running after the train. The bell was ringing one time but I made it. However I cannot do that all the time.

Mr. GORDON: You are getting older now!

Mr. BALCER: Yes, I am getting older.

Mr. GORDON: I agree that this is the sort of thing we are trying to solve in the matter of the run from Quebec to Montreal and the service that we are going to put in. We could not do anything about it until we had reached an agreement with the Canadian Pacific Railway to change the pool agreement, because it was their territory. If we had originated a service between Montreal and Quebec we did not have any rights in regard to their part of the pool arrangement. But now we have been able to talk it out with them and we are going to put this train in on an experimental basis, but that particular train is not going to be in the pool. It may be that if this works out successfully, I will indulge in a dream, too. I do not think it is out of the question for us to be able to give improved service from Quebec right through to Ottawa.

Mr. BALCER: The average Canadian used to think that the fastest way to travel was by motorcar, but unfortunately this is not the case today. Nobody in his right mind drives a car in winter time if he can go by rail.

Mr. GORDON: That is right. The question of connection varies with the requirements of the individual. We cannot make connections at every hour of

the day. Moreover, what may please one person in a particular instance, may not please somebody else.

Mr. BALCER: But with this Quebec to Montreal to Ottawa thing, when you miss your train by five minutes, it is discouraging.

Mr. ROCK: Since Mr. Balcer has spoken of parallel lines and duplicating services, I thought I might save my question, however I will ask it now.

Between Lachine and Dorion or Sainte Anne de Bellevue you have the Canadian Pacific and the Canadian National Railways main lines which are parallel to each other.

Mr. GORDON: Yes.

Mr. ROCK: Have you ever studied with the Canadian Pacific Railway the possibility of getting these lines together and running them on the same track instead of keeping them separate as they now are, when they take up so much territory and have so much cost to the two railways? Moreover, you have many stations which are very old. I suggest they should have been replaced 25 to 30 years ago but they are still there. I mean those old wooden stations, the ones which are usually in bad condition. Do you not think that in this area by having the same trackage for the Canadian Pacific and the Canadian National and also by building pool stations all along the line, it would be less expensive?

Mr. GORDON: Well, there has been quite a lot of alteration done along that line to improve it.

Again, you come back to this question of money. How much money do you want to spend?

In respect of your general question on parallel lines of the Canadian National Railways and the Canadian Pacific Railway, I would say these lines are needed, particularly the main access line into Montreal, for freight as well as passenger service. I would not think it possible to eliminate one of those lines and operate on a joint basis. I do not think there would be sufficient capacity.

Mr. DEMCOE: We would require four tracks to handle the density of traffic, which occurs mainly from 7 a.m. until 9 a.m. and, again, from 4.30 or 5.00 o'clock in the afternoon to 6 p.m. or 7 p.m. There are periods during the day and also during the night when your traffic density is such that two lines are sufficient, but there are other parts of the day when you will not see a train for one or two hours.

Mr. ROCK: What about the suggestion of pooling stations?

Mr. DEMCOE: I think you have a very good idea. We have studied some of these projects, particularly at Dorval. However, so far we have not been able to come to any agreement in respect of considering one building to do the two railways. There is a possibility that can and will be done, and that it will be operated on a joint basis.

Mr. GORDON: I doubt very much in a piece of country like that, that the passenger station has very much to do with attracting passengers. I think what is done is that the people drive to the station and look for a parking place.

Mr. ROCK: In respect of the Dorval station, in my opinion, there are a good number of passengers who take the train there to go to Toronto or Ottawa in addition to using the commuter passenger service. I am not thinking only in respect of commuter passenger service but also the passengers who wish to take a long trip. If you look at the condition of these stations in that area you will come to the opinion that very soon you will have to build a new station and, in that case, there would be no use of the C.P.R. having one and the C.N.R. having another.

Mr. GORDON: If we get to the point that we are building a new station where you described there would be discussions with the Canadian Pacific Railway to see if we could make a joint effort.

Mr. ROCK: I have another situation which I would like to bring up at this time.

The Canadian Pacific Railway has a station at Montreal West, which is in a very good location in respect of the municipalities within the area, namely St. Pierre, Lachine, LaSalle, Montreal West and, not quite to the same extent, Westmount, as well as St. Luc. As I said, the C.P.R. station is more or less centrally located. Then, of course, you have the Dorval station which is close to the airport. However, you have not one closer to the western part of the island of Montreal; I am thinking of St. Pierre, Montreal West and LaSalle.

I was wondering whether your company has studied the possibility of having a station in the St. Pierre-LaSalle area in order to provide the same type of competition as you have with the C.P.R. station at Montreal West?

Mr. GORDON: Yes, this is something that has been intensively studied. I would not want to give a forecast because it might arouse expectations and pressures in respect of different places we have in mind.

Mr. SOUTHAM: I go along with the comment made by Mr. Balcer in respect of the synchronization of schedules. In my opinion, synchronization of schedules is a very important factor. As you know, during the term of our office we travel a good deal, as a result of which we are very interested in our railway service, particularly the Canadian National Railways. I would think it would be a very good idea to have synchronization of traffic schedules in order that people could get through service, when desired.

Would you, Mr. Gordon, care to comment in respect to your research on the development of passenger service and service in general, looking at the over-all problem of our geographical situation, which is one of the basic factors in the economics of this whole business. Also, would you care to take a look into the future in respect of our growth and population and, in analysing this traffic potential, do you think 10 or 15 years from now there will be a bigger demand placed upon you in view of the increased population, or do you think air lines for instance, will supersede the railways in that connection?

Mr. GORDON: Not on a short haul. As I said, I do not think we can provide a strictly competitive service in respect of a person who wants speed on the long haul, such as Montreal to Vancouver, but I do think we can develop inter-city service, subject to two factors. If you admit the highway congestion is going to increase, and we are confident that it will, that will be a factor, and then we will be able to advertise the convenience and comfort of our service.

Secondly, there would be the type of equipment and type of service that goes with it. If we can develop that to meet passenger tests and needs we ought to be able to improve materially as the population grows.

Now, there are collateral services. We have developed the "car-by-rail" service. The passenger can put his car on the railroad and we will transport it for him to his ultimate destination with an all-in fare, which varies with the number of people he brings with him. This service is beginning to create some interest. These are the collateral things which go with the whole question of the attractiveness of passenger service. It is a pure sales proposition. We have realized now, and you may say we should have done it a long time ago—and I would agree with you—there really is no difference between selling passenger service and selling soap; it is a matter of making a product attractive and putting a price on it that will bring you customers.

Mr. SOUTHAM: I agree with you, Mr. Gordon; I think we have to keep modern and look toward the future. I do feel that we will be reaching a saturation point and we should perhaps start thinking about it at this time.

Mr. FISHER: There is no defeatism in your attitude toward passenger service but what about the fact we have before us—and this is revealed in the resolution the minister has tabled—that there is going to be a subsidy in the passenger field. What effect is this going to have in reference to your passenger service?

If I understand the intention of the subsidy in connection with the original recommendation it was to compensate for loss over a period of time. I also drew out of the composition of it the suggestion that there would be a withdrawal from passenger service. Are you going in the same direction as the subsidy would seem to indicate, and what are you going to do with the subsidy?

Mr. GORDON: Well, the subsidy, as I understand it, mentioned in the Macpherson Commission recommendations, is a transitional one in which over a period of time the railroad should eliminate its passenger deficit. This will be done in two ways, the abandonment of services which are unprofitable and in which the commission concurs; it would work this way but, if any representations are made, regarding service, notwithstanding the fact that there is a loss on the service and the public interest requires a service be continued over a period of time then we will get a subsidy if the board of transport so finds.

Now, the feasibility of the elimination of passenger deficits is a very important point. I am giving these figures off the top of my head but when we analysed our passenger deficit before the MacPherson commission, we demonstrated that our over-all passenger deficit loss was running at the rate of \$50.3 million. That was an analysis of the cost for the Commission's purpose. Once again, I hate to use this word "complex" but it is terribly complex to separate what is chargeable to a passenger service when you are using the same line for freight and that sort of thing. It was the cost in this presentation that was agreed to be paid and, as I mentioned, the figure was \$50.3 million.

If we update that analysis, which was made in 1958, and keep that up to date in cost factors of today we estimate our deficit would be a little more than \$40 million, so even in that period we have reduced our deficit by \$10 million.

Mr. FISHER: It seems to me there is a possibility of a conflict here, your policy of retrenchment against your red, white and blue fares; you are going out for more traffic and in this you have a cost subsidy, which is a recognition of the loss. Is this subsidy, in your mind, in the transitional period, likely to lead to the position when you have retrenched enough your losses are balanced by your revenue, or is it a transitional period in which you will go out after more revenue and ultimately put the thing on a sort of genuine basis? Where do the two meet?

Mr. GORDON: Both factors are involved. On the one side we are going out hell bent for leather to get our share of this market that we think is available; in other words, diverting the traffic from the private passenger car back on to the rails and using every gimmick we can think of to get it done. The red, white and blue service is a competitive gimmick.

Mr. FISHER: It is more than a gimmick.

Mr. GORDON: I agree with you; I withdraw the word "gimmick". It is a careful scientific analysis on which we base our cost oriented fare.

Mr. FISHER: Well, I should congratulate you on that but, here again, it is very hard to have an over-all appreciation of the management skill of the Canadian National Railways over the last decade. This is another example of where well along in your administration there has been this sudden switch into a new kind of exhilaration. What appreciation are we to have of management direction which finds after it has been in existence for nine years that suddenly the trains are running at a loss and you might as well exploit, and this is what the red, white and blue fare service is.

Mr. GORDON: In my defence, may I say you cannot do everything at once. I should start off by saying that in 1950 we were running steam locomotives and, first of all, we had to become modern in regard to our power, which represented a major re-orientation of motive power which took five or seven years to accomplish. In addition to that, if you look at our budgets year by year you will see we have spent massive amounts of money to put the main-line tracks in a condition where they could handle improved services such as we have been discussing. I can remember my first trip over the railway in western Canada on an inspection basis; I stood with railway men in the back of my car looking out and I saw the mud squishing up from underneath the ties. We spent on that one program over \$50 million to improve the track. The railway business is a slow business. Now, not only that but, as I say, we cannot do everything at once. These were massive programs that involved the operation of the staff we have, and we do not have unlimited staff. We had to do first things first. It is only after we have these problems of the physical improvements in the railway taken care of that we can, in good sense, tackle individual problems such as was mentioned.

I also admit that we did not have a practical analysis of what our passenger trains were doing because we were never able to really find a formula. It took us years to work out a practical means of determining what is what and, again, it was only when we started in 1958 to get this kind of thing that we established where the unprofitable segments were.

Mr. FISHER: This is in terms of a critique of management. I have gone over all the annual meetings you have had with parliamentary committees since you took over and, despite the dearth of knowledge on the part of parliamentarians, I think I can find at least six or seven times over the last 11 years where suggestions, not in terms of red, white and blue fares, but in terms of taking advantage of the fact that the passenger trains are running you should seek lower fares in order to fill up your unused capacity that you are carrying. I never remember at any time this was brought up that it was considered with any great sympathy or understanding. In fact, a number of members of this committee brought forward this kind of suggestion, one of them being Mr. John Hamilton, and I made similar suggestions in the past. However, we were not given a look at; yet you finally have arrived at what was the germ of the suggestion of the members of this committee.

Mr. GORDON: All right, I admit you have a valid enough point. It is a question of degree. If you are referring to me, God knows, I do not pretend I am the root of all wisdom and knowledge in respect of railway practice, but if we have been as negligent as you say I can give you some reasons why it took time to do these things. I do not know whether I am in good company or bad company but no other railway on this continent has done what we have in respect of this.

The passenger business in other places on this continent has been allowed to disappear and our situation in Canada is infinitely better than most operations in the United States.

Mr. FISHER: There is one last general point I would like to make. We are getting now the reaction from the bus companies.

Mr. GORDON: Yes.

Mr. FISHER: There is a parallel here with the trucking situation. As a matter of fact, their argument is generally along this very same line.

Mr. GORDON: Yes.

Mr. FISHER: I would like to know two things. Is there any likelihood or possibility that, in order to feed your passenger service which is developing, you get into either the bus business or work in co-ordinated arrangements with

the bus companies; for example, I am thinking of buses going into Montreal or Toronto and you taking the passengers on the long hauls, where it is possible. Also, what would be your simple response to the kind of representation that the bus companies are beginning to put forward?

Mr. GORDON: Well, bus company representations have come forward and, as I have noted, generally speaking, they speak of unfair competition, and then they get onto this question that we are being subsidized through a deficit and so forth.

I answered that question in part yesterday, by pointing out that the red, white and blue fares were instituted to reduce our deficit and, therefore, in that respect it is a profitable operation, or else we would not keep it on. Also, this reference to our deficit is again a reference to the paper deficit and so forth.

Now, we have not engaged in price cutting; they have. We established our fares after a scientific analysis and research. We put our fares at a price which would attract passengers and this will give them the benefit of the volume that goes with the business risk we put into it. We will make money if our estimates are right. But, again, that might be a mistake and bad managerial judgment. But, we have to take risks.

Mr. FISHER: Did you take a risk on the basis that they would do what they have done?

Mr. GORDON: Yes. We did not anticipate exactly what they would do but we expected a response. They are the ones who have done the price cutting and how long they want to continue I do not know. I do not know sufficient about their economics to say if they can stand it. But, we are not following them in a price war.

In respect of your second point, this is a mixture of your previous criticism. You ask if we will go into the bus business. If I say no, we have no intention of doing it, and then come back two years from now and say, after we have seen how it worked out that it would be a good thing to do, your criticism will be why did we not do it two years ago. We have arrangements now; we have been talking to bus companies in an endeavour to synchronize their schedules with ours and that sort of thing. I also pointed out to them we are not competitive in their market. Of course, there is the inter-city traffic direct from Montreal to Ottawa, yes, but there are in-between points to be served as well as services at different times during the day of which they can take advantage. Their market consists of 70 passengers; we are interested in getting 300 or 400 people. If they provide a flexible service at off-beat times during the day and have drop-off points along the route they will have a market, and that is their market. But, do not suggest to me that because we did not go into the bus market at this time or even two years ago that this indicates managerial inability to predict the future. Perhaps we will be open to that criticism in two or three years from now in light of events which may happen; I do not know.

Mr. FISHER: I think you should do as much as possible by trying to get some kind of co-ordination with the bus depots.

Mr. GORDON: That is what we are doing. We are talking now, not on the basis of taking over buses but to see how best we can work with them. Personally, I do not want to take over buses, but someone else may have a different idea.

Mr. GRÉGOIRE: Mr. Chairman, it is almost 11 o'clock; could we adjourn.

The CHAIRMAN: Do you think we can pass this item?

Mr. LLOYD: I have a few questions, Mr. Chairman, and I might be a little longer.

The CHAIRMAN: Perhaps we should adjourn at this time.

Mr. ROCK: Yes, I think we should adjourn and then revert to this subject.

The CHAIRMAN: The committee will adjourn until 2 o'clock.

### AFTERNOON SITTING

FRIDAY, December 13, 1963.

The CHAIRMAN: Gentlemen, we have a quorum. We are on passenger services.

Mr. RIDEOUT: Mr. Chairman, I will repeat my question in respect of the operations of 1959-60 over the N.T.R. line and also in regard to the survey which the railway has been studying.

In view of what the president has said about the bus operations and the possibility that the Canadian National Railways may go into bus operations are you surveying the possibility of establishing a bus service to make connections between McGivney junction and the capital city of Fredericton, New Brunswick?

Mr. DEMCOE: Our passenger sales department are looking into this again to see if there is sufficient volume of traffic south of Moncton which would justify us running a train through Edmundston and Joffre on into Montreal. If there is sufficient volume of traffic between Moncton east and Moncton south to Joffre and, beyond that, to Charny and beyond there is a possibility we may run one of our through trains on that route.

The CHAIRMAN: Mr. Lloyd, have you a question?

Mr. LLOYD: Mr. Gordon, we have had a number of instances during the proceedings which indicate some difficulty in deciding what questions should be directed in respect of the examination of your management in comparison to the type of questions that should be directed to the minister in his capacity as the responsible minister of government.

Before lunch Mr. Fisher had some comments on this in respect of appraising the decision making of passenger service.

I would like for a few minutes to pursue a line of questioning, Mr. Gordon, which has to do with the kind of reporting you engage in with the minister. First of all, how frequently do you provide him with reports, and what kind of reports do you provide him with? I would like to have some details in this respect.

Mr. GORDON: The Canadian National Railways Act makes it quite clear that the direction and control of the national company and its undertakings are vested in a board of directors. The board of directors is responsible for finding management and seeing to it management performs its function.

The president is the chief executive officer of the Canadian National Railways. As I understand it, the minister has no responsibility for the day-to-day activities of management of the CNR. There is a clear distinction there.

Mr. LLOYD: On a point of order, you are saying he has no direct responsibility for management, and I think we can accept that.

Mr. GORDON: That is, day-to-day management.

Mr. LLOYD: I do not think you need to pursue that. Everybody accepts you are responsible for the day-to-day decision making in your organization.

Mr. GORDON: Yes.

Mr. LLOYD: But you must be accountable to someone, either the minister or this committee, and I would like to identify each area of responsibility.

Mr. GORDON: I would like to add a couple of words in that connection. The distinction is this: actually, the Canadian National Railways is a crown company and not a department of government. Now, the question of reporting to the minister does not arise. This is the only report we make that covers the activities of the railway on an annual basis. But, there will be situations where we may want to embark on some form of capital expenditure which would find its way into the budget and, in that case, I would take it up with the minister to see if the government was in agreement with the type of activity we were contemplating.

Our entrance into the trucking business was a case in point. Before we embarked on our trucking policy, which I read to you last night, as that was a sort of a situation on which we wanted to be sure that the government was in agreement, namely an enlargement of our activities, we wrote, in that case, to the minister. We outlined our plan and intentions. I gave him an estimate of what it would mean in the way of capital expenditure and we satisfied ourselves that it would not be in conflict with any policy of the government.

There is no hard and fast line; it is a matter of common sense more than anything else whether or not we, as management, feel, when any particular thing we have in mind might have a bearing on the policy of the government of the day, we should take up these matters with him.

Mr. LLOYD: So, you discuss the question of acquiring certain companies in the trucking operations?

Mr. GORDON: Not so much the acquiring of the specific company but the policy of expanding our operations in the trucking areas because of the reasons we put before them.

Mr. LLOYD: So, you deem to put forward a series of justifications to fully explain the economics of the operation and the acquiring of some companies?

Mr. GORDON: We would not check with him about acquiring a specific company. We did not say: may we buy the Midland-Superior company? We simply said this is our plan for trucking operations and we secured his nod of approval in that respect. The final control in respect of any of our operations is the control of the budget.

Mr. LLOYD: So, after having received an authorization for capital expenditure—

Mr. GRÉGOIRE: Mr. Chairman, if I may interrupt, are we on passenger services or is this section completed?

Mr. LLOYD: This has to do with passenger service.

Mr. GORDON: The results of our operation are recorded in the annual report. Also, the minutes of the board of directors' meetings sent to the minister for his information so that he, in turn, if he sees anything in these minutes, which represent a fairly faithful record of any decisions of importance, can get in touch with me.

Mr. LLOYD: So, it is on what might be called an ad hoc basis?

Mr. GORDON: Yes, but the minister has the right to ask us about anything. He can obtain any sort of information he wants.

Mr. LLOYD: So, your degree of accountability, to some measure, depends upon the initiative of the minister?

Mr. GORDON: Yes, in some cases.

Mr. LLOYD: And, he might very well ask you for a breakdown of the results of the passenger service from your accounting record?

Mr. GORDON: Yes.

Mr. LLOYD: Have you ever been asked for this?

Mr. GORDON: No, not specifically.

Mr. LLOYD: Have you ever been asked for a breakdown of the operations in the trucking business?

Mr. GORDON: In the sense of the actual results?

Mr. LLOYD: You make the decision to get some capital; you get an approval for the capital, and you proceed to operate in the trucking business, so there is some change of policy in the passenger service.

Mr. GORDON: Yes?

Mr. LLOYD: And I would expect the minister at some point, maybe six months or a year later, in looking over the operations, might want to know from you how you fared with this projection on your need to go into this capital expenditure.

Mr. GORDON: It is seldom he puts us to the trouble of making what might be called a formal notice or report, but we are constantly in touch with each other and we have frequent conferences. He will ask me in a particular discussion how our red, white and blue fares are working out and I will give him a description of it, and in that way he keeps himself informed.

Mr. LLOYD: So, there is no regular monthly reporting to the minister of proposals in respect of your operations of this crown corporation?

Mr. GORDON: No.

Mr. LLOYD: And, you report to the board of directors?

Mr. GORDON: I report to the board of directors as chief executive officer.

Mr. LLOYD: So, it runs itself until something of concern arises?

Mr. GORDON: I would not say that. It runs itself as a business, yes, in the same way as a board of directors of any private company. We follow the same business operations as a private enterprise company.

Mr. LLOYD: What I mean is you operate within the terms of your reference and the act?

Mr. GORDON: Yes.

Mr. LLOYD: You make the decisions on the day-to-day management?

Mr. GORDON: Yes.

Mr. LLOYD: I am trying to find out how comprehensive is your reporting to a responsible minister of the crown; I am trying to find out the role of this committee and the extent of the role of this committee as compared with that of the minister.

Mr. GORDON: I could not answer that. I do not believe myself that the committee has any role in that respect.

Mr. LLOYD: This is very interesting.

Mr. GORDON: If I might put it this way, as I understand it you are trying to find out the form of relationship. There is no requirement in the regulations at all for the holding of these meetings annually, as we are doing in connection with the Canadian National Railways.

Let me give you a little history, as I understand it.

During the debates back around 1923 it was pointed out again and again that no management could operate if members of parliament or interested parties were constantly breathing down management's neck, and asking all sorts of questions about details of operation. That situation would be unworkable. The theory then was that if there was a parliamentary committee set up once a year there would be enough opportunity for all questions to be asked and that would eliminate the need for questions in the House of Commons. This would relieve the minister from having to stand up in the house trying to answer questions of detail. In that respect the theory has failed because

we are getting it in both worlds. We are constantly asked about detailed operations of the CNR, and some of them picayune details, in the form of questions in the House of Commons. In addition to that we now have this committee, so we get it both ways.

Mr. LLOYD: So to evaluate the effectiveness and efficiency of your management the only thing really that the Canadian government has is the work of this committee?

Mr. GORDON: No.

Mr. LLOYD: That, plus the initiative of the minister, is that right?

Mr. GORDON: That plus the fact that the auditor of the company is appointed by parliament through the minister and the auditor reports directly to the minister. He does not report to us.

Mr. LLOYD: The auditor does not report any thing more than the financial results. He does not go into judgment decisions which are made by management or anything of that sort?

Mr. GORDON: That is up to the minister and he can deal with the auditor at anytime.

Mr. LLOYD: He performs the audit and reports but the auditor does not check these other things at all.

Mr. GORDON: I am not suggesting that he does, I am simply saying there is an auditor independent of management and the minister has access to the auditor at any time.

Mr. LLOYD: So in fact there is an undetermined line of responsibility between that of the minister and that of the committee?

Mr. GORDON: I do not know.

Mr. LLOYD: Who takes the place of the shareholders of a private company in this set up, the minister or the committee?

Mr. GORDON: The act says that whenever anything is needed on behalf of the shareholders the Minister of Finance, who holds the shares, acts for the shareholders. For example, we cannot of our volition dispose of a large part of our capital assets. If a large transaction was contemplated we would refer it to the minister and through him get the shareholders' approval in that way. If an ordinary transaction is contemplated, what may be called a day-to-day activity, we act on our responsibility. However, just as in any private company, if an important matter affecting assets was involved the shareholders personally would be asked for approval. If the contemplated action is regarded as a day-to-day matter they would not be consulted.

Mr. LLOYD: Before the committee, of course, you do not give us specific details of operations, but put forward the argument that because of the competitive nature of the transportation business it would be to the disadvantage of the crown corporation to give us such information.

Mr. GORDON: That is true, in the same way it is true of a private enterprise corporation.

Mr. LLOYD: The public statement of the Canadian Pacific Railways is almost identical in format with your own statement in terms of operation?

Mr. GORDON: I agree. We do not want to have to reveal any more of our confidential business information than the CPR or any other private organization does.

Mr. LLOYD: So that a searching comprehensive analysis of your operations by a member of the opposition, for example, appraising the functions and responsibilities of the minister, is rather difficult in these circumstances?

Mr. GORDON: Well, I do not know. You will have to form a judgment in that regard.

Mr. LLOYD: I think it is, as I have stated, if you want a judgment.

Mr. GORDON: I would put the situation this way. You have as much opportunity or a great deal more opportunity than the shareholders of private enterprise corporations in this regard. There is no shareholder of the CPR who can ask and receive from the CPR the information that you are getting from us.

Mr. LLOYD: I would suggest to you, Mr. Gordon, that would depend upon the initiative of the shareholder.

Mr. GORDON: Have you ever attended a shareholders meeting of the CPR?

Mr. LLOYD: No, I have not attended a shareholders meeting of the CPR but we are not discussing the CPR at the moment.

Mr. GRÉGOIRE: We will try the CPR next year.

Mr. GORDON: It would be interesting to call the CPR before this committee.

Mr. LLOYD: You have been questioned during these proceedings in respect of the capital structure of the Canadian National Railways. At page 17 of the national finance report by the Canadian tax foundation for 1963-64 there is a very comprehensive statement in this regard contained in one paragraph which says that the capital structure was modified by the Canadian National Railways capital revision of 1952.

Mr. GORDON: Yes.

Mr. LLOYD: I am sure Mr. Grégoire will be interested in this. The act did not write off any indebtedness of the CNR but modified the capital structure to relieve the corporation of any unrealistic portion of interest charges representing the finance counterpart of a legacy from the past. It goes on to suggest that you introduced a measure with respect to the issuance of preferred stock.

Mr. GORDON: Yes, and you will find that what took place there was the result of a full examination by a royal commission.

Secondly, I think if you look back in our reports for the year in which that took place you will find a comment made in this regard in our report.

Mr. LLOYD: Do you not think it went far enough?

Mr. GORDON: Yes, I think there was full information.

Mr. LLOYD: Did this change, taking you away from liability or interest payments, go far enough?

Mr. GORDON: No, not in relation to subsequent events. The changes made in our format or style of depreciation in later years under the uniform accounting regulations of the Board of Transport, should have made a particular change in our method of depreciation.

Mr. PUGH: Mr. Chairman, I was wondering whether we could come back to a discussion of the section covering passenger service. I am wondering where this discussion will lead us.

Mr. LLOYD: I think this line of questioning will lead to the conclusion that an attempt to appraise the wisdom and understanding of this kind of a system by examining the justifications for these policies with the limited information given as a result of the kind of questions that we can ask in this committee I do not think will result in anything practical.

Mr. GRÉGOIRE: Yes, I think it will. We are not here to discuss the management or to discuss all these other things, but to discuss the principle under which the CNR operates.

Mr. LLOYD: It is only the principle in respect of which you can satisfy yourself, and you assume that the true conclusion is good because the principle has been discussed.

Mr. PUGH: Mr. Chairman, on a point of order, I think we should bring our discussions back to the section on passenger services.

The CHAIRMAN: Mr. Lloyd, are you almost finished with this line of questioning.

Mr. LLOYD: I am fully satisfied that I have identified the extent to which the corporation is responsible to the Canadian government.

Mr. GORDON: May I make one comment as a footnote? If Mr. Lloyd or any other member of the committee, or any member of parliament feels that our report gives inadequate information and is prepared to put in front of us the kind of thing he would like to hear about we will certainly take cognizance of that fact.

Mr. LLOYD: Perhaps you will have the opportunity of doing so as we proceed with the following sections now that I have the position clear in my mind.

Mr. ROCK: Mr. Chairman, the passenger bus service systems operating across the country usually have central stations somewhere in large municipalities. They use the highways of the provinces where their buses travel from city to city. Perhaps in different cities they have other central stations and also garages to service their vehicles. The trucking industry have offices close to the highway and yards where they keep their trucks and they travel on provincial highways and on the trans-Canada highway as well as on municipal roads. Now the CNR or any other railway company have to provide the stations along the routes, the yards and also their own railway tracks. They do not travel on any tracks that belong to the government itself but they have to provide their own property. They have to provide their own services, they also have to provide maintenance and police forces, they have to pay for the upkeep of underpasses and overpasses and pay their share of construction. It seems that the railway companies have to pay much more than, say, the trucking companies or the bus companies.

What I would like to know, Mr. Gordon, is what is the total cost of your system of trackage across Canada. Suppose that these services were provided by the government, and all you had to do was pay them a little tax, what would your position be?

Mr. GORDON: I would be all for that.

If you will turn to page 25 of your report you will see there the figures which cover our operating expenses, and you will note that the figure for road maintenance is \$165,724,315. In addition to that, our capital expenditures for 1962 on property are shown on page 26. The additional capital invested is \$122,800,334 and that is shown opposite additions to property in 1962. To recapitulate, we spent \$165,724,315 on road maintenance, plus capital additions of \$122,800,334. There is a table above showing how they are broken down in regard to roadway. You will notice highway crossing protection, \$569,529; signals, \$3,370,802; roadway improvement, \$32,933,506. These are the sort of magnitudes that are involved in the field you just mentioned.

Mr. ROCK: Would you consider this as a tax that you are paying? For the other companies this type of service is provided and all they do is pay a licence for the vehicle, and then they have the open space to travel upon.

Mr. GORDON: Put it the other way, on the basis of trucks having available to them super highways and other facilities of that kind; we take the position that to that extent they are subsidized at public expense, less the amount they may pay in any form of tax.

The CHAIRMAN: Is that all on passenger services?

Mr. PUGH: I move, seconded by Mr. Mitchell, that passenger services be approved.

The CHAIRMAN: Motion agreed to.

The next item is on telecommunications. Mr. Fisher asked that we defer this.

We are now on hotels.

## HOTELS

### *Financial Results*

Hotel income was \$2.3 million in 1962, an increase of \$0.7 million over 1961. Contributing to this increase were higher revenues at Jasper Park Lodge and the newly-renovated and enlarged Nova Scotian in Halifax, generally improved control over operating expenses, and a higher return from the Queen Elizabeth hotel. The net result in hotel income (after depreciation and before interest) was as follows:

	1962	Income or (Loss)	1961
Canadian National Hotels Ltd.	\$ 273,053		\$ (97,212)
The Queen Elizabeth Hotel	2,012,918		\$1,718,303
Total Hotel Income	\$2,285,971		\$1,621,091

### *Improvements*

At the Nova Scotian, a new lounge went into operation, a parking lot was provided for guests and work proceeded on the updating of facilities and furnishings in the original part of the hotel. At year-end, approximately half of the guest rooms at The Newfoundland, St. John's had been refurbished and this project will continue during 1963. Furnishing and redecorating work was also carried out at the Chateau Laurier, Ottawa; The Macdonald, Edmonton, and The Fort Garry, Winnipeg. Combination radio and television sets were installed at the Bessborough, Saskatoon, and The Newfoundland, early 1963. Under the general rebuilding program at Jasper Park Lodge, construction started on two 10-room and two 30-room cabins in 1962, and they will be completed for the 1963 season. These and other structures are being built to replace outdated accommodation. The resort was host to a record number of guests during the 1962 season.

Introduction of improved operating techniques, particularly in the area of cost controls, a staff training program, and a comprehensive sales program by the newly-developed sales branch, were among other more important accomplishments during the year.

A survey, made with the assistance of Hilton of Canada Ltd., of the facilities, services and operations of all the C.N. operated hotels was completed during the year and led to the adoption of an accelerated program of modernization of a number of hotels to start in 1963.

Mr. PRITTE: I have a question on hotels. Last year, at my request, Mr. Fisher asked Mr. Gordon about the hotel Vancouver. You stated the difficulties you had because of the joint management. I believe that difficulty has been removed. I wonder what sort of expenditure you anticipate on the hotel, and do you think it will become a profitable operation in the near future?

Mr. GORDON: We were able to work out an agreement with the CPR whereby we bought out their interest completely. We are now the sole operators of the hotel. We have been working on the capital improvement budget which will involve expenditures of between \$4 million and \$5 million. We have not got them quite worked out as yet. It will take some time over a period of years. We are also considering the general question of management, and our plans in that respect are not yet complete, but we are in a transitional stage where we expect and hope that after a few years, following the expenditure of these capital moneys and general rearrangements, we will have a good operation.

Mr. PRITTIE: Is your investigation concerning management a question of whether you will continue direct management by the CNR or do you intend giving it to Hilton?

Mr. GORDON: We have it under discussion and exploration now.

Mr. PRITTIE: Have these expenditures begun?

Mr. GORDON: Yes, they have. We have made the plans ourselves and we are starting on them right away.

Mr. PRITTIE: The people from the area will be pleased to hear of this because some new hotels were cropping up.

Mr. GORDON: We had a very unsatisfactory arrangement with the Canadian Pacific Railway. Among other things we were required to put up all the capital money. We did not feel it was fair that we should put all capital moneys and give them half the benefits. That is old history now. We bought out their interests and we are now able to make our own decisions.

Mr. PUGH: It was my line of questioning. I was interested last year in that point. There is only one thing left.

How much was paid for the hotel? How much did the CNR give to the CPR to get out?

Mr. GORDON: Generally speaking, there were a lot of criss-crossing adjustments, but the net effect was that we acquired complete rights to the hotel for a little under a million dollars.

Mr. PUGH: Do you have the total expenditure put up by the CNR from the time the operation began?

Mr. GORDON: I do not think I have it with me. Just a minute, I may have.

Mr. PUGH: It was just a matter of interest because you had to put up all the capital for capital improvements. When the hotel is finished, will it be of a standard comparable with the rest of your hotels?

Mr. GORDON: Yes, indeed.

Mr. PUGH: Are you planning now for garaging facilities, modern convention rooms and the like that could attract that kind of business?

Mr. GORDON: It will cost about \$4 million to \$5 million to modernize the hotel and provide garage accommodation, and so on. We are definitely looking for conventions for the hotel Vancouver. That is the bread and butter business of a large hotel.

Mr. PUGH: Are you, as a result of the conclusion of your agreement with the CPR, in a position now where you must maintain a hotel in Vancouver? This relates back to the old agreement.

Mr. GORDON: That is a legal question. Certainly the view, I think, of the city of Vancouver would be that we are so obligated. I regard it more or less as an academic question because there is no issue involved at the present. We are going to continue the hotel, but I would not like to admit we are obligated to do it in perpetuity because there may be a legal case 99 years from now which would embarrass my successor.

Mr. PUGH: What are your capital expenditures as a result of your agreement with the CPR?

Mr. GORDON: Our book investment in the property, which I think is the figure you are really after, is roughly \$11.8 million.

Mr. PUGH: So that you made a good bargain when you bought it for \$1 million!

Mr. GORDON: We think we have, and the CPR also think so. When both parties feel that way, it is a good bargain.

I just thought of an important point. With CPR getting out, they are now free, if they wish, to build a hotel in Vancouver. That is part of the understanding. With the joint operation they gave up their right to operate a hotel and they sold their former hotel in Vancouver. They are now free to build if they wish. I have no knowledge as to what they will do.

Mr. PRITTIE: They do not show any initiative here as in other things. You do not have to worry about it.

Mr. GORDON: I make no comment about the initiative of the CPR.

Mr. PRITTIE: Mr. Gordon, have you any plans for building an addition to the Newfoundland hotel?

Mr. GORDON: Yes, in the sense that we are trying to find some economic justification to make an extension. So far, anything we have looked at is so costly that we cannot make it come out on any basis of profit or approach the break-even point. But, the question is under very active consideration to see if there is anything we could do because we know we could enlarge that hotel to the satisfaction of the needs of the trade, but whether we can do it economically is another matter, and that is what we are studying.

Mr. GRÉGOIRE: How many hotels do Canadian National Railways own?

Mr. GORDON: Ten, including the Queen Elizabeth.

Mr. GRÉGOIRE: I notice in respect of the Queen Elizabeth hotel you have \$2 million profit, and the profit from the nine others is \$273,000.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: And, I understand the Queen Elizabeth hotel is under lease to Hilton hotels?

Mr. GORDON: No, that is not the way I would put it. The Queen Elizabeth hotel is operated under a management contract. We own the Queen Elizabeth but they manage and operate the hotel for us on a basis of a split in the net profits.

Mr. GRÉGOIRE: Then, if the results are so good in respect of the Queen Elizabeth hotel do you intend to do the same thing in respect of the other nine hotels?

Mr. GORDON: No, subject to this: we have the hotel Vancouver under examination but, in respect of the other hotels, the policy we adopted about a year ago, called for making an extensive renovation of the hotels, modernizing them, and after we had made a careful survey, which was undertaken by the Hilton corporation, we wanted to give our own hotel organization a real chance to see what they could do.

Mr. GRÉGOIRE: Do you anticipate that the nine other hotels will bring in as much profit as the Queen Elizabeth hotel compared to the investment? Do you think you will do as well if you managed the hotels yourself rather than having them managed by some other companies?

Mr. GORDON: We will make a test of that. However, it is difficult to make a comparison of that kind. As you know, there are some very special features in Montreal which enable that hotel to get the amount of business it does. It was built specifically to attract convention business.

Mr. GRÉGOIRE: But you anticipate good results, do you, in respect of the investment made in the hotels?

Mr. GORDON: We are aiming in that direction but whether we can accomplish it, I do not know.

Mr. GRÉGOIRE: And if you do not reach that stage and if it is proved these are better managed by private companies, will you be ready to hand over the management of these hotels to others?

Mr. GORDON: Well, I would not commit myself on that. It will have to be decided in the events of the day. I do not know what may be involved in that connection. But, I see no reason why we necessarily have to go to outside management, if the other hotels are able to achieve satisfactory results.

Mr. GRÉGOIRE: That is what I mean. But, if satisfactory results were not obtained would you consider that sufficient grounds to give this other matter further consideration?

Mr. GORDON: Well, that would make me look almost as if I were threatening our management and if they did not do well we would give it over to someone else. I do not mean that; I mean we have a hotel organization and we hope when we get the hotels properly modernized and brought up to date they will produce equally satisfactory results. I do not know if that will happen over the next few years. But, the management of the day—this decision may be five years from now; I may not be around then—will have to make the decision in light of the circumstances.

Mr. GRÉGOIRE: Is it possible for us to know what interest is paid on the investment in respect of the Queen Elizabeth hotel?

Mr. GORDON: I will give you the figures in a moment. After depreciation and before interest, and you want the interest, do you?

Mr. TOOLE: After depreciation and before interest the return on the average lifetime investment in 1962 was 15.51 per cent.

Mr. GRÉGOIRE: What is the interest you are paying on the capital investment?

Mr. GORDON: That falls into our general financing and the average rate of interest we are paying on all our borrowings is 4.4 per cent.

Mr. GRÉGOIRE: What was the total price of the hotel?

Mr. GORDON: Twenty five million, nine hundred and fifty one thousand.

Mr. GRÉGOIRE: So, that would mean you pay about \$1 million interest and you draw \$2 million profits, which means a net profit after interest because you say here "before interest"?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Then, you still make a profit after interest?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: When you gave the management of the Queen Elizabeth hotel to an outside management group did you call for tenders or was it you yourself who chose Hilton?

Mr. GORDON: It was a combination of both. We decided to build the hotel, primarily, as a convention hotel and then having made that decision in principle we started to examine how best to get convention business. We decided the best way to get it was to form an affiliation with the leading hotel operator in the world, who has a chain of hotels around the world and, therefore, that connection gave us what we call referral business from the Hilton hotels around the world. That is a valuable asset, as you must realize.

Mr. GRÉGOIRE: And, that would be the reason why you chose management from the United States?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Instead of a Canadian company?

Mr. GORDON: We were looking for a chain of hotels that would have world wide connections and in that field there is no Canadian chain of that type; we chose what we thought was the best of the lot. They, of course, formed a Canadian company when they came into Canada and took over the management here. Hilton of Canada are now going to operate hotels in Canada other than our own.

Mr. GRÉGOIRE: But it is still an American company?

Mr. GORDON: Oh yes, I think that is right.

Mr. GRÉGOIRE: Were there no Canadian companies who would have been able to handle the management of this hotel?

Mr. GORDON: Not on the basis we wanted. There are no Canadian companies which have a chain of hotels with world-wide affiliation.

Mr. GRÉGOIRE: What would be the percentage of conventions held at the Queen Elizabeth from outside Canada in comparison with the conventions or associations from Canada?

Mr. GORDON: I have not that information but, off hand, I think it would be a pretty high percentage.

Mr. GRÉGOIRE: That is, from outside Canada?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: And that would be because of this affiliation?

Mr. GORDON: Because of their contacts and, not only conventions, but of course travellers generally.

Mr. GRÉGOIRE: But, the tourists would have to go somewhere anyway.

Mr. GORDON: Yes. But, the conventions of the type we have are very large business conventions. You get into that "racket", if I may use that term, with Mr. Fisher's permission.

Mr. FISHER: The way I used it, it was misunderstood. I meant it in terms of noise. I referred to the French Canadian racket; I did not mean the French Canadians had a racket.

Mr. GRÉGOIRE: If you call that a racket there is something wrong with you.

Mr. ROCK: I think there is some racket sometimes in the hotels.

Mr. GORDON: Anyway, in this particular type of business these conventions have a cycle; for instance, you might get a particular big conference this year and then you do not get the same one for another seven years because they go from Canada to some other country. They make a circuit before they return. Hilton, by reason of their large world wide chain are able to get the whole circuit and they fit us into the circuit as a convenient and useful variety that suits them as well as us. If we are going to break into that circuit we would have to open up offices in San Francisco, Philadelphia, New York or wherever these business conventions are going to be arranged, and solicit traffic on that basis. This just does not work. You cannot break into it.

Mr. GRÉGOIRE: This represents a high percentage of the business?

Mr. GORDON: Yes, it does.

Mr. GRÉGOIRE: If this is good for the Queen Elizabeth for that reason do you not think for the same reason it would be nice in the City of Vancouver to have Hilton management there?

Mr. GORDON: I will take note of your recommendation, Mr. Grégoire.

Mr. GRÉGOIRE: This hotel earned \$273,000 profit and one other brings in \$2 million.

Mr. GORDON: I find it is always dangerous to try to be facetious because I am always misunderstood.

Let me say this, in the arrangement which we made with Hilton in regard to the Queen Elizabeth hotel they undertook that they would not open any Hilton hotel in competition with Canadian National. In other words, they could not build a hotel themselves or operate a hotel in Halifax in competition with us. That general prohibition in respect of competition against us excluded

Vancouver. It specifically stated that Hilton held open the possibility of operating in Vancouver. That being the case, it is very necessary that we make a close examination with them in regard to the future of the hotel in Vancouver.

Mr. FISHER: What can you say in this regard in respect of Dorval?

Mr. GORDON: That is an airport hotel. They talked to us about that and we gave them our consent. We were invited to join with them actually, and I do not mind divulging that information. We decided against doing so and we did not feel we could be a dog in the manger and refuse them permission.

Mr. SOUTHAM: In respect of this item on hotels at page 13, I think we should pay special attention to the figures here in respect of income between 1961 and 1962 because there is approximately an increase of 45 per cent. This is a very formidable increase as far as hotel income is concerned. Do you attribute that, Mr. Gordon, directly to much larger influx of tourists in that year, or is it a combination of things?

Mr. GORDON: You are referring to the Queen Elizabeth?

Mr. SOUTHAM: I am referring particularly to the statement appearing at page 13.

Mr. GORDON: I have stated in the report that contributing to this increase were higher revenues at Jasper Park Lodge and the newly-renovated and enlarged Nova Scotian in Halifax, generally improved control over operating expenses, and a higher return from the Queen Elizabeth hotel. In addition to that I think somewhere I should have said that the Seattle World's Fair contributed to this result.

Mr. SOUTHAM: The point I am trying to make is that there is an approximate 45 per cent increase from 1961 to 1962. This is a very large increase. Do you anticipate, projecting your views to 1963, that you will have a comparative increase?

Mr. GORDON: Probably not because we are embarking on this capital expenditure program for modernizing and rehabilitating hotels to make them competitive which will interfere with the operation of the hotels until we get these capital expenditures completed. You will note the effect of this over at the Chateau Laurier where certain space in the hotel is out of operation until the modernization facilities are completed.

Mr. SOUTHAM: With reference to incentives to create improvement in the business, particularly in respect of hotels, keeping in mind what you have done in respect of passenger service, have you any program or thought of a red, white, blue program as far as hotel rates are concerned in order to compete with hotels of accommodation with which you are competing in the hotel field?

Mr. GORDON: That depends entirely on what we find in respect of a particular hotel. If we find we are not getting the traffic we will adjust our rates in an attempt to attract the traffic.

Mr. SOUTHAM: I have several other questions but they were answered earlier during your discussions with Mr. Grégoire.

Mr. GORDON: Thank you.

Mr. LLOYD: I notice that the report sets forth information in regard to the Queen Elizabeth hotel separately. I wonder whether we could have this information in regard to other hotels in the same fashion for 1962?

Mr. GORDON: Yes. Do you have that information, Mr. Toole? Wait one minute. What you are going to read out will eventually add up to the figure \$273,053.

Mr. TOOLE: Yes.

The profit or loss figures in respect of our hotels are as follows: The Bessborough, a loss of \$174,740; the Charlottetown a loss of \$27,551; the Chateau Laurier, a loss of \$144,824; The Fort Garry, a loss of \$231,101; the Jasper Park Lodge, a profit of \$198,869; The MacDonald, a profit of \$299,812; the Newfoundland, a profit of \$116,892; The Nova Scotian, a profit of \$119,200 and the Hotel Vancouver, a profit of \$116,496. Those figures will add up to the \$273,053, shown in the report for Canadian National Hotels Ltd.

Mr. LLOYD: Four hotels lost money and five made profits?

Mr. TOOLE: That is correct.

Mr. LLOYD: In arriving at these net results what is your policy in respect of the depreciation of hotel equipment?

Mr. TOOLE: We take a normal straight line depreciation on the equipment.

Mr. LLOYD: You do that over a reasonable expectation of the life of the hotel?

Mr. TOOLE: We do this in respect of furniture and fixtures.

Mr. LLOYD: You do take what you consider as the maximum sustained depreciation?

Mr. TOOLE: Yes, we work on the estimated life of the asset.

Mr. LLOYD: There is no deferment of depreciation on account in respect of these hotel reports?

Mr. TOOLE: We follow standard hotel accounting. As far as deferments are concerned, the depreciation policy started late in the lives of some of the older hotels, so the depreciation reserve will not be adequate at the moment in our estimation.

Mr. LLOYD: In connection with the four hotels that showed a loss in 1962, did you defer any depreciation, or any part of what you consider would be the normal depreciation allowance?

Mr. TOOLE: We took only the normal depreciation.

Mr. LLOYD: You took it in respect of those that showed a loss?

Mr. TOOLE: Yes.

Mr. LLOYD: You took it in respect of all of them?

Mr. TOOLE: Yes.

Mr. LLOYD: In connection with these nine hotels located in different municipalities, I know you have a variety of tax liabilities to the local municipalities. In connection with the hotel in Montreal you pay, I understand, 100 per cent on real estate tax, 100 per cent on water tax, 100 per cent on business tax, but in connection with the hotel at Halifax you negotiated an agreement, and the same applies I understand in Moncton?

Mr. GORDON: Yes, but we have not got a hotel in Moncton.

Mr. LLOYD: I think I was referring to railway property.

Mr. VAUGHAN: The two are unrelated.

Mr. LLOYD: The two are unrelated, yes. It is interesting to observe that in respect of the Atlantic Provinces you pay only 50 per cent of the real property tax.

Mr. VAUGHAN: It is correct to say that in respect of the Nova Scotian hotel a deal was made between the railway and the city. The same arrangement was made in respect of the Lord Nelson if they expanded but the arrangement to us was not made on the basis of tax-exempt property as I understand it, but as an incentive for expansion.

Mr. GORDON: Exactly the same situation exists in Toronto. There was a deal made with the city in respect of the erection of the Royal York hotel.

Mr. LLOYD: You have anticipated my question and I thank you for the answer. In respect of these hotels, can you tell me in each individual case how many of them pay full municipal taxes and are, therefore in a different position from that of the Queen Elizabeth hotel in Montreal.

Mr. TOOLE: I would have to look up that information for you.

Mr. GORDON: We have made varying agreements. In respect of the Bessborough hotel there was a real deal made because otherwise the hotel would not have been built.

Mr. VAUGHAN: This was also the reason for the Nova Scotian expansion.

Mr. LLOYD: There is no dispute over that. You came and said you would not build unless there was an agreement.

Mr. GORDON: You are putting it in a tough way. We never talk that way.

Mr. LLOYD: I was there and I know how tough you were, Mr. Gordon.

Mr. GORDON: Surely what we said is reasonable, that we would be accorded the same incentive as you had already been prepared to give to the Lord Elgin.

Mr. LLOYD: Lord Elgin is in Ottawa. You mean the Lord Nelson hotel. It may be interesting to you that no such agreement exists with the Lord Nelson hotel. There is no comparison. It has been very embarrassing to this municipality, and I am trying to look at the principles. I am trying to see whether you have any uniformity in your policy with municipalities in respect of hotels.

Mr. GORDON: The answer is that it depends on the local circumstances. We do not have a hard and fast general policy.

Mr. LLOYD: I will throw a bouquet in your direction concerning your convention business. It has been a good thing for Halifax.

Mr. GORDON: Despite the fact that the first year we were nearly wrecked in regard to a strike that made us cancel all the convention business we set up.

Mr. LLOYD: I beg your pardon. We kept them open despite your suggestion that they should close. They were very successful. We spent \$30,000 a year to attract them. You tried to cancel the nurses' convention, and we prevailed upon your authorities not to do so. They went there and thoroughly enjoyed themselves.

Mr. GORDON: Good!

Mr. PUGH: Who is telling who to go to Halifax?

The CHAIRMAN: Here are two tough men talking to each other.

Mr. GORDON: You would not want to leave the impression, would you Mr. Lloyd, that there is bad feeling between the hotel operators and the city authorities?

Mr. LLOYD: I already did pay you a compliment. I said that the construction of the addition to the Nova Scotian hotel, this policy of building hotels to attract conventions, is a big thing throughout Canada. As to whether you use the right judgment in respect of what you might capture in relation to the kind of capital you put into it, is for you to decide. You might have attracted more of it.

My purpose is to get back to the tax question, and I do not wish to let you off the hook here. Did you make any effort to negotiate a tax agreement in Montreal?

Mr. GORDON: No.

Mr. LLOYD: You made no effort?

Mr. GORDON: We have a tax agreement in the sense that we established what the taxes were on a forecast basis and then, since it was operated by Hilton, they assumed the liability for the taxes.

Mr. LLOYD: I understand from the assessor in Montreal that they assessed you according to normal procedure. By the way, my figures can be documented. They are not something picked out of the sky. You paid almost a million dollars in a combination of three taxes in Montreal.

Mr. PUGH: In Halifax you paid something in the order of \$60,000 to \$80,000.

Mr. VAUGHAN: These go back to old exemptions which exempt crown land from taxation.

Mr. LLOYD: I believe that a few years ago you decided to make an agreement in the Atlantic provinces in respect of railway taxation because you had used the argument that the Intercolonial Railway was an emanation of the crown and therefore enjoyed exemption from municipal taxes under the provisions of the B.N.A. act. Subsequently, it was discovered there was property on which you built in Toronto in the name of the C.N.R. for which you did pay taxes. I merely give you this piece of information to indicate that it is difficult to get such information. It took us four years to find this out and settle the question of taxation, and we only got halfway there.

Mr. VAUGHAN: We put a lot of this on the record every year, about the grants in lieu of taxation.

Mr. LLOYD: What is the reason for having a different scheme of taxation in one place as against another?

Mr. VAUGHAN: That is because of the existence of these statutes and of the practice over the years. It goes back to 1925 when the grants in lieu of taxation first began.

Mr. LLOYD: Does the railway have any property in Toronto on which it pays taxes?

Mr. VAUGHAN: We are talking about two different places. There are different statutes in each province, as you well know.

Mr. LLOYD: We were asked many years ago, Mr. Vaughan, as you full well know, if we would take the documentary evidence that we had compiled, and put it in blue ribbons in our vault in Halifax, and the settlement would be reached. This is prior to Mr. Gordon's time, and it has been a source of irritation ever since.

Mr. GORDON: You must recognize this position, that some of our Canadian government lines have been entrusted to us and we are responsible for the results. If there are any concessions attached to those lines by reason of the way they are acquired, it is our duty as trustees to extract all the benefits we can from them. We have no right to hand over any privileges or rights that are inherent in the property given to us on a trusteeship basis. You would agree with that. These rights vary across the country, depending on the circumstances.

Mr. LLOYD: This is a legal argument that you make. Suppose you were continuing to expand the scope of your operations to make profitable the railway system which is, I think, the fundamental reason you go into trucking, hotels, to some extent, help it, and you go into telecommunications; you are reaching into all these things. I suppose you might argue legally at some point that they are emanations from the crown, therefore, they are not liable to taxes. What would you do with the municipal taxes?

Mr. GORDON: No, wherever we have privilege conferred on us by statute it is our duty to do it.

Mr. LLOYD: There are inconsistencies where the Canadian government, as a matter of policy, have decided that grants in lieu of taxes equal to full taxation to real property shall be paid.

Mr. GRÉGOIRE: There is a bill in front of us on the taxes paid by crown corporations. I think it will come before us next week.

Mr. LLOYD: That does not subtract from the validity of the argument I am making.

Mr. GORDON: If the government wishes to change the legal position, then naturally we will abide by it, but until it is changed, we have the trusteeship duty.

Mr. LLOYD: The responsibility for uniformity in taxation across the country includes getting rid of certain traditional things that you are handling if you want to get into the competitive business. I would suggest it would also include putting you in a position of liability for taxation across the country.

Mr. GORDON: That is an argument for the House of Commons, not me.

Mr. VAUGHAN: Could I mention one more point? According to the statutes of Nova Scotia and New Brunswick all railway operated property is exempt, whether crown owned or not. In addition, several railway companies, such as the Dominion Atlantic, a C.P.R. subsidiary, and the Halifax and southwestern, were given perpetual exemption on their property in their charters.

Mr. LLOYD: There was a statute passed a few years ago and it is still in existence—a statute of the provinces of New Brunswick and of Nova Scotia—granting to the cities of Saint John and Halifax the right to impose a business tax. This is the case that was settled out of court. It was a pretty unique way of overcoming that traditional difficulty. That is still in the statute books.

The CHAIRMAN: Do you want to complete your answer, Mr. Vaughan?

Mr. VAUGHAN: I am finished.

Mr. GRÉGOIRE: Is our pass on the CNR good for hotels also?

Mr. GORDON: No.

Mr. VAUGHAN: We can give you a credit card.

Mr. FISHER: Any trouble in Jasper with the young people these days?

Mr. GORDON: No more than the usual.

The CHAIRMAN: It is moved by Mr. Granger, seconded by Mr. Southam, that the paragraph on hotels is agreed to.

Motion agreed to.

We will now go back to telecommunications.

### *Telecommunications*

C.N. Telecommunications experienced another year of substantial growth and record high revenues in 1962. New communications systems were introduced, while existing services, principally private wire facilities and Telex, were expanded to keep pace with the growing demand for them. More than 29,000 carrier telephone channel miles, and 49,000 carrier telegraph channel miles were added during the year.

Telex exchanges were opened in eight additional centres, to bring to 61 the total number of exchanges serving 312 Canadian communities. The number of subscribers increased by 700, raising the total to 4,600.

Construction began on a new Canadian National-Canadian Pacific microwave radio system between Montreal and Vancouver. Designed as a trunk route to serve all principal centres across the country, the system will help to maintain the competitive position of C.N.-C.P. in the communications field. Initially, the system will be capable of carrying 600 telephone channels which may be used to transmit telegraph, facsimile, broadcast, data and other forms of communications. The system is designed so that additional channels, including television, may be added in the future. The project will be in operation January 1, 1964.

In April a high capacity microwave system between Peace River, Alta., and Hay River in the Northwest Territories went into operation. A joint project of C.N. Telecommunications and the Alberta Government Telephones, the system serves as the connecting link between the entire western section of the Northwest Territories, including defence installations of the Arctic region, and the Canadian and world-wide communications networks. With the completion of the microwave to Hay River, telephone and telegraph service was extended by wire line to Yellowknife and Fort Smith and by radio to Pine Point, Fort Resolution, and the Inuvik area. Other service extensions into the north included Telex to Fort St. John, B.C., and Whitehorse, Y.T., and the C.B.C. radio network to Cassiar, B.C., Haines Junction, Y.T., Yellowknife, Hay River and Fort Smith, N.W.T.

In Newfoundland public telephone service was extended to the Great Northern Peninsula and automatic telephone exchanges were installed to serve the communities of St. Anthony, Come-by-Chance and Norris Arm, while the exchange at Lewisporte was enlarged. Twenty-five smaller communities, some of which were already being served by submarine cables, were afforded communications by short-wave radio.

A joint C.N.-C.P. Telecommunications Deskfax service was established in Toronto in April. A facsimile operation, the service enables a customer to send and receive telegrams over a combination transmitter and receiver installed in his own office.

Installation of a new nation-wide system to provide instant stock quotations over Telex from the Toronto Stock Exchange was started during the year, and will be completed in 1963.

Arrangements were completed with Canadian Overseas Telecommunications Corporation to interchange cablegrams, providing CNT with a direct outlet to all points in the world served by COTC.

Mr. FISHER: Mr. Gordon, the C.N.R. telecommunication introduced, I think, in 1957, a fairly expensive kind of equipment to be perforated and used as a basis for the wire system. I also understand that now there is a new project in line called the Collins switcher or the Collins computer.

Mr. GORDON: I had a memorandum I read at noon today.

This Collins type you are mentioning is a brand new system, particularly designed to take care of the needs of Trans-Canada Air Lines and it acts as a by-product for us. This switching centre in Toronto is a specialized form of thing used by airlines in North America. It is necessary that Trans-Canada Air Lines fit into that kind of system because of our inter-communication with the United States and so on. So, we are providing this service for Trans-Canada Air Lines through the use of this Collins electronic message switching centre. However, as a result of that we will also have a collateral benefit from the installation of this switching centre in Toronto. It will enable us to go after other types of business on a commercial basis.

Mr. FISHER: Does this supersede the new equipment you introduced in 1957 in any way?

Mr. GORDON: I could not answer that. This is a technical question and beyond me.

Mr. VAUGHAN: Are you referring to the system in Montreal?

Mr. GORDON: Well, it does not supersede the Montreal system.

Mr. FISHER: I have seen a bulletin issued by your railroad in connection with the Collins computer, which indicates some 190 jobs are going to disappear and, I think, that concerns the bigger jobs. I wondered what protection there is for the employees in connection with this?

Mr. GORDON: Well, I thought the letter of November 29, which was sent out to all employees, went into this pretty thoroughly. Have you seen the letter?

Mr. FISHER: Yes, I have.

Mr. GORDON: Is there any particular point in the letter about which you want to inquire?

Mr. FISHER: Well, it is the age old problem that when changes are introduced in the railroad 190 jobs disappear, and I really could not feel, after reading that, you had given any real indication as to how the improvements and increased profits are going to benefit these men. Is any part of it going to be channelled into doing much for the employees?

Mr. GORDON: Well, of course, it will affect the employees in the long run. If we are able to enlarge our commercial traffic it will then create new jobs after the transition period.

Mr. FISHER: Is this not a case where Canadian National Railways are again in the forefront? I understand Western Union and Canadian Pacific have not used this particular kind of computer system yet?

Mr. GORDON: I do not know about Western Union. They would have no occasion for it in the Canadian Pacific because they do not service Trans-Canada Air Lines.

This particular switching centre is specifically based on Trans-Canada Air Lines requirements and it is because we have to provide this service for Trans-Canada Air Lines that we get an additional opportunity to go after commercial business and messages of that kind.

This is a transitional period and, as this memorandum points out, the vacancies that will in due course be created we think will be taken care of in the form of attrition, and those others we cannot take care of we hope to be able to fill by transfers to other positions in the railroad and, in the end result, it would only be the most junior type of help that would be affected.

Mr. FISHER: What protection is there to the men either under an agreement or under a statute?

Mr. GORDON: Do you mean in the way of severance pay and things of that kind?

Mr. FISHER: Yes.

Mr. GORDON: There is nothing in the agreements in that respect unless we work out the discussions that are going on with the non-operating unions in connection with the problems of a severance pay proposal which came out of the 1961 settlement, and which I have referred to today, and if we can reach agreement on that in respect of a method then I think consideration could be given to make it applicable elsewhere.

Mr. FISHER: There is one other aspect in respect of telecommunications and joint operations; can you tell us whether you plan to introduce these joint operations in the next two or three years?

Mr. VAUGHAN: Do you mean telegraph offices?

Mr. FISHER: Well, you have a move under way in Port Arthur; you have had one under way in Cornwall and you have completed the Fort William one. I will put it in a general way: is total amalgamation of the two systems being contemplated?

Mr. GORDON: It is not in contemplation but I would not rule it out. You see, the traditional telegraph business is rapidly dying. We do not know now how long there will be need for message traffic. It is outdated and outmoded. We are trying to pep it up. But, as I say, it is a dying business, and the technological changes, so to speak, in that respect means it may not be at all

unlikely that the telegraph messenger or the use of the telegraphs as we now know it will be obsolete.

Mr. FISHER: You are referring here to Telex primarily, in respect of cutting down this other means?

Mr. GORDON: In part, yes. You see, equipment has been produced, such as the facsimile and Telex, which provides a direct connection between the large telegraph customers and the central telegraph office. While direct customer tie-lines improve service, they have brought about a considerable decrease in the number of telegrams handled through satellite branch offices. At the same time, because of the impact of new developments in business communications, the industry has been faced with a decline in total telegrams originated.

So, that is why we have embarked on a program such as this, to see whether there is a salvageable hard core left in the message business.

Mr. FISHER: Is there any possibility of doing in respect of the message business today what you have done in respect of the Red, White and Blue fares?

Mr. GORDON: We have tried that. We have had it in force in a sense but we have not publicized it as that. We will certainly adjust our scale of charges on any basis that will produce a profit.

Mr. FISHER: You say amalgamation is not being considered but you would not rule it out; why would it not be ruled out?

Mr. GORDON: It is not ruled out because we have not yet determined what is the irreducible level in respect of messages. I suspect the time factor will be such that the message telegraph, as we know it, will be regarded as obsolete.

Mr. FISHER: Also your report shows that Canadian National Telecommunications has experienced another year of substantial growth and record high revenues in 1962, so there are compensations in this general field. Knowing that, why would amalgamation not be ruled out? As you probably know, I am concerned with most of the employees in telegraph offices across Canada; they are living in a certain state of suspension because of the movement toward joint operations. Of course, there are the indications that you are going ahead in places like Hamilton, Regina, Brockville and Saskatoon.

Mr. GORDON: Well, I do not believe you will see total amalgamation as long as the Canadian Pacific is a railway because they will have requirements of their own in regard to the railway. They also have certain zones of their own that they regard as their own and they would want to have an independent organization in this respect.

The major thing in which we are involved today is the building of a joint microwave across Canada from coast to coast. There is a land link all the way across Canada to Vancouver, down through the states and then by cable to Australia. I am sure you know that set up. This is a \$40 million capital investment and of that, Canadian Pacific has half. They have taken the eastern half and we have the western half of the construction of this project.

Mr. FISHER: In connection with the telegraph companies, are you at the present time reviewing the withdrawal of the CPR from the maritime provinces, leaving that as your field, and your withdrawal from western Canada and leaving that as the Canadian Pacific Telegraph field?

Mr. GORDON: Not specifically on that basis, no.

Mr. FISHER: What is the situation of an employee who works in a joint office in terms of taking his orders, for example? It is possible that a CNR employee is taking his orders from a Canadian Pacific employee and a Canadian Pacific employee could be reporting to two railways, making administrative reports. What is the position or status of the man under agreement in this kind of a situation?

Mr. GORDON: That is part of the agreement made at the time of any joint arrangement. Those matters are all clearly understood. The line of authority is clearly established. An employee knows without doubt who his boss is or who he reports to.

Mr. FISHER: If these joint operations keep being extended, is this not a logic step toward some kind of amalgamation or a sort of common employment?

Mr. GORDON: I do not like to peer into the cristal ball too far ahead, but I do not see this as far ahead as I can see.

Mr. FISHER: Can you not give me some indication of the joint operations you are planning for the near future?

Mr. GORDON: There is no specific plan in that respect in the form of a project, no.

Mr. FISHER: What was the reason you went ahead in Fort William and are going ahead in Port Arthur? Are these sort of test cases?

Mr. GORDON: No, they are what you might call obvious cases. We are going back a few years, but my recollection is that it started with the rental of one of the offices, which had run out. We began to examine the wisdom of renewing space that we had there and came to the conclusion that this was an opportune time to make an agreement.

Mr. VAUGHAN: You will remember, Mr. Fisher, that I wrote you about the Port Arthur situation and told you about the downward trend in business there, and if both companies had continued separately, it would have meant, in any event, a curtailment of staff. I think there were two or three CNT employees involved, and they exercised seniority. In that sense I do not think there were many lay-offs.

Mr. FISHER: It would be nice to know, and I would appreciate being told, how far you are going to go in this field and how quickly you are going to move, but I gather there is nothing you can tell me?

Mr. GORDON: I will have a chat with our telecommunications people to bring myself up to date and if there is anything I can tell you along that line I will be glad to let you know.

Mr. FISHER: In respect of equity and justice for the employees, why cannot the CN-CP Act and its protective features for employees come into play when you develop these joint operations?

Mr. GORDON: That is a loaded question.

Mr. FISHER: As you probably know, because of such factors, other attempts are being made to find some kind of protection.

Mr. GORDON: Yes, I suppose that is right. What we are attempting to do in this field generally is to solve the employment problem as best we can in other ways. I think our record has not been too bad in this field.

Mr. FISHER: I am not saying your record has been too bad, but the plain fact is, looking at it superficially, the CN-CP Act seems to have some protection for employees in circumstances such as these, but as a result of the type of approach taken by the railways toward this kind of thing, and as a result of legal interpretations, the provisions in that act really do not mean a thing.

Mr. GORDON: I am not very well equipped to discuss this with you because you have had discussions in another committee within the last few days of which I have not informed myself. I had better see what the outcome of those discussions is before I make any pronouncements.

Mr. FISHER: We did not get into the telegraph part of that in any way in that committee. It has always been a bit of a joke, every year, in your annual report under this section about the CN-CP Act. I cannot remember anything of real substance in that paragraph. I admit there are many aspects in this regard

but the field of telecommunications is one field where you have been moving very quickly with a great deal of planning and capital expenditure.

Mr. GORDON: Yes, and that has been due in part, of course, to the extraordinary rapidity with which the technology of this whole business has been changed and the extra costs which have been involved in an attempt to join forces to reduce duplication of capital costs.

Mr. FISHER: In respect of this particular expansion, I am sure there are new skills and techniques as far as employees are concerned. Have you got an overall statement of policy in this field by CN Telegraphs in order to do something about allaying some of the fears of the operators?

Mr. GORDON: I do not think I can make a statement of policy, but very simply that is the position we are adopting with the changing circumstances, changing ourselves as rapidly as we can in order to keep our traffic.

Mr. BALZER: With the completion of the second microsystem, will there be an increase in job opportunities?

Mr. GORDON: That will take place as we enlarge our share of the traffic, or as we develop new types of traffic.

Mr. FISHER: That may well be, Mr. Gordon, but the employees are not nearly as well informed of the new opportunities and the kind of facilities that will be provided for them in terms of training as they should be; whether they will have to move, where they might go, and so on.

Mr. GORDON: You say that the employees feel that way?

Mr. FISHER: That is my impression.

Mr. GORDON: I would have thought the employees in this particular department would be probably better informed than most. I will be very happy, indeed, to look into the matter more fully because that has been part of our policy, as evidenced by this letter of November 29, which is a full statement in regard to this particular operation.

Mr. FISHER: I should like to tell you that I received a letter from an employee who said, in respect of that letter to which you have referred: "Where is this going to leave us?"

Mr. GORDON: Yes. I wonder why it is that we have not heard of any general reaction to the letter at all according to my reports? If the men are worried, my suggestion is they should let us know about it. This letter was sent out for the purpose of informing them of the situation. We cannot appraise the individual worries of each man, or what it is that he is concerned about, unless we hear from them. But we have a counsellor service which invites our employees to come and talk about their troubles.

Mr. FISHER: The other night at a C.L.C. meeting I encountered two union representatives connected with this field and they were worried about the situation.

Mr. GORDON: Would you care to report back to them, or talk to them and suggest that they bring their worries to us? We are only too happy to know what they are.

Mr. FISHER: I can get in touch with one of them very quickly.

Mr. GORDON: We would like to hear from them. This letter was sent out among other things to spark reaction from employees. This was an indication of what we were doing. We tried to tell them in a general way what to expect. As I said before, we have no real way of anticipating the particular worry of an individual employee. Is he worried because he is going to be moved?

Mr. FISHER: That is part of it.

Mr. GORDON: Is he worried because he is going to have to learn a new skill?

Mr. FISHER: That is part of it.

Mr. GORDON: Is he worried because he is afraid this may put him out of a job, or is he worried because he is a man with long term service and he is going to be downgraded? These are all things we would like to know, but there is only one person who can tell us and that is the fellow who is doing the worrying.

Mr. FISHER: One of the worries is the great disparity of the cost of disposal and moving of a house today and the facilities that the CNR provides.

Mr. GORDON: You get into the general market place in that respect. If it were regarded as part of our social obligations in this country to look after those sorts of things, if that is the sort of community in which we are living now, I would certainly say to this, "all right," but my own objection is to selecting the railways or the telecommunications—if we are talking about them—as special factors in this connection.

Mr. FISHER: What about the very simple thing where you made some moves? Why could you not give to your old employees the kind of treatment which you give to your managerial employees?

Mr. GORDON: Again, I need specific examples to discuss that, I think.

Mr. VAUGHAN: This was discussed the other day at the standing committee. I have not read all the evidence, but I think Mr. Wilson did talk about it at some length.

Mr. GORDON: That is my trouble; I have not read the evidence and I know Mr. Wilson had a lot of things to say about it. He gave you examples of the kind of thing we have done for employees. The things we have done are pertinent to this kind of operation and it is something I need to know.

Mr. FISHER: There are two final things in telecommunications which I want to ask about. One, is a very narrow question. Have you heard anything about a private service that operates in northern British Columbia, and particularly out of Prince Rupert, called the Speedwell Message Service, and the use that it makes of the Canadian National facilities, and what competition it offers?

Mr. GORDON: The Speedwell Message Service? I do not think I know anything about it. This is a service which uses our services, is it?

Mr. FISHER: Yes, and sometimes in the package that it offers it will actually offer a cheaper service than your price would be, although I do not know whether your telecommunication charges to them are normal ones or whether they have a special rate.

Mr. GORDON: Is it a radio line or communication?

Mr. FISHER: I think they have this facility, but they also use your facilities.

Mr. GORDON: I do not know anything about it. Would you care to send me a note on it and I would be glad to give you the information?

Mr. FISHER: My last point is one which I do not know whether to bring up here or under personnel. Do you consider operators come under telecommunications?

Mr. GORDON: I would have to look at the wage agreements.

Mr. J. W. DEMCOE (*Vice President, Transportation and Maintenance, CNR*): The operators that we employ for the operation of trains come under another item.

Mr. FISHER: We have not touched on personnel as yet. I will leave this for now.

Mr. ROCK: Mr. Gordon, do you own the system we are talking about, or does the CNR own it outright?

Mr. GORDON: It depends on whether it is a joint operation or not.

Mr. ROCK: Do you buy the Telex machines from the company that manufactures them?

Mr. GORDON: Yes.

Mr. ROCK: Do you still have many of your old posts on your telegraph lines? I remember the time when there was a big sleet storm around the Montreal area when most of these lines were ruined from the ice that covered them, just as were the Hydro Quebec poles and the Bell Telephone poles. I noticed that in many outlying areas the Bell Telephone replaced these lines with underground cables, and yet the CNR and even the CPR, replaced them with the same old type of cable lines as in the past. I was wondering what was the reason. Why do they not change them to the underground cable system and get rid of these ugly looking posts in the municipalities?

Mr. GORDON: It is purely a matter of economics, so far as the railway itself is concerned. When you say that we replaced them with the same old thing, we certainly have not. We replaced them with an improved type of cable. You are thinking more of the appearance of it.

Mr. ROCK: Yes, definitely. I am not speaking of the outlying areas but most municipalities have tried to install cables and electric wires underground for the purpose of beautifying the town. The municipalities like to see these things go underground, and yet the CNR is not going in that direction. I was wondering whether you intend in the future to go in that direction.

Mr. GORDON: It is only a matter of time before all pole lines will be eliminated. When you get a specific thing like a sleet storm for instance, it is a complicated affair—I am no technician but I know that telecommunication is a complicated affair. First, there is the element of speed. We have got to get communication back as quickly as possible. Second, it is not good business to take a piece of a system and put it underground and then bring it back up on the lines. We wait until we are ready to complete a whole section, before we remove the pole line.

Mr. LLOYD: Mr. Gordon, I am speaking now on telecommunications and this has to do with your despatch of freight services and hump operations. Who are your competitors, who are the main competitors and how many are there?

Mr. GORDON: It depends in what service. Our main competitors in the communication field are Trans-Canada Telephone Association, the largest member of which is the Bell Telephone Company.

Mr. VAUGHAN: It is an association of various telephone companies.

Mr. GORDON: The major one is the Bell Telephone Company.

Mr. LLOYD: The net result of this department of your operations is not reported, is it? I cannot find it.

Mr. GORDON: No, this is a consolidated statement, as you can see.

Mr. LLOYD: But have you such information for your management advice?

Mr. GORDON: Oh, yes, certainly.

Mr. LLOYD: I am not pressing the matter. I just want to know whether you have that kind of information available for internal management.

Mr. GORDON: Yes, the telecommunications department is definitely a separate unit in our bookkeeping operation.

Mr. BALCER: I would like to ask the following question. I do not know if you have information on it. I understand that in the province of Quebec, in the rural municipalities, you have municipal taxes on telegraph poles, and yet the Bell Telephone Company is exempted by the municipal law.

Mr. GORDON: Again, I am not familiar with that. I would be glad to take a note of that. I know that there is a difference between the Bell Telephone Company and our company, but I do not know the reason for it.

Mr. BALCER: That is what I had in mind. I know for a fact that in certain areas you have to carry telephone cables on your poles and you have to pay taxes on your poles, and when the Bell Telephone Company uses their own poles they do not pay taxes. I was wondering why you were not getting the same exemption.

Mr. GORDON: This is an example of how a minister can be of assistance to management.

Mr. LLOYD: The minister knows full well the repeated efforts we have made. I will try another minister, another opportunity, in another place. The more information you can provide before the next session at a committee of this kind on the incidence of municipal taxation to which you are exposed right throughout Canada in all forms, the better I would like it.

Mr. GORDON: We will certainly take a note of that, and I will study the thing a little more carefully.

Mr. FISHER: Have you entered into contracts with the television networks for use of the facilities?

Mr. GORDON: I am not sure. We have had a lot of sales talks about this, and I do not know whether I have specific information.

Mr. FISHER: I am interested in two points, Mr. Gordon, one is the contention of your competitors in this field that this line was unnecessary. Now the question is: What kind of competition is going to develop between you for traffic?

My second point is that I am interested in discovering whether there are any plans for these organizations that are developing wire television set-ups to use your facilities?

Mr. GORDON: Yes.

Mr. FISHER: Now, I would imagine the latter point might be a business secret, but I think you can answer the first point.

Mr. GORDON: We did dispose of the allegations of our competitors, who had been making representations about a duplication, by quoting from their own brief, where they had asserted, they would be out of capacity in a short time.

Mr. BALCER: Is there any work going on now in respect of a third microwave?

Mr. GORDON: By us?

Mr. BALCER: Yes.

Mr. GORDON: No.

Mr. FISHER: Is the consumer, the television network, going to be in the position of bargaining with you for a better rate than they receive on the other network or is this something the board of transport commissioners determine?

Mr. GORDON: I would doubt that. We are running really a wholesale rather than a retail business. We tender on the requirements of the CBC for television and we quote a price. In addition, the Bell Telephone quote a price on the over-all transmission. But, this concerns more the wholesale line than the retail line.

Mr. FISHER: My next question requires detail and I do not know whether or not you can answer it. In the plans that you have is there any limitation in the kind of contracts you will give in regard to carrying TV programs that will prevent or prohibit drop-offs from the microwave, whereby a television transmitter can pick up off your system?

Mr. GORDON: My impression is that there is not. I think we can break out as we wish, but I would not want to be positive without checking on it.

Mr. BALCER: At the present time there are no regulations in respect of independent TV closed circuit. I do not think that is a matter of contention.

Mr. FISHER: I think it is a matter of contention. The reason it is a matter of contention is the prospect of a closed circuit network across the country.

Mr. BALCER: When I was the minister of transport I know the B.B.G. did not want to have anything to do with it. No one wanted to touch it. The matter was before the cabinet and, unfortunately, the election came along at that time.

Mr. FISHER: Yes, now Mr. Pickersgill wants to do something about it.

The CHAIRMAN: Shall we pass the section on telecommunications?

Mr. PUGH: I so move.

Mr. LLOYD: I second the motion.

Motion agreed to.

Mr. GRÉGOIRE: Mr. Chairman, I would like to ask some questions of the president of the Canadian National Railways in respect of complaints he may have known about.

I heard him say a few moments ago that if he knew the reaction of his employees he would have helped, if possible.

We have a difficult problem in the province of Quebec; I do not know if it is only in the province of Quebec but there are lots of people complaining about their unions.

If you will allow me, Mr. Chairman, I will read a couple of lines from one or two letters and then you will be able to see what I mean.

I will read parts of this letter in French. They are making complaints against international unions. This letter, in part, says:

*(Interpretation)* The railways are under dictatorship on the part of these foreign labour relations; it is time for something to be done, otherwise the railway employees will soon be forced to go to the unemployment office; our labour leaders are trying to get money away from us.

Mr. Chairman, I can read several more.

Mr. FISHER: Who is that letter from?

Mr. GRÉGOIRE: If you want to see it I will show you who it is from.

Mr. FISHER: If you read from a letter you have to identify it.

Mr. GRÉGOIRE: I received at the same time this letter. I will read it and then you will understand what I mean.

Here is a letter I received from another man.

The CHAIRMAN: Will you identify that letter?

Mr. GRÉGOIRE: The brotherhood; it is an American organization whose headquarters is in Cleveland, Ohio.

It goes on to say:

*(Interpretation)* In the constitution we find the following clauses, (1) any member who sends circulars to any local or any member of this brotherhood or creates difficulties will be expelled; (2) any member who sends a circular letter to the directors of the railway company to expose his grievances, whether it may be true or fictitious, will be expelled. A member of parliament may be criticized but we cannot criticize our leaders; (3) if a member in public discusses the activities of the local he will be expelled. This is an example given to show you: the last convention to elect a president cost \$3 million. If I told you this I could be expelled.

Mr. FISHER: The president of what?

Mr. GRÉGOIRE: The national union.

Mr. FISHER: What is the union?

Mr. GRÉGOIRE: The Brotherhood of Railway Carmen of America.

You asked me to give all the names; I can show you letters from many constituencies. If you challenge me I will bring you some from Lapointe, Roberval, Quebec East and Quebec West, all the constituencies in my area.

Here is another, which reads as follows:

(*Interpretation*) Dear sir, I am asking you to be my interpreter to have my grievances as a railway man exposed; how can we explain when a railway man has to be on his knees before the American labour leaders; I hope Social Credit will be able to help our cause.

Mr. FISHER: He just says "on his knees before the American labour leaders"; his only complaint is that he has to be on his knees before an American labour leader. You had better document this.

The CHAIRMAN: Order, gentlemen. As you know, a couple of letters have been read and I understand other letters contain similar information. Now, if you are directing a question to Mr. Gordon, would you please do so and he then perhaps could relate it to personnel and labour relations. I do not want you to get into a discussion with Mr. Fisher on this subject.

Mr. GRÉGOIRE: He is the one who is asking me the questions. I will go ahead and present the case and then I will be able to answer questions.

Mr. FISHER: You have not identified the letter yet.

Mr. GRÉGOIRE: Well, if you want to see any of these letters I will show them to you. I think I have sufficient proof. But, I do not think we should put the names on the record.

The CHAIRMAN: Mr. Grégoire, I do not want to be too hard on the rules but you know very well that in committee as well as in the House of Commons if you want to use the words in a letter you should identify the letter and sender of it, and be ready to table it. But, from what I understand, you have made your presentation of the type of letter which is the source of your complaint. You said also you have a number of these letters. Now, have you a question to put to Mr. Gordon?

Mr. GRÉGOIRE: Yes, I will present the complaints.

The CHAIRMAN: Can you not say them without reading them?

Mr. GRÉGOIRE: All right; you are ready to admit now there are letters in existence?

The CHAIRMAN: Well, you have said so.

Mr. GRÉGOIRE: I have the names here.

Mr. FISHER: Put them on the record.

Mr. GRÉGOIRE: I have the reasons for the complaints.

Mr. FISHER: Give the names.

Mr. PUGH: I think your suggestion could be carried out by Mr. Grégoire very easily if he asked Mr. Gordon, for instance, what the C.N.R. feelings are in respect of unions.

Mr. GRÉGOIRE: Mr. Chairman, I intend to ask a question about the railroad, but before I do that I should like to point out that Mr. Fisher asked me to put the names on the record. However, he mentioned complaints but did not even have a letter. He did not bring a single thing to support his complaints, he just brought the complaints. If it was all right for him to do that I fail to see why he wants to prevent me from doing this.

The CHAIRMAN: Order.

Mr. FISHER: I did not say that.

Mr. GRÉGOIRE: If you can do it I think I can do the same thing.

The CHAIRMAN: Order. You will realize that I did not stop you at all.

Mr. GRÉGOIRE: You did not stop Mr. Fisher.

The CHAIRMAN: Order. Let me finish. All I said was, you can make your case in the same way by saying that you had received a number of letters and that the letters stated certain things, and then go on with your remarks. As Mr. Fisher said, he had complaints which stated this and that, without mentioning names. I do not feel it is necessary to read the letters. Perhaps you could base your questions on the complaints you have received and state the number of letters you have received. You do not have to read the letters.

Mr. GRÉGOIRE: Very well, Mr. Chairman, I will make my case in the suggested manner.

Most of the employees of the Brotherhood of Railway Carmen of America are complaining that they cannot form their own union because there is an understanding between the management of the CNR and the brotherhood which prevents these people from forming their own unions. I should like to know, Mr. Gordon, whether you have received complaints from some of these employees and if your answer is in the affirmative, have they requested help in forming their own union independent of the Brotherhood of Railway Carmen of America?

Mr. GORDON: Yes, we have heard of these complaints but we must maintain a completely impartial attitude. The men have the right to select the union of their choice and it is against the law for management to interfere. Any group of men who wish to join a union may do so by following the proper procedure, which I understand involves signing a membership card and paying membership dues. A representative of the union then goes to the Canada Labour Relations Board to be certified as the union the men wish to represent them. In that connection management is absolutely prohibited from expressing any view in regard to the union at all, until there is certification. This provision is found in section 7(1) of the Industrial Relations and Disputes Investigation Act.

Mr. GRÉGOIRE: Yes, I am aware of that fact.

Mr. GORDON: You are aware of that?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: We cannot express any view to the men. We cannot say to the men, we think this is a good union or a bad union, or that it would be a good idea for them to join this or that union. We cannot say that. We are not allowed to do that.

Mr. GRÉGOIRE: Let us consider for example an employee who is now a member of the Brotherhood of Railway Carmen of America?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Perhaps 200 employees, or even 1,000 employees desire to form their own union.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: As a result of that desire the Brotherhood of Railway Carmen of America try to throw them out of the union so they will be out of jobs.

Mr. GORDON: They will not be out of a job.

Mr. GRÉGOIRE: They can be put out of a job if they are thrown out of the union if there is compulsory union membership.

Mr. GORDON: What you are referring to are the implications of the check-off?

Mr. GRÉGOIRE: Yes, they have compulsory membership in that union. If a man wants to work he must belong to the union.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: If the union throws a man out because of the compulsory membership, he is no longer a member and is out of a job.

Mr. GORDON: That is purely and entirely a matter between the unions and their membership. If enough of the men, to whom you have referred, get together and form an independent union they can get themselves certified as the bargaining agent with management by going to the Canada Labour Relations Board and making a case. If they succeed in their case before that board and are certified as the bargaining agent, we recognize them and they are bound then by the wage agreement that will be negotiated by that new union.

Mr. GRÉGOIRE: That is perfectly all right, but during the procedure of certification, or even during the procedure of organization of this independent union these men can be thrown out of the official union and then lose their jobs.

Mr. GORDON: That depends on the conditions of the wage agreement that the certified bargaining agent has negotiated with management. We are bound by that agreement.

Mr. GRÉGOIRE: You are bound by that agreement and that is exactly what I mean. Because you are bound by the collective bargaining agent and the agreement with the union, if this union throws a man out because of union activities in respect of an independent union, then the man would be out of a job completely.

Mr. GORDON: If the circumstances are as you suggest I can only say that we are bound by the agreement.

Mr. GRÉGOIRE: That is exactly the complaint. There are thousands of these people in the province of Quebec.

Mr. FISHER: Mr. Chairman, let us establish the number which Mr. Grégoire suggests is a thousand. How many members of the Brotherhood of Railway Carmen have you under agreement with the Canadian National Railway?

Mr. GORDON: I do not think we have an agreement with that union at all. Are you referring to the union that is organized in western Canada?

Mr. GRÉGOIRE: No.

Mr. FISHER: Mr. Grégoire is referring to thousands of employees. Let us establish some specific number.

Mr. GRÉGOIRE: I may say that I am not referring only to the members of this union, but also to the members of the Brotherhood of Railway and Trainmen. I have received letters from some of the individuals who belong to that union as well. I think four or five unions are involved in respect of the letters I have received from these individuals in the province of Quebec.

Mr. FISHER: Mr. Chairman, I should like the record to indicate just how mistaken Mr. Grégoire is.

Mr. PUGH: Mr. Chairman, perhaps we could allow Mr. Grégoire to continue.

Mr. GRÉGOIRE: If I made a mistake I made a mistake and you can answer it later.

Mr. GORDON: I do not know whether you are talking about the same union or not, but we have an agreement with the Brotherhood of Railroad Carmen of America. Is that the name of the union to which you have referred, because I suspect there is another union that was formed in western Canada with which we have no agreement.

Mr. GRÉGOIRE: I am referring to the Brotherhood of Railroad Carmen of America.

Mr. GORDON: At the present time we have 7,404 employees under our existing agreement with that union.

Mr. GRÉGOIRE: Sometimes I receive letters from the presidents of the lodges rather than the individuals, and these letters are written on behalf of the whole membership of that local.

Mr. GORDON: Do the letters indicate that these individuals desire to leave the union?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: They want to leave the Brotherhood of Railroad Carmen of America?

Mr. GRÉGOIRE: Yes, and these letters are signed by the presidents of the local with the lodge number and indicate that they wanted to form their own union.

Mr. GORDON: There is only one way they can do so, and management can do nothing in this regard. We dare not take any position in this respect at all. If they can get enough people and become certified as a new union by the Canadian labour board, then we can recognize them; otherwise we cannot.

Mr. GRÉGOIRE: We would like to know what protection is provided these individuals during the period they are organizing the new union and applying for certification.

Mr. GORDON: If the conditions of the wage agreement in this particular case contain a clause to the effect that a man must be a member of the union and subject to a check-off before he is recognized, then he will lose his job.

Mr. GRÉGOIRE: What has happened to the freedom employees are supposed to have?

Mr. GORDON: That is your question, but I can say there is nothing management can do about this.

Mr. GRÉGOIRE: You do not sign the collective bargaining agreement with each individual, you sign it with the leaders of the international union.

Mr. GORDON: Yes, we sign it with the recognized and authorized officials of the union.

Mr. GRÉGOIRE: So you deny this right of the employees?

Mr. GORDON: No sir, I do not deny the right at all.

Mr. GRÉGOIRE: Then the situation denies the right to a minority to act as it wishes?

Mr. GORDON: This situation is established by the unions concerned, not by management.

Mr. GRÉGOIRE: But the result of the situation is that a man is out of a job as a result of an agreement between management and the union if he is thrown out of union because of union activities against that union?

Mr. GORDON: If these men, to whom you have referred, have accepted this union as their bargaining agent and have accepted the contract which we signed with the union, and they desire to violate the contract they must take their chances and do what they can, but they have agreed to the contract which we have signed.

Mr. GRÉGOIRE: You signed the contract with the leaders?

Mr. GORDON: That is right and the leaders bind the membership.

Mr. GRÉGOIRE: If there are 7,000 of these employees in this union, 4,000 of which are in Ontario and happy with the union but 3,000 of which are in the province of Quebec and unhappy with the union, then the majority imposes a decision upon the minority which does not desire to participate with the union, and as soon as they attempt to organize an independent union they are thrown out of the union and as a result thrown out of their job, so in effect they can not form an independent union.

Mr. GORDON: It is by their own agreement, because they were parties to the agreement which they signed. If they want to change their minds—and I have no objection—and form a new union, then they have got to go through the proper formalities of doing it.

Mr. GRÉGOIRE: Mr. Gordon, as I understood before the last contract was signed between the management of the CNR and the Brotherhood of Railroad Trainmen of America they were organizing themselves into a union, they even had their own paper and their own title, but before they were able to finish the procedures as an independent union and the contract was signed, two of the main organizers of that independent union were thrown out of the union and they lost their jobs.

Mr. GORDON: But the membership must have authorized the officials who signed the agreement, to do it under the regulations of the union.

Mr. GRÉGOIRE: If the membership of the union comprises 7,000 members, 4,000 of them liked the contract and 3,000 did not, then the 4,000 had a majority.

Mr. GORDON: That is a dispute within the union.

Mr. GRÉGOIRE: So that one group has all the advantages because all they have to do is throw out the organizers of the independent union. Those people lose their jobs and they cannot form a union.

Mr. GORDON: As far as the management is concerned, they have agreed in the first instance when they became members of this union to abide by the regulations of this union, and authorized the leaders to make a contract with the management, which we did. Whenever there is a dispute about who is going to represent the men—I must ask you to note this very carefully because management must not express any views at all in regard to the men, as to which unions they should have—it is entirely a matter for the men themselves.

Mr. GRÉGOIRE: I appreciate your position. I know you are in the middle. You are in a bad spot, but the point is that there are thousands—and I say thousands even though it is 3,000—of employees who would like to get out of the union, to keep their jobs and to form an independent union. Because of the contracts which are renewed, and because of the view of the majority, they are deprived of their liberty of association. This is not a fault of the management of the C.N.R. but it is because of the existing situation and because of the fact that they cannot proceed without being fired.

Mr. GORDON: You made a fair summary of it, but I am glad you added that it is not the fault of the management and that the management can do nothing about it. Can I just correct you on one point? In this case management is not in the middle. We cannot make a decision no matter what happens; it is the union's decision.

Mr. GRÉGOIRE: They are using you in this way, that if they see an employee trying to form an independent union, they throw him out of the union, and you, the management of the CNR, are obliged to fire him.

Mr. GORDON: That is in the contract. If we were to hire a non-union man, when the contract that he has made requires that he be a member of the union, then the union has the right to call a strike.

Mr. GRÉGOIRE: All right, but these people I am talking about are members of the union.

Mr. GORDON: Yes, they are, and they are bound by the regulations of the union they join.

Mr. GRÉGOIRE: They want to form an independent union. They are members of the union. The problem is that as soon as the official union throws them out because of union activities, then the management is obliged to fire them. This is the problem.

Mr. GORDON: The management is not permitted to continue that person in his job. We do not fire them; we do not want to throw them out.

Mr. GRÉGOIRE: You do it because of the contract you have with the union. Therefore, these people depend on the union for their own jobs through the management of the CNR. That is the problem and that is what you would like to have answered. How can we help these people?

Mr. GORDON: The only way I can suggest—it is merely a suggestion because I do not know—that this can be remedied, is for you to introduce an act in parliament to change this legislation. This is the labour legislation.

Mr. FISHER: Mr. Chairman, there are a couple of points I want to put on the record. First of all, the largest Canadian union dealing with the railways in Canada is the Canadian union; it is not an international union. I think it is worth putting on the record because the suggestion might be left that we have a bunch of Americans wagging the poor Canadian dog over here.

The second point is, Mr. Grégoire should realize the Canada labour relations board is not a sham. I talked on behalf of a group of 36 men who were members of a local of over 1,000, and that local had its national head in Mr. Frank Hall, who is considered one of the most important men in the labour movement in Canada, and we went into the Canada labour relations board against Frank Hall. We lost the case before the board, but there were no repercussions at all in terms of this talk of dismissal.

I would like to point out to Mr. Grégoire that there was a wildcat group which developed in the Brotherhood of Locomotive Firemen and Enginemen a couple of years ago in western Canada. They got to the stage of a very thorough organization in forming a Canadian organization. They were unsuccessful and the whole thing was settled, but to my knowledge no one walked the plank in connection with it. It is wrong to leave the impression that these men would be fired or would lose their jobs because of this kind of activity. This is not a labour movement among the railways, as I have seen it, and what these men really are lacking is some kind of courage in leadership to get them to do what you suggest they want to do.

Mr. GRÉGOIRE: They have enough courage to organize themselves; they have to remain silent. They would like to have the help of the management before signing the new contract.

Mr. FISHER: I would suggest that as an M.P. you could give them some help by bringing an amendment to the Industrial Relations and Disputes Investigation Act and you could get a forum for the thing, instead of coming in here with this. You have got a recourse open to you to lead the thing for them.

Mr. GRÉGOIRE: Mr. Fisher, your comments are completely away from this discussion.

Mr. FISHER: No more than yours.

Mr. GRÉGOIRE: Exactly what we want to do is to bring this before the management of the CNR. It is a problem arising amongst the personnel of the CNR which we are discussing now. What Mr. Fisher said is not in order.

The CHAIRMAN: Order, order, Mr. Grégoire. That question has been well discussed and Mr. Gordon has given an answer on that problem. Are there any other questions on personnel?

Mr. FISHER: Yes, I have some.

Mr. GRÉGOIRE: So have I.

Mr. FISHER: This is going to be a continuing problem. I have a paper headed the "Canadian National Railway Bulletin, Saskatoon, Saskatchewan", dated 5 November, 1963, file number 3400-3. It is signed by W. G. Bryant, operations manager. It is addressed to all agents or operators, all bulletin books—Saskatoon area, and reads as follows:

It has been brought to our attention employees have been asked to become members of committees formed to oppose the railway in various economic and reorganization functions.

It must be distinctly understood that in no circumstances are employees to participate in such committees or to provide information from the company's records without specific authority from this office.

Now there is a really delicate and difficult problem involved here, and I do not want to sound off on it in any way, but I think, Mr. Gordon, you appreciate the kind of community response there has been to the various reorganization plans of the railways in the prairies. A week ago, or the week before that, there was a meeting of a number of community groups. It is very natural that railway employees are an important part of those small communities and they are also people who are going to be affected by any moves and changes. I wondered what interpretation one can draw from this kind of order. I am not being critical about it but I would like an explanation.

Mr. GORDON: Can I see the letter? I want to see the wording of it. Could you read it again? I want to see if this interpretation is correct. May I have a look at it?

The CHAIRMAN: Are you identifying the letter?

Mr. FISHER: It does so itself. I received it from Mr. McGregor of the Brotherhood of Railway Trainmen.

Mr. BALCER: Did he change jobs?

Mr. FISHER: This is a different man.

Mr. GORDON: This is a matter of interpretation, but as I read the letter, it says:

"It must be distinctly understood that in no circumstances are employees to participate in such committees or to provide information from the company's records without specific authority from this office."

In other words, they must not act as employees of the CNR on these committees. If they are acting as union representatives or in some other capacity, it is perfectly all right. But, they must not appear to be giving the company's views or using the records of the company without our authority.

Mr. FISHER: But, you have no objection? There was a group here from Rainy River that made strong representations in respect of your run-through plans. There were a number of prominent railroaders in that group, among them being the mayor.

Mr. GORDON: That is perfectly all right; I have no objection to that. But, we were finding that there was a great deal of distortion and misunderstanding caused by certain men who did not make it clear they were not speaking for the Canadian National Railways but yet they were supporting their statement by using company records. We do not object to them using company records in certain cases when they have authority but we cannot

permit them to dig into our files and take things out and, in some other capacity, produce them.

Mr. GRÉGOIRE: Mr. Chairman, Mr. Fisher only produced one half of the letter; he cut the other half off. If he wants to refer to the letter he should produce the whole letter.

Mr. FISHER: I read the letter in its entirety.

Mr. GRÉGOIRE: How many employees are there in the Brotherhood of Railway Trainmen?

Mr. GORDON: There are 8,779.

Mr. GRÉGOIRE: I would like to point out for the record that this is another union in respect of which we receive lots of letters from members, and I would like to point out too that these were not the Canadian unions specified by Mr. Fisher. I mentioned the name of the union in question in respect of these letters, and these are international unions.

Mr. FISHER: And, most of them are darn fine unions too.

Mr. GRÉGOIRE: There might be but there are some who would like to get out of some of them.

Mr. BALZER: Mr. Chairman, is it the right time to start on this last paragraph, personnel and labour relations? I have a few questions in respect of the French Canadian issue.

The CHAIRMAN: I think if you wish to do that I am going to ask Mr. Gordon to start off this discussion by making a statement on this whole question. I think that would be better than drawing it out by bits and pieces.

Mr. GRÉGOIRE: I have a question in respect of personnel.

The CHAIRMAN: You are not dealing with bilingualism at this stage?

Mr. GRÉGOIRE: No. I just want to say I have received lots of complaints. I mention this case in *Hansard* under date of August 2; it is at page 3138 of the French edition. I can give to the president of the Canadian National Railways the names of these people who were involved. This concerns the case of a man who worked for the CNR for 21 years. He was supervisory foreman for nine years and five months before retiring he was put back as a simple employee, and his pension was rated on the basis of his last five months salary, so he lost the advantages of his salary as a supervisory manager. Is that the policy of the Canadian National Railway? When an employee has worked as a supervisor manager at a salary of, say, "X" dollars and then four or five months before his retirement he replaces another chap with a lower salary, is it the policy of management to reduce the pension in that way?

Mr. GORDON: No, and it did not happen in this case. What was the date of his retirement to which you are referring?

Mr. GRÉGOIRE: 1954.

Mr. GORDON: Yes. We had an exchange of correspondence, as I recollect it, and we made a most exhaustive reply to the allegations you made.

In our reply we tried to show you exactly what happened, and while you produced the facts as you thought they were given to you, they are not the facts of the case.

Mr. GRÉGOIRE: Well, as I see the facts of the case you have taken the evidence or testimony of some people in respect of a certain point, but I have a sworn statement by some people to the contrary.

Mr. GORDON: My decision was based on the records and from the statement of the supervisory officer who dealt with the case. Have you my last letter on the subject, which is a final summary of the case?

Mr. GRÉGOIRE: Yes, but the man you called as a witness and whose testimony you accepted is different from the sworn statement which I have, and is contrary to it.

Mr. VAUGHAN: Is this after the president's last letter to you?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: This is a question of handling an employee by a supervisory officer. The supervisory officer who dealt with this case did so on the basis of the records and made his decision accordingly. These are the facts, and these are the facts on which the treatment was justified. You say the individual made a sworn statement that the facts as presented are not true. If so, I am left in the position of what do I do? I have to take the advice of my supervisory officer in respect of the facts.

Have you any new information that indicates my supervisory officer has misled me or has not given me the facts; if so, I will reopen the case.

Mr. GRÉGOIRE: Your supervisor gives you a report based on the testimony of one man, and this man sent me a sworn statement which is completely contrary to what you have.

Mr. GORDON: All right. But, he is the man who has the grievance and, incidentally, there is a grievance procedure which he should have adopted at the time, if he had a grievance. There is provision in the labour agreement for that.

The supervisory officer who made the judgment in the case told me why he did it and he had records to support it. I must take his word; that is all I can do. But, as I say, if you have any new evidence or anything that I have not heard so far I will be glad to have the case re-opened.

Mr. GRÉGOIRE: Is there a procedure whereby they can appear before a board of some kind?

Mr. GORDON: He should have made his case, if he had one. He should have stated his grievance at the time to his union leader, and then there is a definite procedure whereby he could have been heard.

Mr. GRÉGOIRE: But he was no longer in the union at that time; he was on retirement.

Mr. GORDON: But he could still go to the union on a matter that affected him at the time.

This case concerned whether or not he was in a supervisory capacity when he retired. His pension was based on his position at that time and the wages he was earning. He alleges that he was arbitrarily reduced in status five months before his retirement in order that the figure could be reduced and he would not get as large a pension. That is not our policy.

The facts of the case are not of that order. His pension payment was based on his record as the supervising officer certified it in connection with the job he held. He did some relief work, as I remember, during the holiday periods from time to time, when he acted in this foreman capacity.

Mr. GRÉGOIRE: For nine years continuously he acted as supervisor.

Mr. GORDON: Well, whatever his status is on the record, that would be it. His pension is based on his record which is certified by the officer who is authorized to do so, and it was on that figure his pension was calculated.

Mr. GRÉGOIRE: To whom can the employees present their case in such matters?

Mr. GORDON: They can always go over the head of their immediate supervisory officer and, if he does not agree with the decision of his immediate boss he can go beyond that and, in fact, he can go all the way up to me.

Mr. GRÉGOIRE: Do you think that the superintendent of a supervisor, for example, would reverse the decision of one of his assistants?

Mr. GORDON: Certainly, if he is wrong.

The CHAIRMAN: Are we ready to proceed with the statement of Mr. Gordon?

Mr. FISHER: Mr. Chairman, there are two questions I should like to ask. You remember; Mr. Gordon, two years ago we got into an argument over chiefs and Indians in the CNR?

Mr. GORDON: Yes.

Mr. FISHER: This was in reference to a comparison with CPR, and there was an understanding that the Dominion Bureau of Statistics was going to re-draft this questionnaire and put the questionnaire to the CN and CP in such a way that comparative data would be available. I want to know when that comparative data will be available.

Mr. GORDON: This is a long statement I have before me which goes through the procedures that were gone through in order to arrive at comparability. I do not think you are interested in the whole statement, but it winds up by saying:

"Procedures have been formulated to ensure that numbers of employees, their service hours and compensation are reported for each occupational classification on a uniform basis by all railways in Canada. The revised classification of employees will become effective January 1, 1964."

Mr. FISHER: We will not know the answer until we have that basis of comparison?

Mr. GORDON: It was not an easy task. There were endless meetings, and this whole list of troubles was discussed. In any event, they will know the answer and this will start in January 1, 1964.

Mr. FISHER: Mr. Grégoire referred to a specific case. I understand that Mr. Orlikow has been in communication with your office in regard to a frontend man by the name of Eyre who is out of service in Winnipeg. I wonder if you could tell me what the status of that person is at the present time?

Mr. GORDON: My recollection is that he is still out of service because he refused to obey orders.

Mr. VAUGHAN: Perhaps I should answer this question because, as you know, Mr. Orlikow and I have been in correspondence about this case. If you wish I will be glad to summarize the situation now.

Mr. FISHER: The only thing that bothers me in respect of the information I have, which I understand came from you, is the suggestion that the CNR was prepared to allow the man to go back to work, and he was willing to agree to everything but he wanted to reserve his right to process the grievance.

Mr. VAUGHAN: I do not have the papers with me but I can give you a summary of the situation.

Mr. GORDON: I remember the case quite well but Mr. Vaughan has been dealing with it recently.

Mr. VAUGHAN: I do not wish to go into too much detail but I should like to point out that the man was discharged for a certain violation of the operating rules. Later on, and I cannot remember just when it was, although I believe it was in September, he had a conversation with Mr. Gonder, the Vice President at Winnipeg of the Prairie Region. Mr. Gonder, as I say had a very pleasant conversation with the employee, and the employee was interested in obtaining his job back but on previous occasions when he had not set out the cars he repeated the disobedience to the instructions. Mr. Gonder in his conversation with him, which I say was very sympathetic, said that he would give consideration to taking him back if he would undertake to obey the instructions of the conductors in respect of the operation of the train. The conversation ended on a very friendly note and the situation was left on the understanding that the employee was going to write a letter to Mr. Gonder. However, nothing was heard from the employee. The next event in the case was a letter from Mr. Orlikow.

Later the employee wrote a letter recently, and said, as I recall it, and I am paraphrasing this from memory, that he would obey instructions, but he was reserving some rights under the wage agreement to process the same grievance.

The difficulty in this regard, Mr. Fisher, is that we could not reinstate the employee, and allow him to pursue the grievance for which he was discharged. The position I took in correspondence was that the matter of the discipline was in the hands of the union and that was the proper way to proceed. It was at this point where the difference of opinion arose between Mr. Orlikow and myself.

Mr. FISHER: The case itself is not dead or final?

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

Mr. GRÉGOIRE: Mr. Gordon, when the union throws a man out of the union automatically you are obliged to throw him out of his job is that right?

Mr. GORDON: No. This depends on the particular labour contract and what it says in regard to the union.

Mr. GRÉGOIRE: Would this be true if you had a contract with a compulsory membership clause?

Mr. GORDON: It would depend on whether they have a check-off in this particular case. I would have to examine the contract. I cannot remember it. Mr. Demcoe, do you know the provisions of that particular contract? Do you have the impression that the members of that union have a check-off?

Mr. DEMCOE: Yes.

Mr. GORDON: I cannot remember whether there is a check-off or not.

Mr. DEMCOE: If a man does not wish to be a member of the union but his dues are deducted, he is automatically a member although he does not want to identify himself with that labour organization.

Mr. GORDON: If there is an automatic check-off they would check off his membership dues and, therefore, that individual would remain a member in good standing and would not lose his job as long as he paid his dues.

Mr. GRÉGOIRE: I think the members of the Brotherhood of Railroad Trainmen pay their dues to a bank.

Mr. GORDON: I would have to look at the contract to find out the details before I could give you an answer, but if the employees in question are members of the union in good standing, then they would not be let out of a job just because they wanted to make a change.

Mr. GRÉGOIRE: I am thinking specifically about the Canadian Brotherhood of Railway Trainmen of America. They pay their dues to a bank because they are always on the road, but if they are in default over ten or 15 days they are subject to suspension from their jobs.

Mr. GORDON: Perhaps, Mr. Rideout, can you help me in this regard?

Mr. RIDEOUT: The running trades, firemen and enginemen, have a form which the company has agreed to which is sent by the superintendent to the employee informing him that because of non-payment of dues he is not going to be working after midnight of such and such a day. I think it is usually the tenth day of the month. The carmen's union are in a different position. There is a different type of form, and in respect of the carmen the railway has no interest in his association with the union at all. He pays his dues at a bank or some other receiving office. It is my understanding that if an employee instructs the railway to discontinue deducting money from his cheque in respect of dues there is a legal process involved.

Mr. GORDON: I was trying to ascertain whether I was right in saying that as long as a man has paid his membership dues he remains a member of the union in good standing.

Mr. RIDEOUT: That is true as far as the railway is concerned, but he may not be recognized by the brotherhood at all. He may not have been initiated, or even have attended a meeting.

Mr. GORDON: He could not be discharged for that reason?

Mr. RIDEOUT: No.

Mr. GRÉGOIRE: If he paid his dues, could he be turned out of the union and by that fact discharged for other reasons?

Mr. RIDEOUT: No.

Mr. GORDON: He certainly would not be discharged just because he is quarrelling with his own union.

Mr. RIDEOUT: The railway has no interest in that.

Mr. GORDON: But if the contract says he must be a member in good standing of that particular union to hold his job, then if the union notifies us that the man has not paid his membership dues, he may be subject to discharge.

Mr. GRÉGOIRE: Suppose he pays his dues to an office of the union or to the bank, and the union refuses to take his dues so as to turn him out, will the railway accept receipt of his dues and keep this member in the union?

Mr. GORDON: It is worth trying. I do not know what the contract says. It may be all right, but I would like to see the actual wording of the contract. I do not think the union could do that in that case.

Mr. RIDEOUT: No, I do not think so either.

The CHAIRMAN: Gentlemen, can I have leave to ask Mr. Gordon to proceed to make his statement?

Mr. GORDON: What on?

Mr. RIDEOUT: On the outlook.

The CHAIRMAN: On personnel.

Mr. GORDON: The last paragraph of personnel labour relations?

Mr. GRÉGOIRE: We have received the first issue of the committee proceedings for this year in English only, and we did not receive any French copies yet. Would you inquire into that, Mr. Chairman.

The CHAIRMAN: I have been inquiring and I understand the fact that there are five committees sitting at the same time and there is a great shortage of help, as you can see; this results in the fact that committee Chairmen have to double up, as well as our reporters, and they have to put in full time work. It is very difficult to get quick action. We have been sitting three times a day. It is difficult to ask a reporter to sit all day and then to produce notes the next morning. We sit again next morning at 9:30.

Mr. LLOYD: I was going to suggest, and I suppose members of the committee acting in other committees are aware of this problem, that more attention be attracted to this situation with respect to the interpreter personnel, as well as the facilities and office space they occupy. Could this be the subject of some comment in our report to the house, to give weight from all representatives of parties and do so as a subject matter of our report? I think this is a matter which needs very careful attention, certainly for the future, whatever may be our present circumstances.

The CHAIRMAN: Mr. Grégoire, the number is in the hands of the translators now.

Mr. GRÉGOIRE: Number 1 issue? Is it in the hands of the translators? We therefore will not receive it before Monday?

The CHAIRMAN: That is right. Will you proceed Mr. Gordon.

Mr. GORDON: Since December last a most intensive and serious study has been made of this important matter, which is referred to in the paragraph of my report here, and since that time I assume members will have had available a copy of the letter which I wrote to the Prime Minister on September 14, as well as the memorandum which was tabled in the House of Commons on October 4. That memorandum reviewed in detail what we had undertaken, and accordingly I think it would be best, Mr. Chairman, if I now placed this memorandum on the record, because I am anxious to lay the basis for any discussion that may follow.

This memorandum reviews the scope and objectives of the special work undertaken by Canadian National Railways with respect to the status of French Canadian personnel in the organization and the general policy of a broadening bilingualism.

#### 1. Special Committee Formed:

The board of directors, at their meeting in December 1962, reviewed in some detail the company's methods and procedures for the recruitment, appointment and promotion of supervisory and management employees, having particularly in mind the current discussions respecting the status of French Canadians in the organization. Included in such review were the methods and procedures for appraising the qualifications for and the performance of personnel in positions throughout the organization, and the existing delegation of authority for the approval of appointments and promotions.

The board at that time expressed the view that the methods and procedures were designed to produce fair and equitable treatment of all the company's employees and applicants for positions, but it was of prime importance that a thorough study be made to ensure that, in the practical application of such methods and procedures, their objectives were in fact being achieved: and that, in particular, such study should seek to determine whether more effective measures could be adopted to

- (a) attract to the company's service qualified French Canadians in larger numbers, and
- (b) see that French Canadian personnel had full opportunity to enlarge their experience and qualifications for promotions to positions of greater responsibility at all levels in the company.

It was agreed that such a study would be undertaken by a committee of the board consisting of Messrs. Charbonneau, Koerner, Levesque, Stewart and the president, with the committee to be furnished all necessary staff assistance.

#### 2. Prior Action:

Before dealing with the actual scope of the work undertaken in recent months, it should be pointed out that the company's recognition of the importance of expanding bilingualism within the framework of its operations and the enlargement of opportunities for French Canadians began before the setting up of the committee last December. A résumé follows.

- (a) The most significant re-orientation of the company's management structure as it affected opportunities for French Canadians was undertaken roughly three years ago with the adoption of a new form of management organization. (The actual re-organization studies began in 1958 and involved a great deal of work, as the

system then retained the basic structure since amalgamation in 1923.) This re-organization has created a completely unprecedented situation with respect to French Canadians taking charge and direction of the conduct of affairs in the province of Quebec. Prior to this re-organization, the breakdown of responsibility was such that the headquarters for central Canada (Quebec and Ontario) was in fact in Toronto. At that time, not a single French Canadian was to be found in the regional headquarters in Toronto. The immediate effect was to create, from the single central region, two new regions, one of which is now centred in Montreal. The four new areas which comprise this region extend from Riviere-du-Loup to Cochrane, Ontario, to and including Ottawa, up to Oshawa, Ontario, the Central Vermont lines to New London, Connecticut, and the Grand Trunk line to Portland, Maine. All of this territory now comes under the direct jurisdiction of the St. Lawrence region, in Montreal. More important still, the new region and areas have created opportunities for French Canadians to accept senior positions of greater authority without leaving their home province. The new areas and regions have a far broader scope of authority and, under the principle of decentralization, the area manager, for instance, is responsible for all major railway functions. This means, for example, that the area manager at Quebec city on most matters speaks with authority as the Canadian National manager. Of the supervisory and management positions in the Quebec area, practically all of these are held by French Canadians.

- (b) Three years ago, the Company undertook a most extensive examination to arrive at a new visual design program. The new Company symbol, "CN", appearing in all phases of the company's operations from coast to coast, was adopted among other reasons because of its bilingual aspect (Canadien National-Canadian National).
- (c) Attention has been directed, in the development of the visual design program, to increasing bilingual publications, signs, forms, posters, menus, advertising, etc.
- (d) A program to recruit graduates and undergraduates from French universities has been under way since 1953.
- (e) Language training on a moderate scale has been available within the company for some time.

### 3. Scope of Work Undertaken by Special Committee of the Board:

As indicated, the board committee appointed a staff working committee drawn from company personnel to assist it in its work. The detailed internal studies and analyses, in brief, embrace the following:

- (a) hiring practices:
  - (i) general;
  - (ii) graduates;
  - (iii) others: specialists, professional personnel, etc.
- (b) employment offices—location, personnel, screening processes, type of forms used.
- (c) selection for promotion:
  - (i) first level—supervisory;
  - (ii) middle management;
  - (iii) others.

- (d) training:
  - (i) general courses;
  - (ii) individual.
- (e) bilingualism:
  - (i) a review of positions filled by bilingual officers;
  - (ii) a review of the company's policies and practices.
- (f) a review of the progress of French Canadians following employment with the company.
- (g) a review of numbers, types, of professional, trained, etc., French Canadian personnel, who offer themselves for employment with the company.
- (h) some views of other corporations with headquarters located in Montreal but whose business activities are not confined to the province of Quebec.
- (i) a special examination of the state-owned railways in Switzerland and Belgium, with particular reference to the use of various languages in their operations and the participation of the various ethnic groups in the general employment and management levels of their respective organizations. (A member of the special committee of the board, accompanied by three officers of the staff working group, visited Switzerland and Belgium in April and held discussions with officials of the Swiss federal railways and the Belgian National Railways.)

In addition, the services of a professional research group have been engaged.

The aforementioned internal working material has been completed and describes in detail the current situation within the company, together with an assessment of the extent of existing participation by French Canadians at management level. All of this material is now in the hands of each member of the special committee of the board. The special committee has met, in its entirety, at least once a month since December and, in part, several times a month.

All of the material thus far compiled is preparatory to a final report by the special committee of the board which is now in the hands of the full board of directors.

#### 4. Interim Measures:

The analyses indicated that the proportion of French Canadians in senior management was low. There are many reasons for this:

- (a) Some have their roots in history.
- (b) The number of applications received from French Canadians appears to be on the light side.
- (c) Applications included a heavy proportion of arts graduates, difficult of placement within a largely technical railroading organization.
- (d) It would appear that French Canadians heretofore have not regarded the railway industry as an attractive field of employment.

It can be stated definitely that the frank analyses and studies which have been undertaken of the hiring and promotion policy and practice of the company have revealed no discriminatory elements. The fact must be acknowledged, however, that because the railroad industry in North America has been traditionally English-oriented it has looked to English-speaking institutions

for the recruitment of professional and specialist staff and for the same reason it has not seemed to offer a strong career attraction for French Canadians. These appear to be two key factors accounting for the low percentage of French Canadians in the "senior officer" group. The structure of the organization, now changed, was undoubtedly a third factor.

In light of this, it was decided to take some interim measures to adjust and enlarge procedures for recruitment, employment generally, training, bilingualism. A résumé follows.

- (a) An accelerated program to recruit graduates and undergraduates from French Canadian universities has been undertaken and thus far has doubled the number of individuals obtained as compared with last year. The recruiting drive has been directed largely towards the universities of Montreal and Laval.
- (b) An accelerated program has been undertaken to increase the numbers of French Canadians attending established training courses.
- (c) The development of succession planning has been undertaken, the objective being a higher proportion of French Canadian officers at senior level. The studies into methods of accelerating the rate of progress of capable French Canadians have resulted in a modification to senior officer career planning procedures. Previously, selection was on an "ad hoc" basis relating mainly to individuals and individual positions expected to become vacant. The new method calls for a periodic review of all vacancies to occur over a period ranging from six months to two years, depending on the jobs concerned. Vice-presidents and heads of departments have been asked to submit names of candidates regardless of the territory or function involved, and selection is made through joint consultation. In this way, desirable career paths are recommended for promising individuals. This method, assiduously followed, should be of particular interest to employees who aspire to positions of greater responsibility. Under the old system, with the bulk of French Canadians working in or adjacent to Quebec, it was not unnatural that they would not be known to officers outside Quebec. In these circumstances, French Canadians could have had less opportunity for advancement. However, the new procedure is designed to enlarge the opportunities.
- (d) An assessment has been undertaken of individual departmental requirements and, as vacancies arise at middle and senior management levels, individual departments are making every effort to assure that qualified French Canadians are given opportunities for advancement. Where it is necessary or advisable to fill certain positions from outside the Company, employment opportunities are being designed to attract French Canadians wherever possible. Advertisements are placed in both French and English language newspapers.
- (e) As a result of the measures indicated in the foregoing paragraphs it has been possible to move promising French Canadian officers into new and more senior positions which, by assisting their development, should also assist to prepare them to compete on merit for executive appointments. Since January 1, 1963, 45 per cent of all French Canadian "senior officers" have been promoted, transferred, or appointed to positions providing more opportunities for development.
- (f) A large scale French and English language instruction program has been authorized and the following steps have been taken: Professor A. Rigault, director of the language laboratory at McGill University, has been retained as consultant.

Two reports on various aspects of language laboratory training have been prepared.

Acquisition of a language training laboratory has been authorized. Specifications have been developed to invite tenders for the installation of a laboratory.

Professional linguists are being sought for appointment as instructors. Since October 1962, seven employee instructors have trained approximately 100 management and non-management personnel in the French language.

A French/English dictionary of railway terminology is almost complete.

Beginning in September 1963, 135 employees from the St. Lawrence region are receiving French language instruction at the University of Montreal.

Contacts have been made with St. Joseph's University, Moncton, with a view to providing French language instruction.

The objective of the language training is to foster the development of an environment in which both languages can be freely used.

The initial goals are training for:

- (i) Personnel requiring additional bilingual skills in job performance;
- (ii) Personnel whose normal opportunities for promotion could be adversely affected by a bilingual deficiency.

These goals suggest that an opportunity for language training should be furnished to approximately 1,000 employees in bilingual sections of Canada.

General requirements of the program are:

- (i) The individual position holder must be free to refuse training;
- (ii) There must be need or opportunity for the employee to use his new skills;
- (iii) For reasons of economics and to reduce the student training time required, the instruction should be of the highest quality available.

Equipment includes a "language laboratory", a fairly recent but widely adopted innovation which greatly facilitates thorough and rapid learning of speech skills. Full implementation is expected to take three to four months; subsidiary testing and training will be done in the interim.

The 22 units of equipment will be installed in the headquarters building in Montreal.

- (g) Attention has been directed to increasing bilingual publications, forms, posters, menus, advertising, station signs, headquarters building signs, office identifications, and so on. The following is a list illustrating the current situation:

#### *Passenger Services*

New all bilingual ticket forms instituted.

System time table. (This was the first time in the history of railroading in Canada that a time table was made bilingual.)

More folders, posters and general promotion literature have been produced in French.

#### *Public Relations*

The company magazine "Keeping Track" was produced in French: "Au Fil du Rail" (1958)

The new company symbol "CN" was adopted because of its bilingual aspect (Canadien National—Canadian National).

As the visual redesign program is being carried out, every consideration is being given to making full use of both languages.

*Industrial Development and Real Estate*

The vast complex on Dorchester Boulevard in Montreal was given the name "Place Ville Marie".

A brochure: "Look to Canada for Expansion" "Profitez du progrès économique du Canada"

Several economic studies of development prospects.

*Transportation and Maintenance*

Instructions to employees

Maintenance of Way Manual

Motor car rules

Films and posters used by Safety Department

*Accounting*

Bilingual cheques

Bilingual money orders

*Hotels*

Everything bilingual in Le Reine Elizabeth

At the Chateau Laurier in Ottawa, action has been and is being taken to make signs and printed material bilingual and to add to the language skills of employees. For example, employees in the new "L'Auberge" room who will be in contact with the public, will be bilingual, and daily French classes have been instituted in pursuance of the policy to extend the use of the French language.

*Train Equipment*

Steps are now underway to expand the use of bilingual signs and menus on all passenger equipment and, as well, exterior signs on freight equipment.

*Personnel Department*

General information to employees

Pension plan brochure

Welfare plan brochure

Various directives

Promotional material

Brochures directed to university graduates

Application forms

In general, it can be said that much progress has been made in the matter of bilingualism. Signs in stations and along the railway line are currently being checked to make sure that correct bilingualism is in use. Another recent change is that applications to the Board of Transport Commissioners, together with pertinent material, are prepared in both languages for the convenience of municipal councils or other public services, when the application involves a municipality in the province of Quebec.

Action indicated in the foregoing has either been accomplished or is in hand.

Many of these things have been in force for many years and, actually, what is under way now is an expansion and acceleration of programs already in existence.

*5. Long Range Plans*

When the board of directors has completed its study of the final report including long range objectives, then the detailed machinery for its careful implementation will be worked out. The general philosophy of the report is a recognition and practical acceptance of the bicultural character of Canada. The approach is how best to recognize the equality of the two official languages to

meet the needs of the Canadian public and, as well, to ascertain how French Canadians may best realize their very legitimate ambitions to play a role in the company based upon equality of opportunity and accomplishment.

\* \* \* \* \*

A great deal of thought has been given to the time factor involved in the implementation of these broad objectives. Basic changes in the composition of the management group are largely affected by the age distribution of managers. This indicates the need to develop an evolutionary approach in the attainment of the long-term solution to the situation. Nevertheless, there will be a visible change within a short period of about three years. In other words, the overall approach in the implementation of the policy embraces both short and long-term objectives.

The CHAIRMAN: One moment, please. Mr. Gordon, have you anything further to add as a statement? Have you statistics for future use and questions?

Mr. GORDON: I have certain material in regard to the statistical position which I will be glad to use, if any members have something in mind particularly.

The CHAIRMAN: I wish to congratulate you on behalf of the committee for that statement. I think it is a very excellent one. If I may express my own opinion, I think that if every large corporation at this time had reached this stage in intention and fact on this matter, we would be well ahead of the Royal Commission on Bilingualism and Biculturalism.

Mr. FORBES: Has Mr. Gordon any statistics in relation to his report?

The CHAIRMAN: Do you want them all in one group?

Mr. RIDEOUT: I am only suggesting, not requesting. I wonder if it would not be helpful at this time. We have heard a lot of pros and cons. I was here at the time the former minister was here during the last meeting, and different people have said to me: "He did not say this," and others have said, "Yes, he did." Would it not be helpful and rectify the situation if Mr. Gordon should place on the record what he did say at the last meeting, and if he has a record of it?

The CHAIRMAN: I asked Mr. Gordon if he wants to reply he may do so.

Mr. GORDON: The letter referred to in the opening statement has been tabled. It is the letter of September 14 that I wrote, I discussed this with the Prime Minister earlier in the year, and in the course of the discussion he said: "How has all this thing happened? What is your own interpretation of it? I would like to just have your own views of how this thing came about." I said: "I will write you a letter and tell you my own outlook on the thing and how these distortions came about."

The CHAIRMAN: Would you care to read that letter?

Mr. GORDON: Yes, I will. This was written at the request of the Prime Minister, and it bears the date of September 14, 1963. It reads as follows:

Canadian National Railways  
office of  
Chairman and President  
P.O. Box 8100, Montreal 3, Quebec.  
14 September 1963.

Rt. Hon. Lester B. Pearson, PC., O.B.E., M.A., LL.D.  
Prime Minister of Canada  
Ottawa, Ontario

My dear Prime Minister:

At the end of our talk on Tuesday last, you asked me to let you know the circumstances—as I saw them—surrounding the allegation

which has been made, that, in an insulting way, I have disparaged the capabilities and qualifications of French Canadians.

My short answer is that the allegation is absolutely untrue. Nevertheless, I am aware that this has been repeated many times in one form or another. Consequently I welcome this opportunity to endeavour to clear the record.

The matter arose during the hearings of the Sessional Committee on Railways, Air Lines and Shipping in November 1962, when a discussion, although comparatively brief, took place about the employment of French Canadian and their participation in the administration of Canadian National Railways. The actual passages appear in Volume No. 1, November 19, pp. 59-66; Volume No. 3, November 23, pp. 303-305; Volume No. 4, November 28, pp. 313-317.

Since then, there have been a great many versions of what actually was said. Many of the reports and stories—in newspapers, on radio and television, in speeches and published letters—have falsely conveyed to the public the impression that I made disparaging and insulting references about the capability, ability and qualifications of French Canadians.

It was alleged, for example, that I declared that French Canadians were “incompetent”.

I did *not* make any such statement. I would *not* make such a statement. It does *not* represent my opinion.

It was reported that I said there were no French Canadians to be found anywhere, capable of occupying senior positions in Canadian National Railways nor of qualifying for them.

I did *not* make any such statement. The Hansard record shows that I said, and I now reaffirm, “I do not say for a moment that we have not able French Canadians in our service, particularly in the Province of Quebec—of course we have.”

Shortly after the Parliamentary Committee ended its hearings and, as the distortions seemed to increase, I considered it essential to issue a statement on the matter, and I did so on November 29. That statement said in part:

“Recent comment in the press, radio and television appears to be creating an impression in the mind of the public that does a great injustice to the French-speaking officers and employees of Canadian National Railways. There is a completely false implication that French-speaking Canadians do not hold senior positions and that our people are not competent. I wish to say emphatically that any such statements and insinuations are wrong . . .

“ . . . To cast doubt upon the competence and ability of these French-Canadian officers or upon the important role they are playing in the Company's activities does a great disservice to them and the organization as a whole. Nothing in what I have ever said, short of deliberate and malicious distortion, can be used in support of such a proposition . . .

“ . . . Furthermore, I deny most emphatically that I have ever said, as reported by Canadian Press and published in various newspapers, that ‘there are no French Canadians qualified to hold high administrative posts with the railway.’ ”

It was reported that I had said that no French Canadian will be appointed to a top position because these are awarded on merit.

What I actually said was: “. . . There is not going to be a promotion or an appointment made *just because* a man is a French Canadian.”

This statement simply declares that fair practice is followed in personnel matters. Our Management Guide on Policy and Authority records the policy in more elaborate terms:

“Vacancies will be filled from the ranks of present employees unless there is no one available within the System with the requisite knowledge, skills, and experience and it is not possible or economic to train someone for the position in time to meet the need;

“The best qualified person shall be appointed from among as wide a selection of potential candidates as it is practical to consider, including a programmed number of university graduates whose courses of study and personal qualifications make them outstanding candidates for specific positions.”

It was said that I have “insulted” French Canadians.

I have searched carefully and find no support of any kind for this accusation. My personal feelings for my French Canadian compatriots—both as business associates and as friends—are warm and friendly.

It was said that I refuse to recognize the existence of French Canadians and that I ignore the “French Fact”.

This is *not* true. It is an absurd and laboured interpretation of my evidence as recorded in Hansard. What happened is that under questioning about French Canadians in the employ of Canadian National, I said: “I want to find out from you who is a French Canadian”, and I also said: “I do not know how to define a French Canadian.”

I meant only by this that our staff records did not contain information about the ethnic origin of employees. A check based only on the appearance of family names could be, in many circumstances, misleading.

The record is there to be read. Nevertheless, I recognize that flowing from my appearance at the Parliamentary Committee was much criticism, distortion, misunderstanding, and some public unrest. No one regrets more than I that this occurred. The evidence on the subject, as you see, was fairly brief. It was not what I might call a calm and quiet discussion. That, of course, as you well know, is the risk inherent in the give-and-take of quick questioning in Committee, which moves with great rapidity from one subject to another. I do not complain about it in any way.

Shortly after the Committee, in December 1962, in a much quieter atmosphere, I gave an interview to the Editor of *La Presse*. During the course of that interview I referred to the bicultural character of Canada and, as well, the necessity for the appointment of a Royal Commission to examine the whole matter of Canada as a bicultural country and the consequences of that fact. The partial text of the interview is as follows:

—*La Presse*: So, you believe in the biethnical character of Canada?

Mr. Gordon: It is a fact.

*La Presse*: Your testimony before the Railway committee gave the impression that you did not recognize this fact.

Mr. Gordon: But I also did not recognize, on reading newspaper accounts, the testimony that I had given. I was even quoted as saying: “I shall never employ French Canadians anymore”. These are words that I have never said.

*La Presse*: I am neither referring to newspaper accounts nor to televised comment, but to the official transcript of your testimony. In answer to a member of parliament who was questioning you, you said. “I do not know how to define a French Canadian. But I will

say this: These (the vice president of C.N.) are all Canadians". And further on you stated: "There are several members of the board of directors who can speak French, if that is what you want to know". To any French-Canadian listener, these two sentences amount to denying the very existence of French Canada and of the bicultural character of Canada.

Mr. Gordon: I am willing to admit that these answers are unfortunate if they create the impression that you mention.

La Presse: But why did you give them?

Mr. Gordon: Do you know the atmosphere in which these committee sittings are held? A question is thrown at you suddenly. You do not expect it and you are required to answer immediately. If I have produced the impression that I think there are no French Canadians, I certainly did not mean it...

"...I believe that the best solution would be to create a royal commission that would be given the task of examining the whole matter of Canada as a bicultural country and the consequences of that fact. And not only at the CN, but everywhere; in the civil service, the major industrial companies and all public utility organizations. Far from having any objection to such an investigation, I consider it as the great means of attaining factual scientific knowledge of the problems involved and of developing satisfactory solutions..."

The fact that I had publicly suggested and endorsed the establishment of a royal commission received widespread approval in the French language press.

Since last year, however, the criticisms and comment have continued to appear from time to time, and it might well be asked what has been done on my part to correct these misapprehensions. In view of other forms of unrest which occurred in the province, I have refrained since last December from making any public comment. I felt that to engage in further public debate might aggravate an already difficult situation which was causing great public concern. That situation has brought tragedy and heartbreak to individuals, their families and relatives.

We have, however, been doing a great amount of work, internally in the Company, on this whole subject, reviewing the procedures and policy of recruitment, training and promotion of employees. We have made special analyses of how best to recognize the equality of the two official languages to meet the needs of the Canadian public, and, as well, to ascertain how French Canadians may best realize their very legitimate ambitions to play a role in the Company based upon equality of opportunity and accomplishment. We have a very forward and positive program in this regard, one which I can assure you will compare more than favourably with any branch of the Federal service, and for that matter, with any company with a national-international scope of operations. The details of this I shall be glad to send to you if you are interested.

I have had a fairly long and active business life in Canada, and I have never indulged in *any kind* of discriminatory staffing procedures in any business or organization under my direction. During my service with the Canadian National, I have insisted that fair opportunities be given to any applicant for employment as well as in promotion selection.

I recognize full well that in these times there is a searching look at the meaning of Confederation involving a re-statement of certain

rights and national aspirations. Our Company has performed an intimate part in the making of Canada. We are deeply conscious of this and proud of it, and our objective is to serve not only the transportation needs of the country but to serve national unity as well; a unity which must rest on the complete and accepted partnership of all French and English speaking Canadians.

Yours sincerely,

That was a letter I wrote to the Prime Minister at his request. I think I might as well read his acknowledgement which is dated September 24, and reads as follows:

“Dear Mr. Gordon:

I wish to acknowledge with thanks your letter of September 14, in which you deal with the allegations made that you have disparaged the business capabilities and qualifications of French speaking Canadians.

I appreciate receiving the information contained in your letter which supports your assurance that you do not believe in, and have not practised, any form of discrimination of staffing procedures, especially discrimination which would violate the complete and accepted partnership of all French and English speaking Canadians.

With best regards,

Yours sincerely,

Signed: L. B. Pearson

The CHAIRMAN: Gentlemen, after hearing that letter I hope that we can go ahead now with this discussion in respect of something else other than that letter and things which took place at committee meetings last year.

Mr. FISHER: I should like to ask Mr. Gordon whether he has any report yet or had an opportunity to collate the information from this query that went to all employees?

Mr. GORDON: I am going to deal with that situation. I intended to make a statement in regard to our statistical position. I want to introduce that by saying that the basic personnel records of the company do not indicate ethnic origin. Some background of this may be found in a memorandum issued in 1953 by the Industrial Relations Branch of the Department of Labour in respect of Canada's Fair Employment Practices Act. That memorandum said: “the principle underlying Section four, subsection five of the Act is that a person's race, national origin, colour or religion rarely affect his work performance and normally should not be the subject of employment inquiries which he is required or expected to answer.” I just mention that to explain why our basic records do not contain that information.

We have, however, in the interests of dealing with this matter been able to put together some statistics from a count based on the appearance of names, and more recently by a special questionnaire which was sent to all employees. The purpose of the questionnaire was to: (a) obtain up to date data about language skills possessed by employees; (b) obtain guidance on any preference of work; (c) have some factual information about our employee groupings which might be useful in any submission we might make to the Royal Commission on Bilingualism and Biculturalism.

The questionnaire was issued on October 3. I want to make it clear that this was entirely a voluntary matter and no employee was required to answer. We explained to them, however, that if they would answer it would be helpful to us in respect of answering questions regarding this general subject. Complete reports have not been tabulated, but the information now available from the

questionnaire and from previous studies indicates as follows. First of all, I should say there were 83,454 forms actually sent out. That is the machine count; this is going through the data computer in the form of punch cards as we get a reply. We have received 64 per cent of the replies at this stage. These have been processed, and on the basis of this 64 per cent of replies, plus any collateral information we might have, this is what is revealed. You will agree that 64 per cent is a pretty conclusive sample, and I am sure that when we get more of it—we have more in now but this is what I am basing it on—we will probably get a fairly complete response to the questionnaire.

On the question of the ethnic origins, 25 per cent of all our employees across Canada show French origin. In the St. Lawrence region, which embraces what I might call the French Canada section, or the section where French is in common use, 59 per cent of the replies in that region show French origin.

In regard to the question of language skills, 27 per cent of the replies show bilingual speech on all Canadian Lines, 61 per cent of the replies show bilingual speech in the St. Lawrence Region, and 14 per cent of the replies show French only spoken in the St. Lawrence Region.

Now, as to language preference at work, 14 per cent of the replies show they prefer to speak French only at work. That is the same percentage as is shown as speaking French only in the St. Lawrence Region. I repeat that, 14 per cent show they prefer to speak French only at work; 8 per cent of the replies show they prefer to use both languages at work on Canadian Lines; 43 per cent of the replies show they prefer to use French only at work in the St. Lawrence Region, and 20 per cent of the replies show they prefer to use both languages at work in the St. Lawrence Region.

We have also some figures which cover the ethnic origin data. This stressed their background and where they came from. 49.6 per cent claim the British Isles, 24.9 per cent French, 4.1 per cent German, 3 per cent Italian, 1.1 per cent Netherlands, 1.9 per cent Scandinavian, 8.5 per cent Slavic, and under the general heading of others, 6.9 per cent. That takes care of 64 per cent of the total replies that I mentioned.

I have other data here, but that is the significant data that I have given you, and perhaps you can ask me any other questions.

Mr. PUGH: From that, Mr. Gordon, one-fourth of those replying would be of French Canadian origin, that is 25 per cent gave their origin as French Canadian.

Mr. GORDON: That is all over Canada, and 59 per cent show French origin in the St. Lawrence region, which embraces what I describe as French Canada. You would not object to that description, would you, Mr. Grégoire?

Mr. GRÉGOIRE: No.

Mr. PUGH: That is a fairly good report on the total number who are bilingual.

Mr. GORDON: Sixty-one per cent show bilingual speech in the St. Lawrence Region.

Mr. PUGH: That is what I mean, considering the fact that 25 per cent of those who filed a reply, is a good percentage of the total.

Mr. GORDON: I admit that the percentages surprised me. I would not have thought they were that high. This is a very factual analysis based on the replies to the questions by the individuals themselves. We have not formed any judgment. We have said "What do you think you are?" and the individual gave us that reply himself.

Mr. FISHER: I would like to know what percentage of your employees are within the St. Lawrence region?

Mr. GORDON: I can tell you that.

Mr. VAUGHAN: About 20,000 I would say.

Mr. GORDON: We have the figures by provinces. I would like to see whether we have it by regions.

Mr. GRÉGOIRE: What is the difference between a province and a region? How many regions are there?

Mr. GORDON: Five.

Mr. FISHER: Please give it to me by provinces.

Mr. GORDON: The statement I have here shows in Newfoundland, 5,245; Prince Edward Island, 953; Nova Scotia, 4,713; New Brunswick, 6,813; Quebec, 21,994; Ontario, 23,274; Manitoba, 12,167; Saskatchewan, 3,786; Alberta, 6,263; British Columbia, 5,213.

The total for all Provinces is 90,421.

This figure does not include our employees in the United States and overseas.

Mr. FISHER: What percentage of your track have you got in the province?

Mr. GORDON: I believe it is shown in the report.

Mr. VAUGHAN: It appears by regions in the report.

Mr. GORDON: The province figures are as follows: Newfoundland, 705.5 miles; Prince Edward Island, 278.6; Nova Scotia, 952.2; New Brunswick, 1,301.0; Quebec, 3,264.7; Ontario, 5,370.9; Manitoba, 3,117.5; Saskatchewan, 4,411.5; Alberta, 2,195.3; British Columbia, 1,455.6. The total is 23,052.8.

Mr. FISHER: One can arrive at the conclusion that the disparity between, let us say the mileage in Quebec and Manitoba is roughly equal, and yet Quebec has many more employees. Is it because your headquarters staff is in Montreal?

Mr. GORDON: That would be part of the reason. Also, of course, there is a heavy concentration of traffic around the Montreal area.

Mr. FISHER: You have not any picture of the traffic by regions?

Mr. GORDON: I did have it at one time.

Mr. VAUGHAN: It is difficult to break the traffic down by provinces.

Mr. FISHER: The point I am interested in is that it seems that if you compare Ontario and Quebec in terms of mileage, Quebec has done very well in terms of jobs with the CNR as compared with Ontario.

Mr. GORDON: I think that is a fair inference.

Mr. FISHER: In other words, there is a certain advantage to Quebec from the fact that the CNR is centralized in Montreal.

Mr. GORDON: As I pointed out in my statement, there are job opportunities for French Canadians because of the existence of the headquarters in Montreal, and especially senior job opportunities in that respect.

Mr. GRÉGOIRE: And also maybe because in the province of Quebec you serve more municipalities within 100 miles than you might in Manitoba, on an average scale. You would serve many more municipalities in a province like Quebec.

Mr. BALCER: It might be that in the past Quebec did not have its equal share of railroads in comparison with the other provinces.

Mr. GORDON: Mr. Balcer, with all due respect, I would disagree; as you know, that statement has been made but I am able to disprove it.

Mr. BALCER: I think Mr. Fisher's point is as silly as my question. We all know that the metropolis of Canada is Montreal.

Mr. FISHER: I object to being told that my question is silly.

Mr. BALCER: You have been trying to show that we are asking for some kind of favouritism.

Mr. FISHER: I want it made clear that the Canadian National Railways have more jobs in the province of Quebec in respect of the mileage and, I would assume, traffic, than any other province, and I think this is a point we should keep in mind.

Mr. BALCER: Well, you have a stretch in northern Ontario where you have only one station in 100 miles, and there is also the stretch between Montreal and Ottawa.

Mr. FISHER: Yes, and there are also stretches between Kingston and Toronto.

Mr. GRÉGOIRE: If you would pay careful attention to the questions I am sure you would be satisfied.

Mr. FISHER: If some of you bellyachers would take note of the advantages you receive instead of pointing out the disadvantages it would be fairer.

The CHAIRMAN: Gentlemen, I do not think this is a subject which requires name calling. I think the facts can be brought out for whatever reason they are brought out.

Mr. FORBES: Mr. Gordon, what is the total CNR mileage in Manitoba?

Mr. GORDON: If you would excuse me, may I deal with the implication of Mr. Balcer's question. I have a long statement covering our position in Quebec and I will just read one paragraph of it:

Since the war, Canadian National Railways has constructed more new lines than any other railway on the North American continent. Quebec has gained more miles of new CN lines than all other provinces combined. The development of its rich natural resources has benefited accordingly.

I did not want to leave anything on the record that would indicate it was otherwise.

Mr. BALCER: But, you are building lines where they are necessary and where it is economically feasible to do so.

Mr. GORDON: That is right. But, I want to say we have serviced Quebec. There have been statements made many times that Quebec has not been properly looked after in respect of CNR lines, and that is absolutely untrue.

We build lines where the traffic warrants it, and we have been glad to do it because it means more business for us. It was not done as a favour; but the facts are we built more new CNR lines in Quebec than in all other provinces combined, on the date of this statement.

Mr. BALCER: Possibly that was because we had the natural resources in Quebec. There are less line abandonments there than in the other provinces.

Mr. FORBES: May I have the answer to my question now? What is the total CNR mileage in Manitoba?

Mr. GORDON: It is 3,177.5.

Mr. GRÉGOIRE: Mr. Chairman, I think in making comparisons, as we have been doing, puts us off the main subject. If you want to make comparisons I have a good many I can bring forward, but I would not like to enter into such a discussion a this time.

The CHAIRMAN: May we go ahead with our questions?

Mr. GORDON: What was the question?

The CHAIRMAN: Mr. Forbes wanted the total mileage in Manitoba.

Mr. GORDON: I gave him the answer.

Mr. BECHARD (*Interpretation*): Mr. Chairman, I do not want to be interpreted as trying to displease the authorities of the CNR, and particularly the president, Mr. Donald Gordon, but I think, after reading the statement a little while ago, in all justice we must congratulate personally, as I am doing now, the authorities of the Canadian National Railways and, in particular, Mr. Gordon, for the efforts he has made for some time now to improve the lot of French Canadians within the Canadian National Railways system.

I believe it is a model which could be used by several other firms or companies, especially crown corporations. If Mr. Gordon wants to give his recipe to other companies I think bilingualism will progress in this country.

Mr. GRÉGOIRE: Mr. Chairman, I would like to propose an adjournment; we have been here for 3¼ hours.

Mr. FISHER: I think we should finish this.

Mr. GRÉGOIRE: Not before six o'clock. If we adjourn now I would have an opportunity to get some necessary work done in my office.

The CHAIRMAN: Gentlemen, what time would you like to meet this evening? I think if we could meet at 7.30 p.m. we probably could finish this evening.

Mr. BALCER: Would you make it 8 o'clock?

The CHAIRMAN: I was hoping we would try to complete this but if you think 8 o'clock is better I will go along with you.

Mr. GORDON: Could we make it 7.45 p.m.?

Mr. BALCER: Eight o'clock.

Mr. FISHER: Go ahead, we would hate to keep you from a national audience.

The CHAIRMAN: Would you like to have our evening meeting at 7.30, 7.45 or 8 o'clock?

Some hon. MEMBERS: Eight o'clock.

The CHAIRMAN: We would not have to sit tomorrow morning if we finished tonight.

Mr. LLOYD: In view of the statement made by Mr. Gordon I would hope that fellow members would feel that possibly we could finish this soon.

I would like to add to the compliments expressed to Mr. Gordon by Mr. Bechard. I think this was a very comprehensive and far reaching report, and I think it is a factual report.

This is one of the reasons that makes me believe there is some value, after all, in this committee. I think this statement should greatly obviate the necessity of extensive questioning.

I am not familiar with the question in Quebec as well as the Quebec members are. I may be wrong, but I would hope that we would be able to close this section in 20 minutes and then we perhaps could meet a little later this evening for the remainder of the report. I am agreeable to stay.

Mr. BALCER: I would like to add my comments to what Mr. Bechard said.

The CHAIRMAN: We will adjourn until 8 p.m. this evening.

#### EVENING SITTING

The CHAIRMAN: Gentlemen, we have a quorum. We will proceed from where we left off at six o'clock. Mr. Grégoire.

Mr. GRÉGOIRE: I would like to ask a question of Mr. Gordon. In Montreal there is a society called the St. Jean Baptiste Society, which is the national society of the French Canadians. That society undertook a campaign called "Visage Français" or "French Image". They are touring the buildings and making suggestions for improving the bilingual factor in Montreal. Would you agree to one of your public relations representatives making a tour with two

or three of the St. Jean Baptiste Society representatives? Would you agree to these people making a tour of all your buildings and, without any grievance on your part, receiving their suggestions?

Mr. GORDON: Yes, we would be very happy to welcome them.

Mr. FISHER: May I ask one question? What is the St. Jean Baptiste Society? I have heard of it but I want more details. I have understood from comments I have seen in the French press that this society is not truly representative of French Canadians.

Mr. GRÉGOIRE: It is recognized as the national society of French Canadians. What you have read in the press may have been about another society. This one is recognized as the national society. You may be speaking about the order of Jacques Cartier.

Mr. FISHER: Do you mean the Jean Baptiste society is the association that expresses the French Canadian point of view?

Mr. GRÉGOIRE: No, I would not say that necessarily. It is not an official society but it is one of the oldest French Canadian societies.

The CHAIRMAN: Shall we proceed with the Canadian National Railways?

Mr. GRÉGOIRE: Then I may tell them that you would welcome them?

Mr. GORDON: Yes, we will be happy to receive them. We are happy to receive anyone who wants to take a look at us.

Mr. GRÉGOIRE: Mr. Gordon, I saw that you have appointed a new vice president during the last year, Mr. Maurice Archer.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Are you satisfied with him?

Mr. GORDON: Yes, most definitely. He has fitted into our organization very well. He has been very well received and he is doing excellent work.

Mr. GRÉGOIRE: He is as competent and as efficient as any other of the vice presidents of Canadian National Railways?

Mr. GORDON: I do not know how you measure that. All I am saying is that he is doing the job for which we appointed him in a very satisfactory way.

Mr. GRÉGOIRE: As satisfactory as any other vice president?

Mr. GORDON: How does one measure satisfaction? I do not know. I will not make a comparison. I will say that he is discharging his functions in an excellent fashion, and I am completely satisfied.

Mr. GRÉGOIRE: So you have given us the proof, or perhaps I should say that he has given us the proof that one can find French Canadians who are able to occupy such functions.

Mr. GORDON: If we have them available at the time. Of course the situation there is that we had a resignation from the position of Vice President for Research and Development, and at the time we found ourselves in need of a replacement, and a replacement in a hurry. Again, it happened that I knew Mr. Archer; I have known him for some years. I knew of Mr. Archer's qualities and I was able to approach him to see if he was willing to move over to the CNR. I do not mind telling you, however, that I had to put a great deal of pressure on him to convince him that he would be better off or as well off with CNR as in the job he had. He did not want to leave his job, but I was able to persuade him there was a future for him in Canadian National Railways, and he decided to make the move.

Mr. GRÉGOIRE: There are 18 million Canadians in Canada, according to the census.

Some hon. MEMBERS: Nineteen million.

Mr. GRÉGOIRE: The last statistics showed 18,600,000.

Mr. McILRAITH: Nineteen million.

Mr. GRÉGOIRE: There are six million French Canadians in this total figure of Canadians.

Some hon. MEMBERS: Five million.

Mr. GRÉGOIRE: Six million.

The CHAIRMAN: Order. Gentlemen, it is obvious that you do not all go to the same school or you do not all read the same books. There are about 19 million people and about 5½ million French Canadians in Canada; let us settle it in that way.

Mr. GRÉGOIRE: Would you agree—and I am not asking you to take a vice president out of his job—that over the years as the positions become vacant you should try to reach the same proportion on the board of directors of Canadian National Railways?

Mr. GORDON: Let us not get into the confusion we found ourselves in before. You are not talking about the board of directors, I take it, in terms of the board of directors shown in the green sheet in the report?

Mr. GRÉGOIRE: No.

Mr. GORDON: You are thinking of the management?

Mr. GRÉGOIRE: "Conseil d'administration" is board of directors and "direction" is administration.

Mr. GORDON: A confusion arose last year and I do not want to have it repeated. You are really talking about the management as distinct from the board of directors?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: As I said in my statement, the question whether or not they are French Canadians or English Canadians or any other Canadians has nothing to do with the actual appointment when the vacancy exists. We will select the man best qualified at the time. On the basis of the new look that we have taken in regard to the opportunities available to French Canadian staff in our recruitment policies, I would hope that over a period of years there will be French Canadians who will be available at the time and who will qualify, but we do not have a vacancy every year for vice presidents; it is just a matter of chance and the date when the position is open.

Mr. GRÉGOIRE: That is why I insisted at the beginning that I did not want you to revoke one appointment in order to appoint another. That is not what I would like.

Mr. GORDON: I think it is covered in my statement.

Mr. GRÉGOIRE: Mr. Gordon, I think your report this afternoon was very clear. In fact, I was surprised—and I use that term in its good sense—at your report. You gave us some statistics, you gave us some figures and, best of all—and it might surprise my friend Mr. Fisher—I think you more than many others have understood what bilingualism is; you do not speak about multilingualism. I was really glad to see that you spoke of bilingualism within Canada rather than using the term bilingualism within Quebec. That is a thing many people do not understand, and I was surprised.

Mr. FISHER: Question.

Mr. GRÉGOIRE: I am coming to the question. I would like to have some comments on some points which may be minor but which may throw some light on some facts contained in the report. A month or so ago I sent a telegram and I received this account which I am holding in my hand. The account is completely in English.

Mr. VAUGHAN: That is an old form.

Mr. GRÉGOIRE: I received the bill about a week ago.

Mr. VAUGHAN: They have new bilingual forms.

Mr. GORDON: We do not want to throw away the old ones, but when they are used up we will start using the new ones. That is my Scottish blood making itself known. I hate to throw things away. I want them used up and then we will get into the system of the new ones.

Mr. VAUGHAN: The new form has the CN symbol upon it.

Mr. GRÉGOIRE: I approve of your not throwing away the taxpayers' money. We may understand that anyone receiving these forms will know they are old forms and that there will be a change?

Mr. GORDON: It is the transition period.

Mr. GRÉGOIRE: A friend of mine in the press gallery here went to France and he went into the Canadian National Railways office in Paris where he received some material—he received it in the English language in Paris, France. Is that also old material?

Mr. GORDON: I wonder if he asked in French for it.

Mr. VAUGHAN: The manager there is Parisian.

Mr. GRÉGOIRE: This is not bilingual; it is in English only.

Mr. GORDON: If he had asked for it in French I am reasonably sure he would have got it.

Mr. VAUGHAN: The Paris office is a French office. They have a new sign now which they have put on the building recently. The CN symbol is on the front of the building in Paris.

Mr. GRÉGOIRE: That is the new material with the new sign.

You have mentioned developments in appointments in the last year. For a couple of months I have received your magazine *Keeping Track* in which all the appointments made every month are listed. For example, in November, 1962, there were 22 appointments contained in the magazine, and out of the 22 there were three French Canadians.

Mr. GORDON: Yes, but you must look at their location. You cannot judge by any individual issue of the magazine. You have to take it on an over-all basis of a year to form a judgment, because we may have appointments that are due, for instance, in Vancouver and this might happen at the time this particular edition of the magazine is published. If you take any one of them you cannot form a judgment; you have to look at the location of the appointments and I think you will find they are self-explanatory.

Mr. GRÉGOIRE: I can see in this list "Montreal", "Montreal", "Montreal", "Montreal", "Montreal", "Montreal", "Montreal".

Mr. PUGH: There is no indication that they cannot speak French? Perhaps a good majority of those are bilingual.

Mr. GRÉGOIRE: These are English.

Mr. GORDON: We would have to analyse them to find out. This just happens to be a group of appointments for that particular month, and it may be that in another month we would have more French Canadians. I am sure if you look you will find many more French Canadians. It depends when the appointments become due and when the vacancies exist.

Mr. VAUGHAN: Did you see the November issue?

Mr. GRÉGOIRE: You have mentioned many new appointments. Would you be able to give us statistics about the new appointments for one year?

Mr. GORDON: Yes, we could draw that together. It is a matter of co-ordinating announcements in the magazines.

Mr. GRÉGOIRE: There is another set of statistics I would like to have. In February, or March I went north of Montreal to a place where there were some members of Canadian National Railways following classes or studies for promotions.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: Out of 21 I think there were eight or nine French Canadians, and some of them came to see me. I was there at the hotel, the Chantecler and they were telling me that there has been lots of amelioration since last December. Would you be able to give some kind of statistics showing how many of your employees have followed regular courses. I think it is a 15-day period of classes or studies.

Mr. GORDON: Yes, we could do that. We have quite a number of training courses and we can easily analyse that.

Mr. GRÉGOIRE: Would you be able to give us those statistics too?

Mr. GORDON: Do you want to have them for the purpose of the record of this committee or do you want us to send them to you directly?

Mr. VAUGHAN: I would just like to make one point about the magazine. It is published in French and English. Do you get *Au Fil du Rail*?

Mr. GRÉGOIRE: In fact I have received one. I have one with a letter from Mr. Gordon to Mr. Pearson, but I received it in English.

Mr. GORDON: Did you ask for it in French?

Mr. GRÉGOIRE: No, I did not ask for it in French or in English.

Mr. VAUGHAN: Mr. Harris, our public relations director is here. I am sure the magazine is sent out to members.

Mr. HARRIS: It is sent out to every member in the language of his choice. About five months ago we sent a letter out to all the members asking if they were receiving what they wanted. We made five or six adjustments at that time.

Mr. GORDON: Were you doubtful about the choice of language of Mr. Grégoire?

Mr. LLOYD: He thought the name was Mr. MacGregoire!

Mr. VAUGHAN: The other point is that in *Au Fil du Rail* the appointment list may be different from the appointment list in the English version of *Keeping Track*. You will find in this issue of *Au Fil du Rail* there are different appointments listed.

We will see that you get the French copy of this magazine, and you may have this one now if you prefer.

Mr. GRÉGOIRE: I have this English one.

Mr. GORDON: You realize, do you not, that these appointments are merely put in the magazine as a matter of interest? They do not necessarily cover all appointments. They are appointments that keep the magazine interesting to the people who receive it.

Mr. VAUGHAN: There would be more listings of French Canadians in the French magazine.

Mr. GRÉGOIRE: I noticed that there are 11 out of 33 in this edition. Would it be possible for us to receive, not names but statistics of those following the courses for promotions or appointments, and how many succeeded with those courses? I do not mean I want the names, I would just like to have the numbers.

Mr. VAUGHAN: Do you mean the training courses and the work study courses?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: We can get a breakdown of that for you.

Mr. GRÉGOIRE: And I would like to know how many succeed in these courses. I do not want names, just statistics.

Mr. GORDON: I am sure our staff in the personnel department have the statistics and we will gather them together for you and let you have them.

Mr. GRÉGOIRE: Mr. Gordon, I have prepared a list of questions, and you will remember that I sent to you a list of 223 questions. I think your report has answered many of those questions but there are some things in which I would be interested to have some information.

What I would like to know—it might be difficult for you—is the level of appointments with the group under management, for example. Would you have the same reference for the management of the CNR?

Mr. GORDON: Records along what line? Along the lines of your questioning?

Mr. GRÉGOIRE: Yes, the bilingualism. I would like the same formula, for example, separately for management.

Mr. VAUGHAN: The statistics Mr. Gordon gave this afternoon covered this.

Mr. GORDON: Yes, all the classes of employees were covered. I told you we sent out about 83,000 forms originally, and later it was increased to 100,000. All our Canadian employees were covered; it covers myself. When I finished my own questionnaire, I looked at it and decided I would never hire me at all! I would not qualify.

Mr. GRÉGOIRE: Why?

Mr. GORDON: Actually, because of lack of basic education and the element of basic stupidity that was revealed in my answers to the questions.

Mr. PUGH: You would not want this to be made public?

Mr. GORDON: I would not mind very much. I have always been prepared to admit that I am basically stupid, and that is perhaps why I have been successful.

Mr. GRÉGOIRE: A great philosopher said that the most important knowledge is to know that we do not know anything.

Mr. GORDON: That is certain; and I am very humble about it.

Mr. GRÉGOIRE: Would it be possible to have those statistics about management?

Mr. GORDON: I do not know. We rushed this analysis through our computer very quickly. It would mean a question of whether we could redesign the questions to run them through, but it probably could be done. We could make a breakdown analysis. The only thing about it is that I do not want to be asked to make too many classifications in regard to this analysis because it is a very time-consuming process, and it costs money.

I am quite willing to make reasonable breakdowns on it, but one question seems to lead to another, and you will finally want to know how many section foremen have blue eyes or red hair, and I do not think it matters. You could ask questions indefinitely. We can make an analysis where you draw a line in respect of management as distinct from employees. What is an employee? That is another question. Would you include only those in organized groups? You need to have some definitions. We will look at it and see whether we can give you a breakdown.

Mr. GRÉGOIRE: It might be good to have that information for the royal commission on bilingualism.

Mr. GORDON: Yes. We are just in the middle of this breakdown because the questionnaire went out in October. We have 64 per cent of the answers in, but would like to have them all in before we start a breakdown.

Mr. GRÉGOIRE: Would it be possible to furnish these details?

Mr. GORDON: Yes. We intended to have a look at the details to see whether we would get another analysis for the royal commission's purposes.

Mr. GRÉGOIRE: Can you give us any preliminary observations about the study you have made with relation to bilingualism in Belgium or Switzerland, for example?

Mr. GORDON: Mr. Vaughan is one of the group who went there. He might be able to give you a first hand report along the lines you have in mind. Along what line did you have in mind?

Mr. VAUGHAN: Really, four of us went to Switzerland and Belgium; Mr. Charbonneau, Mr. Taschereau, Mr. Wilson and myself. The real purpose of this visit was to get an idea of the operation of the railways in those countries. Of course, as you know, Switzerland is a very compact country; it is in geographic comparison about half the size of the province of New Brunswick. Belgium is not much larger; maybe slightly smaller. The real purpose of the trip was to give us sort of a first hand look at how they operate these services in Switzerland which is in reality a trilingual country, and in Belgium, which is a bilingual country, or really one with two unilingual sections.

Our investigation was primarily devoted to discussions with railway officials in those countries. We did not want to make any specific references to each country; what we wanted to do was look at their operations, look at their equipment, their staffing, the training methods they use, and so on.

I would prefer not to make any observations about the constitutional situation in Belgium or Switzerland. They are having difficulty in Belgium as you know. I would prefer not to go into that in any great detail.

Mr. GORDON: I do not think you should report on your actual interviews. However, we had the benefit of the discussions which took place at that time, and included that in the considerations when deciding how best to approach it ourselves.

Mr. GRÉGOIRE: Did you come to a conclusion with regard to Belgium, that it is difficult to implement a bilingual system?

Mr. VAUGHAN: In effect Belgium is divided by a line which runs horizontally through the country. To the north is the Flemish zone, and in the south the French. This line divides the country into two sectors. In the north Flemish is the language and in the south it is French. Brussels, of course, is in the Flemish zone, but it is a bilingual city, being the capital.

As I say there has been a lot written about Belgium and its current difficulty. Our observations were not directed towards the constitutional difficulties, so-called, but rather the practical operation of the railway in that country. I think it suffices to say the problem there is by no means solved, but they do operate with the two languages. When they are operating from one zone to another they have to switch languages, for instance.

Mr. GRÉGOIRE: Mr. Gordon, I see in your report, in French, on page 7, that most of the college graduates who were candidates for jobs on the C.N.R. were from the arts faculty.

Mr. VAUGHAN: I believe this is at page 6 in the English version.

Mr. GRÉGOIRE: Page 5 in the English one. You say there is a heavy proportion of arts graduates. Is this over the last few years, or over the last 20 years?

Mr. GORDON: This is a reference to a historical situation. We went back quite a way and found we were receiving applications, but the applications we were receiving from French Canadians with a university education tended to

include graduates who were arts graduates and therefore they did not have the technical experience in engineering and so on which would make them suitable for placement in a railroading organization where we require technical knowledge. That was one of the reasons why we had not been able to place as many French Canadians in our railroading business as we might have expected. That is the history.

This year in discussing our problem of getting suitable candidates from the universities, we find the universities are co-operating with us, and we have not only improved our approach in trying to find suitable candidates, but the universities themselves are helping. There is a much better attitude all round in trying to locate people suitable for our requirements.

Mr. GRÉGOIRE: So, the situation is getting better.

Mr. GORDON: It is getting better on both sides.

Mr. GRÉGOIRE: Fine. I see at another place in your report you mention "personnel whose normal duties for promotion could be adversely affected by a bilingual deficiency".

Mr. VAUGHAN: Do you mean the part which deals with the succession plan?

Mr. GRÉGOIRE: Yes; personnel whose normal opportunities for promotion could be adversely affected by a bilingual deficiency. This is on page 8 at the bottom of the page:

These goals suggest that an opportunity for language training should be furnished to approximately 1,000 employees in bilingual sections of Canada.

I would like to ask for your observations on this.

Mr. GORDON: This means we are offering an opportunity for French Canadians to learn English, in order that they would be available for promotions in places where they need the English language particularly, and also vice versa. We are giving English speaking Canadians an opportunity to learn French. We give this language training in both languages.

Mr. GRÉGOIRE: I think the French Canadians have learned from the English speaking people to be businessmen. Would it be possible for you to give us a general survey in respect of our opportunities in business, not in respect of patronage, but after tendering?

Mr. GORDON: Again that is a matter of analysis. I have some figures here.

Mr. PRITTE: I would object if I thought the question implied any language tests with regard to tenders. This has no bearing on the bilingual section.

Mr. GRÉGOIRE: I think the people would like to be made aware of the situation. The report of Mr. Gordon could clear up the situation, and it might help the competition between the companies. I especially mentioned after tenders and not simply patronage. I am thinking of tenders in respect of French Canadian companies.

Mr. LLOYD: I think Mr. Grégoire is trying to say that because of the improved relationship there are better opportunities for competitive bidding, and they will be more widely spread among those who are in a position to do so who represent French Canadian firms. That is really what you said.

Mr. GRÉGOIRE: I would like to know the facts.

Mr. GORDON: The fact is that any supplier of any kind can make an offer to the CNR of his goods or make a tender if he is qualified in respect of any of the tenders we issue. It is open to anybody. I have some information here in a memorandum I had specifically prepared covering our operation in the province of Quebec. I will pick out some items.

In addition to wages, last year, 1962, Canadian National paid \$1,443,054 in health and welfare benefits; \$595,079 in workmen's compensation; and \$5,412,927 to its pensioners and dependents in Quebec. Purchases of supplies and equipment in the province of Quebec during 1962 amounted to \$89 million. In 1962, the cost of the payroll, supplies and equipment of all kinds for the Queen Elizabeth hotel was \$7,125,000. Another item is taxes. A total of \$4,647,000 was paid out in property, sales and other taxes to the province and its municipalities last year. I have a whole list of projects which were completed there. There are other significant figures.

Mr. GRÉGOIRE: Do you have any advertising agencies?

Mr. GORDON: Yes, we have.

Mr. GRÉGOIRE: How many?

Mr. GORDON: One at the present time.

Mr. GRÉGOIRE: Only one for all of Canada?

Mr. GORDON: For Canada, yes.

Mr. GRÉGOIRE: Could we know which one it is?

Mr. GORDON: McConnell Eastman. We have this matter under study again. Our public relations department have had that matter under study for some time now to ascertain whether or not we need some division of our advertising account; but that is based largely on a question of trying to reach a conclusion in respect of what kind of services best can be rendered to us. There may be some changes in that respect, but we really have not brought that to a conclusion. I do not have a recommendation on it yet.

Mr. GRÉGOIRE: Can we understand from your report that perhaps for so many months back everything which is printed by the Canadian National Railways is printed in both languages?

Mr. GORDON: I cannot say that in respect of everything.

Mr. GRÉGOIRE: Let us say in respect of those items used by the public.

Mr. GORDON: Our intention is that wherever there is a general requirement of any form or type of information for use by the public, it will be bilingual.

Mr. GRÉGOIRE: Everything that goes to the public will be bilingual in every province?

Mr. GORDON: That is our intention. There may be some local forms which are not nation-wide, so to speak; but where there is a general application, for instance, our timetable, when it goes out all over Canada it is bilingual. Our cheques are bilingual and so are our money orders and credit cards. I think you have one.

Mr. GRÉGOIRE: No.

Mr. GORDON: I will be glad to supply you with one.

Mr. GRÉGOIRE: We pay as we go.

Mr. GORDON: All these things are in bilingual form.

I would like to get on the record that I have a table here which shows the expenditures by Canadian National Railways on major products in the province of Quebec in recent years. The total is \$568,461,000. Expenditures by private firms on CNR property total over \$109 million. Our 1962 total in wages and salaries, and so on, is \$203 million. We are a very important element in the economic life of the province of Quebec—very important. I would be glad to let you have a copy of this personally. It is available to any member. This is an interesting document. It is prepared as a summary of our operations in the province of Quebec. If any member would like to look at it, I would be glad to hand it to him.

The CHAIRMAN: Is it the wish of the committee to have this placed on the record?

Mr. GRÉGOIRE: I think it would be good to have it printed in the report. Agreed.

## CANADIAN NATIONAL RAILWAYS and the PROVINCE OF QUEBEC

Canadian National occupies a very important position in the economic life of the Province of Quebec.

In 1962 the working force of CN in the Province numbered 21,994 and the total wages and salaries of this group exceeded \$120,000,000. These employees represent approximately one-quarter of the full working force of CN in Canada. They surpass in number the combined total of CN employees in the four Atlantic Provinces of Newfoundland, Prince Edward Island, New Brunswick and Nova Scotia or the three Western Provinces of Alberta, Saskatchewan and British Columbia and approximately equal the number employed in Manitoba, Saskatchewan and British Columbia.

The buoyant impact of this huge annual payroll on the economy of the Province of Quebec is enormous but it is really only one part of the railway's role in fostering growth and expansion.

In addition to wages, last year (1962) Canadian National paid \$1,443,054 in health and welfare benefits, \$595,079 in Workmen's Compensation and \$5,412,927 to its pensioners or their dependents in Quebec.

Purchases of supplies and equipment in the Province during 1962 amounted to \$89,000,000.

In 1962 the cost of the payroll, supplies and equipment of all kinds for the Queen Elizabeth Hotel, which is owned by CN and operated by Hilton of Canada Ltd., was \$7,125,000.

Another item was taxes. A total of \$4,646,680 was paid out in property, sales and other taxes to the Province and its municipalities last year by CN.

### *Operations*

CN trains traveled almost 9,800,000 miles in Quebec in 1962 carrying passengers and freight over the railway's 3,261 miles of main track in the Province.

### *Projects and Developments*

Since the war, Canadian National Railways has constructed more new lines than any other railway on the North American continent. Quebec has gained more miles of new CN lines than all the other provinces combined. The development of its rich natural resources has benefited accordingly.

The first construction was the 39-mile line between Barraute and Beattyville in 1949. Since then there has been added the 161-mile section between Beattyville and Chibougamau, the stretch of 133 miles from Chibougamau to St. Felicien and the new 61-mile line to Matagami which opened this fall. The total—394 miles at a cost of \$46,500,000. The total for all other provinces—344 miles.

The Matagami line runs from a point at mile 72.5 north of Barraute to the Matagami Lake district, an area rich in mineral and pulpwood products. The cost was about \$8,500,000.

Rolling stock—cars and locomotives—is, of course, a continuing expense to the railway and with the war ended, CN embarked on a large scale modernization program of equipment, including dieselization. From 1946 to date CN has invested \$798,740,103 on this program in Canada and approximately 44% of this, or \$353,083,637, was spent with manufacturers in this Province.

In that same period, five vessels were built in Quebec shipyards for Canadian National operation. Among them were the "Abegweit", a car ferry in operation between New Brunswick and Prince Edward Island built by Marine Industries at Sorel; the "William Carson" running between Newfoundland and Nova Scotia, a product of Canadian Vickers Limited, and the "Bluenose", now carrying passengers and cars between Nova Scotia and the State of Maine, built by Davie Shipbuilding Limited. The aggregate cost of these ships was \$23,500,000.

The Queen Elizabeth in Montreal, which opened in 1958 as the largest in Canada and the most modern hotel in the world, is one of the major projects undertaken by the railway and the only new CN hotel to be built in over 20 years. Construction and furnishings cost \$25,700,000.

The Queen Elizabeth was the fourth building to be erected on CN land in the Central Station terminal area in the heart of Montreal, three of them by the railway.

The first was Central Station itself, still the finest large passenger station in North America and made even more important by subsequent construction of the great complex of buildings in the area. The station opened in 1943 at a cost of \$27,500,000 and was followed in 1950 by the International Aviation Building (\$4,000,000) which became the headquarters of airlines and world aviation associations. The Terminal Centre Building, built by private capital, was the third. Its cost was also \$4,000,000.

The fifth building in this group is CN's new headquarters office building, occupied in May, 1961, and costing \$17,500,000.

Proposals from private interests have been invited for the development of the remaining portion of CN's terminal area located south of Lagachetiere Street.

The development of the Terminal area has sparked interest of outside capital to such a point that Dorchester Street, from Windsor Street to Beaver Hall Hill, has become the most stimulating cultural and commercial centre in North America and the most exciting architectural showcase on the continent.

In full realization of the importance of the site, CN sought an orderly and integrated development of its Central Station area property in co-operation with private interests. Our aims were realized in association with Webb and Knapp (Canada) Ltd., a company which produced a master plan for the whole 23 acres and leased the seven acres north of Central Station.

On this portion, Webb and Knapp (Canada) Ltd. built Place Ville Marie which includes the largest office building in Canada, multi-level parking facilities, a promenade and plaza and a variety of shops, restaurants and theatres. The total cost was about \$105,000,000.

The largest automatic hump yard in the world was opened in 1961—in Montreal. It cost CN \$32,000,000 and has made a substantial contribution to faster, more efficient service to shippers and receivers in Montreal and other points in Quebec. Some \$17,000,000 was spent on the diversion to the Victoria Bridge at Montreal, brought on by the advent of the St. Lawrence Seaway, and another \$5,000,000 to relocate CN's main line westward from the Island of Montreal through the City of Lachine to Dorval. This eliminated a number of level crossings and, at the same time, provided an entrance from the west to the new hump yard.

*Other Services and Facilities*

In 1960, a four-mile track diversion between Brossseau and St. Lambert was built, costing \$1,050,000. In 1959, a new diesel locomotive shop was opened at Senneterre at an expenditure of \$1,085,000 and a new switching yard at Joffre costing \$2,757,000 also went into operation. At the end of 1958 improved yard facilities at Garneau were completed at a cost of \$1,500,000.

CN's Industrial Development organization has been an important factor in the locating and relocating of industries in the Province. The industrial park at Pointe Claire has expanded as a result of a CN five-mile spur line laid in 1958. At this 1,406-acre park 69 industrial and commercial lots have been sold and 35 industries established there. About 923 acres still remain for industrial occupancy. An extension of this park is being contemplated which will necessitate the extension of the existing industrial lead by about three-quarters of a mile. The trackage facility might further be extended into an adjacent 450-acre industrial park, recently zoned by the neighbouring Town of Kirkland.

In 1959 CN built a lead track at Candiac to open up 550 acres of industrial land; six major companies are now located by the track, as well as a number of smaller firms. In 1962 this track was extended to provide service to another 100 acres of industrial land.

To serve the siding at BP Refinery Canada Ltd., at the eastern end of Montreal island, CN extended its Leduc Boulevard spur track. Later BP's siding was taken over by CN and used as a spur to serve the 1,000 acres of zoned industrial land at Ville d'Anjou. As a result, the private sidings of a number of firms are now served.

Part of CN's assistance to municipalities consists in advising them on the suitability of certain areas for industrial zoning, and carrying out ground surveys for suitable trackage. Municipalities we have helped in this way include: Petite Riviere, St. Romuald, Lafèche, Ville de Brossard, St. Andrews East, Ville Jacques Cartier, Sherbrooke, St. Eustache, St. Eustache sur le Lac, St. Jerome, Matagami, Chambly, Valleyfield, Varennes, Vercheres. These municipalities now have planned areas suitable for development ranging from 50 acres to 1,000 acres.

A bright industrial future is seen for the Varennes—Contre Cœur—Ville de Tracy area. Tremendous industrial expansion has taken place here and is continuing to do so.

As the industrial expansion of Quebec increases, so do CN's facilities, and during 1962 the Company's Industrial Development Organization gave assistance to 55 traffic-producing industries now served by its lines. New siding, private and lead trackage added a total of 12½ miles to Quebec's new track construction.

In the field of telecommunications, Sherbrooke, Three Rivers, Quebec City, Rimouski, Jonquiere and New Carlisle enjoy the programs of the CBC French language television network through the microwave transmission lines built and operated jointly by Canadian National and Canadian Pacific. Other activities of the Telecommunications department include the installation of a microwave link between St. Arsene and Riviere du Loup, which enabled the CBC French network (Montreal-Moncton) to be extended to a new TV network station at Riviere du Loup.

Canadian National Telecommunications has also built exchanges at cities such as Montreal, Sherbrooke, Chicoutimi, Granby, Three Rivers, Noranda and Quebec, Thetford Mines and Senneterre for the modern Telex communications system. At the end of June, 1963, there were approximately 1,000 subscribers to the system in Quebec alone who can achieve immediate written contact with 9,700 other users in Canada and the United States.

CNT also established recently at Montreal a new semi-automatic telegraph message relay system, the first in Canada, which greatly speeds the delivery of messages.

In 1962 the Telecommunications department took a major step forward when, in conjunction with Canadian Pacific, it started work on the \$36,000,000 Montreal-Vancouver microwave system, to be completed December 31, 1963. This huge undertaking involved a \$12,000,000 contract for the purchase of electronic equipment from the RCA Victor Company, Montreal.

In order to provide the Department of National Defence with telecommunications facilities, \$5,000,000 was expended to erect repeater stations at Chibougamau and Miquelon, and also the enlargement of the CNT building at Senneterre.

This review includes only major projects and expenditures. Hundreds of smaller projects and betterments have been carried out throughout the Province during the same period.

November 1963.

*Expenditures by Canadian National Railways on Major Projects in Province of Quebec in Recent Years*

New branch lines (Includes Matagami Line) ..\$	46,500,000
New rolling stock .....	353,083,637
New Steamship construction .....	23,500,000
Queen Elizabeth Hotel .....	25,700,000
Central Station .....	30,500,000
International Aviation Building .....	4,000,000
Headquarters Office Building .....	18,750,000
New Montreal Hump Yard .....	32,000,000
Victoria Bridge diversion .....	17,000,000
Relocation main line at Montreal .....	5,000,000
Track diversion Brosseau to St. Lambert .....	4,330,000
New diesel shop at Senneterre .....	1,085,000
New switching yard at Joffre .....	2,757,000
Improvement at Garneau Yard .....	1,500,000
Quebec Office Building .....	740,000
Improvements Bonaventure Freight Terminal ..	2,015,000
	\$ 568,460,637

*Expenditures by Private Firms on CN Property*

Terminal Centre Building—Montreal .....	4,000,000
Place Ville Marie .....	105,000,000
	109,000,000
	568,460,637
	\$ 677,460,637

*Expenditures on Operations by Canadian National Railways  
In Province of Quebec, 1962*

Wages and salaries .....	\$ 102,000,000
Pensions .....	5,412,927
Health and Welfare benefits .....	1,443,054
Workmen's Compensation .....	595,079
Purchases (supplies and equipment) .....	89,000,000
Sales Tax .....	207,532
Property Tax .....	4,439,148
	\$ 203,097,740
Insurance Premiums .....	163,000
	\$ 203,260,740

Mr. LLOYD: Is Mr. Grégoire finished?

Mr. GRÉGOIRE: Yes, for the moment.

The CHAIRMAN: You are finished in respect of the language item?

Mr. GRÉGOIRE: Yes. No; I have just one last question. Mr. McGregor told us that any employees who are in contact with the public in the offices where tickets are handled are required to be bilingual on TCA. Is it the same in connection with the CNR?

Mr. GORDON: There is a different set of circumstances, but the principle is the same. Our approach is that wherever the French language is expected, so to speak, in the French Canadian part of the economy, anybody meeting the public will be bilingual. That is our intention.

Mr. GRÉGOIRE: As much as possible?

Mr. GORDON: I must make it clear that under our labour agreements, in the operating trades particularly, the seniority principle applies. For instance, we might take on 25 trainmen out in western Canada, and by natural events they would be English speaking only because they would be working, let us say, in the province of Saskatchewan. It may well be that as the traffic changes at any particular time, those trainmen would be able to exercise seniority rights and work their way east to another district. Technically, they would be entitled to go on a train that might be working in French Canada. That is how the labour agreements work. In negotiations with our labour unions we have established—with some of them, not all of them yet—that in the bilingual areas in the French Canadian region when there is a job that requires meeting the public, one of the qualifications of service will be the ability to speak French as well as English. That would be part of the agreement. The agreement was not written with the speaking of French as a qualification of service. Some of the unions are not prepared to make that concession. With other unions we have made an agreement, and we hope to work it out with all of them.

Mr. GRÉGOIRE: In my original question I did not speak about actual employees but about the new ones whom you will hire in the future.

Mr. GORDON: We will be taking on enough new recruits at any one time so that we can assure ourselves that when a position needs a bilingual attendant we will be able to supply him.

Mr. LLOYD: I have a question that has to do with the employee relations, but it is not a question of the problems of equal opportunities for French Canadians. My question has to do with another class of citizens.

The CHAIRMAN: Before we proceed, I understood we had covered the subject of bilingualism. Are there any other questions?

Mr. PUGH: I have one question. Is there any preference for veterans in the CNR?

Mr. GORDON: Only to the extent that the veterans who came back were entitled to the job which they left after the war.

Mr. PUGH: It is not in effect at the present time? I am speaking of the executive level. When you are filling posts of vice president and senior officers of the company, do you find it very hard to get hold of the men you want? Do you have to look around quite a bit? You may have to go outside your own company.

Mr. GORDON: Yes. We have found this, particularly in recent times, that when we have developed a French Canadian who has good potential, in the province of Quebec particularly, there is a great market for his services. Everybody is looking for French Canadians these days. The same thing applies in other parts of the service. When a man does get a promotion and begins to be known, other industries are constantly raiding us and taking away our good men. A case in point was Dr. Solandt, our vice president of research and development. He was in receipt of an offer which he preferred, and we lost him.

Mr. PUGH: We are actually on bilingualism, but to put my question another way, I am thinking of the CNR service throughout Canada. If you are looking for a top man, regardless of the fact whether he speaks French, English or both, it is a pretty hard job to fill.

Mr. GORDON: We like to develop our own men and we are having much better success in that than we used to because we have better training and selection programs than we used to in the old days. It is quite true that as soon as a man becomes known he is vulnerable to other attractions.

Mr. PUGH: From your own general knowledge of Canada at a certain level did you perhaps talk with some of the tycoons of industry and did they express the same trouble in filling senior executive posts, regardless of the knowledge of French, English or both?

Mr. GORDON: That is right. There is a constant demand for the filling of senior jobs throughout industry, in my experience in Canada. It seems to me that every industry I know is always looking for good men. Top managerial skills are one of the scarcest commodities in Canada.

Mr. BALCER: Not being a "bellyacher", as Mr. Fisher said this afternoon. I have no precise question as Mr. Grégoire has covered all the loose ends that might not have been covered before. I just want to say at the present time that there is no doubt about the fact that as far as Canada is concerned one of the major problems is the relation between French and English speaking Canadians. I must say I am very pleased because, being particularly interested in the CNR as a former minister of transport reporting to the house for the CNR, I see that tremendous effort has been done in the CNR. I have been very much impressed by the memorandum that was presented to this committee. My hope is that the same attitude will be taken by other crown corporations and by federal departments as well. I hope that departments such as the new Department of Industry, for instance, will study this brief and try to apply the same sportsmanship and the same good spirit to this problem. With this attitude of the management of the CNR I think we can foresee a better Canada, and it will be good for both parts of Canada.

I want to tell Mr. Gordon that I am very much impressed and I hope this will produce good results, and that this expression of good relations will be spread in Canada.

The CHAIRMAN: I think we all agree with this. I took a chance, after Mr. Gordon read the report this afternoon, to say that the whole committee felt happy that such progress had been made, and we hope—I hope I reflect your feelings—not only crown corporations but other private corporations will take note of what is going on.

Mr. FISHER: I am still on bilingualism. I have one more question. I want to know what this program is costing now and will cost in the future?

Mr. GORDON: I do not know a way of estimating that. I could give you specific figures in regard to the language program. There is no doubt about it that this kind of program will add to our cost, but I do not think it is far enough advanced for us to make an analysis and to say that the new approach is going to cost this much more or less. I do not know how to analyze it.

Mr. FISHER: When you appear before the committee next spring, could you see that you get some kind of estimate?

Mr. GORDON: I will have it looked at. At the moment I do not know it.

Mr. BALCER: Mr. Chairman, I have a supplementary question. Could that be included in your public relations budget? I think this is excellent public relations and it is really worth it.

Mr. GORDON: I will have it analysed. At the moment we have been so busy getting on with the job that we have not had much time to analyse its results.

Mr. FISHER: One last point. I wondered, and I thought Mr. Grégoire might do this, whether the committee would entertain a formal motion to congratulate Mr. Gordon and the CNR for its efforts in the field of bilingualism.

Mr. GRÉGOIRE: I am ready to move that the report is very satisfactory. It contains future projects which will assist appropriation, and we hope they will be realized. We are satisfied with this project and this program.

Mr. BALCER: I will second that motion.

The CHAIRMAN: It is moved by Mr. Grégoire and seconded by Mr. Balcer.

Mr. PUGH: Could Mr. Fisher third that?

The CHAIRMAN: All those in favour? I declare the motion carried unanimously.

Motion agreed to.

Mr. GRÉGOIRE: The students in Montreal might come now to the CNR and carry you in triumph to the university.

Mr. FISHER: You work on that, Mr. Grégoire.

Mr. BALCER: Perhaps we will have a party for the CNR people if you can visit the university at Montreal.

Mr. PUGH: There will be no effigies tonight.

Mr. LLOYD: I have no desire to add to the many problems that you have, Mr. Gordon, but I must say there is a social problem in Nova Scotia involving the employment of our negro population. Fifty per cent of that class of Canadian citizen resides in Nova Scotia, and equal employment opportunity naturally are being sought by these people. It has been traditional, of course, to associate this community of citizen with the role of the porter on the railway. I am wondering, Mr. Gordon, whether in the scheme of things for the future you envisage the extension of this role in an attempt to equalize the opportunities for those citizens? Can you indicate the ways in which the negro has progressed to higher positions in the service? Can you give us any report in this respect?

Mr. GORDON: There have been charges and discussions about racial discrimination respecting coloured employees which have had a fair amount of publicity from time to time, but they are completely unfounded so far as management approach is concerned. Our policy, I repeat, is to give equal opportunity to everyone.

There has been a situation where the union agreements in respect of dining, cafe, buffet, parlor and sleeping car employees and porters have been in two different groups. The result has been that one group cannot move into the other group and, therefore, there has not been an opportunity for the coloured group to move along into the other group and advance to the top of the profession, so to speak, in that area. We have had a down to earth discussion with the unions in that respect and I am living in hope right now that we will be able to have that automatic discrimination removed from the labour agreement, and that should help in respect of what you are suggesting.

Mr. LLOYD: I am not making suggestions or charges, but merely seeking information in this regard.

Mr. GORDON: There has been a real problem.

Mr. LLOYD: I understand from what you have said that these agreements act as a road block to these employees?

Mr. GORDON: They did, indeed, because one group could not move into another group.

Mr. RIDEOUT: Two years ago in Halifax we hired a locomotive fireman who was a coloured fellow but the union said he could not work.

Mr. LLOYD: I understand this situation occupies your attention and you are in hopes that you can improve opportunities within your service for the negro community?

Mr. GORDON: By persuading the unions to get together in regard to that matter and allow the movement of one group to another, and thereby remove that discrimination, we hope to perform a useful task.

Mr. LLOYD: Thank you.

Mr. FISHER: In this paper you do not have a complete breakdown of the nationality of your employees, but you just refer to "other". I suppose that classification would include employees of Indian origin. It is a personal hobby with me, Mr. Gordon, to find out about these things and I would appreciate at sometime in the near future some indication of the statistics, when they are all collated, which will indicate the number of employees of Indian origin now working for the Canadian National Railways.

Mr. GORDON: If the questionnaire is answered in a way that will reveal that information we will have it in due course and will pass it along to you. We made a sort of package item and called it "Other". I only received these figures within the last one or two days. We will make a note of your inquiry and pass the information on.

Mr. RIDEOUT: What about the Ukrainians in the West?

Mr. FISHER: Mr. Chairman, I should like to ask a question in relation to the chairman of the Canadian National Railways. If my understanding is clear Mr. Gordon, in respect of the renewal of your position in terms of being in charge of the Canadian National Railways, there is a time limit which you yourself imposed of 18 months from the time the position was renewed, is that correct?

Mr. GORDON: No, it is not correct.

Mr. FISHER: Would you straighten this situation out for me?

Mr. GORDON: The only reference to the 18 months was made by myself in respect of my desire to finish a certain phase of the work. The actual order in council, however, is issued under the terms of the act and it reads that on the recommendation of the Minister of Transport pursuant to sections six and eight of the act the Canadian National Railways is pleased hereby to appoint Donald Gordon, Esq., to be a director and chairman of the board and so forth. My appointment by virtue of this order in council is subject to the provisions

of sections six and eight of the act. Sections six and eight of the act has restriction which indicates that the renewal shall not exceed three years. If you will permit me I think I might just as well read my letter to the Prime Minister again because it is important that we have the actual wording. Mr. Pearson wrote me this letter:

Ottawa, Oct. 2, 1963

Dear Mr. Gordon:

Some time ago, when I discussed with you the question of the expiry of your present appointment on September 30, you indicated that while you were reluctant to bear any longer than necessary the heavy responsibilities that you have now shouldered for many years, you were also concerned about the completion of certain work to reorganize and strengthen the railway.

The Government now invites you to complete that work by accepting reappointment as chairman and director. We believe that this would be not only to the advantage of the railway but also of the country.

In asking you to accept this reappointment to the position which expired last Monday, I wish to express to you the great appreciation of the government for the distinguished and tireless service that you have already given as chairman and president of the Canadian National Railways.

Yours very sincerely,

Signed: L. B. Pearson.

My reply covers the point that you have in mind. I wrote the Prime Minister a letter under the date of October 3, 1963 as follows:

"My Dear Prime Minister:

I have received your letter of October 2, inviting me to continue as Chairman of the board of directors of Canadian National Railways.

As you mention in your letter, I am anxious to be relieved, when it is possible, of these heavy and varied responsibilities which, I have learned, go beyond the field of railway management. I am nevertheless also concerned, as I have already told you, with seeing through to completion the work referred to in your letter.

This work should be finished in about a year and a half, in which case I will, in good conscience, ask to be released from the duties which I have always done my best to perform in a way which would be of benefit to the railway and to the country which I have now had the great honour to serve for many years, in war and in peace.

In accepting reappointment on the understanding above mentioned, I would like to recall the exchange of correspondence we have had on certain unfounded charges, which have distressed me greatly, that I have discriminated against or am unfair to French speaking employees of Canadian National Railways.

In this connection, I would remind you of the evidence I have recently sent you which should dispel any feeling that in Canadian National Railways, we do not sufficiently recognize the claims of French speaking Canadians to posts of responsibility or the importance of bilingual qualifications in the holding of such posts.

That is the total correspondence in this regard between us.

Mr. FISHER: We can expect that there will be a new president and chairman of the CNR sometime in 1965?

Mr. GORDON: Yes, certainly, on the basis of that appointment expiring at that time under the provisions of the act. I have been reappointed as director and chairman of the board of directors subject to the provisions of sections six and eight of the act, which limits the renewal to three years.

Mr. GRÉGOIRE: Actually the restriction is imposed by yourself rather than the government?

Mr. GORDON: That is correct.

Mr. GRÉGOIRE: You are entitled to remain for three years?

Mr. GORDON: Under the provisions of the order in council I am, yes.

Mr. FISHER: We can take it from your letter to the Prime Minister that you expected to be asked to be relieved from this office sometime in 1965?

Mr. GORDON: I do not think I want to be drawn into anything further in this regard. My letter speaks for itself.

Mr. PUGH: You would be eligible for renewal in 1965?

Mr. GORDON: I would be eligible for renewal. There is nothing in the act to prevent that happening.

Mr. PUGH: There will probably be a petition in the House of Commons from the province of Quebec to have your appointment renewed.

Mr. GRÉGOIRE: Your term will not finish before this committee meets again?

Mr. GORDON: That is probably correct if the next meeting of this committee takes place before March of next year. I would like to see the completion of certain things that are underway. Recapitalization is one. I would like to see the MacPherson Commission report recommendations implemented, and there are various other projects I have started which I would like to see well advanced or finished before I give up.

Mr. GRÉGOIRE: And, I suppose you would like to finish your project in respect of bilingualism.

Mr. GORDON: I do not regard that as a project but a statement of policy.

Mr. GRÉGOIRE: For the future?

Mr. GORDON: Yes.

Mr. MUIR (*Lisgar*): Mr. Gordon, I notice you renewed most of your contracts with your major groups of employees in 1962. When do these contracts expire?

Mr. GORDON: They are all open now for negotiation.

Mr. MUIR (*Lisgar*): Do you ever quit negotiating?

Mr. GORDON: No, we are always negotiating with someone.

As reported at the top of page 15 we have 178 collective agreements with 35 unions, representing a total of 85,700 employees, and that means, in practice, we are always in negotiation in respect of some contract.

Mr. MUIR (*Lisgar*): I am referring to the major ones.

Mr. GORDON: They are the non-operating trades, and the agreement we have with them expires on December 31. But, under the provisions of the contract they can give us 60 days notice of new demands; that notice has been filed, and we are now in the process of discussions with them.

Mr. LLOYD: What is the average term of these agreements? Do you strive for a uniform term in these agreements?

Mr. GORDON: Yes, we do. We would like to have a three year term but we seldom get it. At the present time the demands from the non-ops are for a one year term, but we will try to get a longer term. I do not think we ever have had a three year term.

The CHAIRMAN: Could I have a motion to carry personnel and pension section?

Mr. FISHER: Mr. Chairman, the pension section is different.

Mr. PRITTE: I move that the personnel section carry.

Mr. BECHARD: I second the motion.

Some hon. MEMBERS: Agreed.

Mr. FISHER: There is a considerable amount of pressure being generated by various retired members of associations all the way from Victoria to the Maritimes and Newfoundland; a lot of this is caused by people looking at your very sizeable pension fund and they cannot understand why pensions are not larger. As you know, the Diefenbaker government, after some consideration by the parliamentary committee—and, I would not say directly as a result of that—announced certain changes in pensions for railroaders, particularly those in the Canadian National Railways proper; has any discussion or any thought been given by your pension board at the present time to any increase in pensions or any changes which would affect the retired employees, especially those who have been retired some time.

Mr. GORDON: No, we have not anything on that, off hand. Their expressed view in respect of the enlarged fund is based on a completely incorrect assumption, which is borne out in the actuarial figures.

It is true we have investments in the pension fund totalling \$442,908,000 but in spite of that we are short \$395 million of the fund being on a sound actuarial basis, and we have met that liability by acknowledging it. We acknowledge that liability to the tune of \$395 million. It is quite wrong for them to assume there is money available because, actually, we are short already. Also, on page 24 the auditor calls attention to the shortage in that respect.

Mr. FISHER: In connection with the Canada pensions plan and because of the sheer size of your organization, your pension fund and so on, has there been any discussion between the Canadian National Railways and the government authorities planning the Canada pension fund?

Mr. GORDON: To my knowledge, no.

Mr. FISHER: What effect, if any, will there be, particularly in respect of your employees in Quebec, as far as you can ascertain, as a result of the plan for the provincial pension fund?

Mr. GORDON: I do not know. We do not know enough yet about what is going to be done in regard to that fund. We have looked at some of the plans but I would not venture of prediction on this until we see the results. It may have an effect, but we will deal with that when we see it.

Mr. FISHER: The interesting point, of course, is that your pension fund does exist for the whole system?

Mr. GORDON: Yes.

Mr. FISHER: And, if you have instead of a national pension plan a combination or, particularly in one area of Canada, a provincial pension plan, it may cause certain difficulties.

Mr. GORDON: Yes, we see technical difficulties in that respect.

I should say the pensions payable by the Canadian National Railways already are higher than anything proposed in the provincial plans, but I am not clear whether or not there would be a combination proposed in the legislation. I have not been able to read that into it.

Mr. FORBES: Mr. Gordon, there was a group with which we were concerned in respect of the 30's. Due to their lack of continuity they were not eligible for a very large pension. Has any consideration be given to putting them on a reasonable level?

Mr. GORDON: That has been gone into very carefully and there is no way we can see to recognize the sort of group you have in mind. But, in terms of those people still in the service who are affected by that situation the adjustment that was made in the pension fund referred to here more than takes care of any possible improvement in their pensions that would have been occasioned by making any concessions in that regard.

Mr. RIDEOUT: What was the cost to the company of the increase proposed by the previous government prior to the 1962 election?

Mr. GORDON: Do you mean the increase in the pension benefits?

Mr. RIDEOUT: It went up  $\frac{1}{4}$ , did it not?

Mr. GORDON: I do not know. Would you repeat your question?

Mr. RIDEOUT: I was wondering what the cost is. I was thinking of pressing for another 25 per cent.

Mr. GORDON: Well, it has increased. Was it \$75 million?

Mr. TOOLE: The current finding cost also went up and the amount due to the change in rate was about \$3 million.

Mr. RIDEOUT: Do you mean it cost \$3 million per annum?

Mr. GORDON: Oh no.

Mr. TOOLE: This is just due to the change in rate; there were other things that took place which caused other increases during the year.

Mr. GORDON: There are two things involved; there was the actual change in the rate plus the cost of the acknowledged liability, and it went up \$70 million.

By reason of the change our immediate costs on an annual basis were increased by roughly \$3 million, but in addition to that our liability for these pensioners was increased from \$325 million to \$395 million, so there is \$70 million in that acknowledged liability represented by increases.

Mr. RIDEOUT: Do many of your employees feel their pension should be the same as the civil service? Has there been any particular discussion along that line?

Mr. GORDON: Before you start talking about rates you have to take the two and examine them clause by clause because there are different benefits in one pension fund versus another; there are restrictions in regard to the civil servants, maximum pensions as well as other conditions, which makes quite a difference in the actual pension earned.

Mr. RIDEOUT: Would you agree they have the better pension?

Mr. GORDON: No, I would not agree. They have a better rate of pension but not a better pension.

Their rate calculation is 2 per cent; our maximum rate is  $1\frac{1}{2}$  per cent. But, when you examine the two things together and all the other forms of benefits I would not say they have a better pension, no.

Mr. LLOYD: Mr Gordon, I understood your explanation of the actuarial liability for pensions to be expressed in the reserve for pension figure of \$845,000,000 on page 30.

Mr. GORDON: That is correct.

Mr. LLOYD: That is actuarial liability under the commitment guarantees that you have been given.

Mr. GORDON: That is right.

Mr. LLOYD: I also understand that your acknowledged deficiency to meet that liability is \$395,000,000.

Mr. GORDON: That is right.

Mr. LLOYD: I understand also that you will be making proposals for the reconstruction of the capital liabilities of the company. Now, did this deficiency of funds enter into your consideration?

Mr. GORDON: In regard to recapitalization?

Mr. LLOYD: Yes.

Mr. GORDON: No.

Mr. LLOYD: So that in fact to the extent of the deficiency we have it as you also give it with respect to the Canadian National Railways unfunded position.

Mr. GORDON: That is right. We figured on an actuarial basis that it would be about 100 years before this liability would catch up with us, and I am going to let somebody else worry about it then.

Mr. LLOYD: So there is this question of funding such a large liability, and it falls into the area of judgment whether the funding in your particular case is to broaden the practice, because when you start "to fund", if you obtain your objectives in the reconstructing of the capital assets and liabilities of the railway, you go on from there as you start to get into a position of at least a break-even point, and unless you solve this problem you have to be making appropriations to build up that fund.

Mr. GORDON: One hundred years from now.

Mr. LLOYD: You will get your reconstructing done in less than 100 years.

Mr. GORDON: That is right, but remember this fund comes into being by reason of members' contributions as well as ours.

Mr. LLOYD: The deficiency arose presumably from your lack of contributions.

Mr. GORDON: Remember that the benefits have been improved. But we of course are not making retroactive contributions on behalf of the members to fully fund the improved benefits they will get.

Mr. LLOYD: I am trying to get to the hard reality of your operations under it, notwithstanding the fact that you do have reconstruction of your capital assets and liabilities; you have still got a backlog of obligation of pension funds, and you maximize your depreciation allowances, as you probably will, and continue to set aside and make allowances for depreciation. It may be some considerable time before this surplus position applies to the Canadian government, but it will arise in view of this, unless you are going to have pension funds in the future which are either fully funded or by maintaining reserves to meet the annual liability.

Mr. GORDON: Have you got some accounting jargon there Mr. Toole?

Mr. LLOYD: I hope you do not mean it the way you said it.

Mr. GORDON: No. I mean jargon in terms of the technical description which applies. When you get accountants and actuaries starting to tell you how a pension fund operates, they get into the wild blue yonder so that nobody except an expert can understand what they are talking about.

Mr. LLOYD: I thought it might be useful to use some simple language to describe what we are confronted with financially.

Mr. GORDON: I shall ask Mr. Toole to deal with it.

Mr. TOOLE: It is in the order of 100 years before this fund, with our current trends in employment and that kind of thing, would run down to a point where the company would have to put into the fund any part of this \$395,000,000. But in the meantime, the company's contributions and the employees' contributions are carrying the current pensions. Pension payments will hit a peak in about 10 years time, I think it is, when this will not be the case, and we will start to deplete the fund in order to meet current pensions. It reduces gradually for many years before it reaches the \$395,000,000.

The other point I want to make clear is that this is a trust fund. It is not a part of the Company's assets. The Company and the employees each contribute to this fund in relation to employees' earnings, and as a going system these contributions provide for current funding requirements. For a long time to come we do not need to increase the rate of these contributions unless we change the benefits.

Mr. LLOYD: So this pension trust fund may prevent you from going to a pay as you go policy. Unless you come to some agreement with the beneficiaries, you may be obliged to continue.

Mr. TOOLE: We decided when this fund was set up that we would not follow a pay as you go policy. Our current funding method gives us a much more level annual charge.

Mr. LLOYD: Therefore your obligations will continue to build up this fund to meet a much greater actuarial liability.

Mr. TOOLE: We do not know what will happen to this whole realm in the next 100 years, so it is not worth while to put in a big amount of money now to provide for a need which only may arise many years in the future.

Mr. LLOYD: This is an interesting example of the utilization in fact of substantial reserves to meet your calculated annual liabilities, which are not fully funded liabilities.

Mr. FISHER: You are trying to draw a parallel with the Canada pension fund.

Mr. LLOYD: There is a parallel, and this becomes of very vital consideration when you come to the Canada pension fund.

Mr. RIDEOUT: Where do I find out how much it costs the government for the provident fund?

Mr. TOOLE: I cannot identify it in here, but I can give you the amount.

Mr. RIDEOUT: The government contributes.

Mr. TOOLE: The government does make a small contribution; it is about \$100,000. That is the round figure, but I will have someone look it up.

Mr. RIDEOUT: I receive many inquiries from people who would like now to be in the 1959 plan and who have been in the provident fund. I had a question on the order paper a few weeks ago in this regard. As a matter of fact, I talked to Mr. Wilson about it and he said the company were reluctant to allow people to transfer from the provident fund to the 1959 plan. I am wondering why the company is reluctant to open up the 1959 plan.

Mr. GORDON: Those members still in the provident fund, in my recollection, had two different opportunities to transfer to the 1959 fund. It was a completely voluntary option on their part to remain in it.

Mr. RIDEOUT: Yes, I realize that, but circumstances have changed. They give me a very legitimate argument.

Mr. GORDON: We gave them a chance just last year.

Mr. VAUGHAN: It was in 1959.

Mr. RIDEOUT: Many of them now have their children up and are in a better position to transfer, and are willing to pay it back.

Mr. GORDON: Yes, but we cannot always give them an option against the company. We have given them two specific chances. If a man is in the position that he has not taken up his option and waits until his circumstances change so that it suits him better because of his changed circumstances, that is an option against the company and he has the best of both worlds.

Mr. RIDEOUT: I do not want to keep on asking questions on this point, but it is costing a great deal more money for the company and the government

than the provident fund because they only contribute one and one-half to two per cent, and in the new plan they contribute five and one-half per cent.

Mr. TOOLE: There is one point here about which I was being rather literal in answer to your question on the government's contribution. Also, Canadian National Railways puts up annually about \$6.8 million on account of the provident fund pensions.

Mr. GORDON: The fund has been hopelessly bankrupt since 1929 and the Canadian National Railways have been stuck for the maintenance of the fund generally. It is running now at the rate of \$6.8 million as compared with a donation from the government of only \$100,000. That is all the government puts up and they transferred the liability a long time ago to the Canadian National Railways. If I had been around they would not have gotten away with it.

Mr. RIDEOUT: That is my whole point; it is costing the company a lot of money and yet they are reluctant to move them over.

Mr. GORDON: The actuarial cost of moving into the fund now would be more. In giving them an opportunity to move into the fund at their option, it does not save us money.

Mr. TOOLE: I do not know what the actuarial cost would be, but it does cost us money for them to move into the other plan. Do not forget the benefits are better in the plan which these people have not chosen—the 1959 plan. What they are looking for is survivor benefits which they do not have in the provident fund. They did have the opportunity to change.

Mr. RIDEOUT: They get a higher pension if they stay in the provident fund.

Mr. GORDON: Yes.

Mr. RIDEOUT: I just want to get it on the record.

Mr. FISHER: I would like to read a short letter here and then ask the minister and Mr. Gordon a question.

Mr. GRÉGOIRE: Who wrote the letter?

Mr. FISHER: It was written by J. Leary, secretary treasurer of Canadian National Railways Pensioners Association, and it is addressed to the Hon. L. B. Pearson, Prime Minister, Ottawa, Ontario, dated September 26, 1963. It says:

Dear Prime Minister:

For the past few years we the Canadian National Pensioners have written to the government in office requesting that the matter of increased pensions for pensioners prior to April 1, 1962, when increase was granted to those who were then employed...

Our efforts seem to have been to no avail, and our replies to all letters and representations made, is that this matter is being taken under consideration.

Please refer to copy of letter sent to the Right Hon. Mr. Diefenbaker, Prime Minister, and your reply of January 10, 1963. The reply from Mr. Diefenbaker to this letter was that it had been referred to Mr. Leon Balcer, then Minister of Transport, who replied January 25 that additional views we had put forward had been carefully noted.

Are you aware that we have 377 retired CNR pensioners who receive less than \$25 a month pension, 2,559 who receive a basic pension of \$25 a month and a total of 8,223 CNR pensioners who receive less than \$60. a month pension; these figures are tragic and those who retired

prior to April 1, 1962, find themselves barely able to make ends meet with the increased cost of living and increased taxes. The CNR pension fund as at December 31, 1962, showed a reserve of \$845,599,085 as compared with a reserve as at December 31, 1961, of \$737,667,542... and we maintain that the monies of former employees now on pension built this fund up, and the interest of their monies is steadily building this fund, surely some of this interest should be used to increase pensions of those who retired prior to April 1, 1962, pensioners shown as at December 31, 1962, was 29,431.

Mr. Douglas Fisher (CCF, Port Arthur, Ont) stated in parliament when commenting on the April 1, 1962, act which increased pensions ...there will be considerable disappointment that the change affects only these present employees rather than present pensioners and further recalled that the pensioners were the main people demanding a change.

When you visited Victoria, B.C.—

This is a reference to Mr. Pearson, of course.

in your electioneering campaign, three members of our pensioners' association including myself were delegated to interview you in this respect, and you most definitely promised that if you were elected you would take this matter up, as you were very interested in this question of increased pensions for former CNR pensioners. Since that time various branches have written to your government and much time has elapsed since you made this promise. May we ask, did you really mean it or were you just giving us, as we say "the brush off"?

We most urgently request that you again look into this matter and endeavour to have this brought before parliament for a decision.

I would like to ask the minister whether the representations by the Canadian National Pensioners Association are under consideration at the present time.

Mr. McILRAITH: I do not know whether those particular representations are, but this subject is. You asked me with reference to the particular letter, and I cannot identify it at the moment because there are about 200 letters a day; I have difficulty in identifying it. But the subject is under review.

Mr. FISHER: I would like to ask Mr. Gordon if he has been approached by the government, since the change of government, in regard to this particular question.

Mr. GORDON: Not to my recollection. I might make a suggestion there that you ask the particular individual to write to me and I will undertake to give him a reply.

Mr. FISHER: I have a number of these pension letters, so I will send them all to you.

Mr. GORDON: Yes do, and I will reply.

The CHAIRMAN: Is there a motion?

It is moved by Mr. Lloyd, seconded by Mr. Muir, that the pension section be carried.

Motion agreed to.

Mr. GRÉGOIRE: May I suggest we complete the financial review?

Mr. PUGH: Underneath all this personnel and labour relations there is a small paragraph in regard to the CN-CP Act.

The CHAIRMAN: Mr. Pugh, Mr. Grégoire has to go in a few minutes. Are there many questions?

Mr. MUIR (*Lisgar*): There was a decision made that when we reached "Outlook" we would take up the matter of the railway abandonments. We all have to go and I would suggest, sir, respectfully, that we now go into railway abandonments.

The CHAIRMAN: We promised Mr. Grégoire that he could ask two questions.

Mr. GRÉGOIRE: Would you not prefer to close the financial revenue and then start with the outlook?

Mr. PUGH: This comes before outlook.

Mr. LLOYD: Is it thought that we might finish tonight?

The CHAIRMAN: Yes, we will finish tonight.

Mr. PUGH: This has to do, Mr. Gordon, with the Great Slave Railway, the North Alberta Railway and the many representations made by Mr. G. W. Baldwin, M.P. for Peace River in Alberta. The understanding that I have is that a great many people out there feel that the North Alberta Railway, now the Great Slave Railway goes off to Grimshaw in the north would be much better handled by the Canadian National Railways. In other words it would be a homogeneous operation, and much better. Have you any views on that? Have any representations been made to the Canadian Pacific Railway, and if so what were the results?

Mr. GORDON: By definition I would be forced to agree at once that anything handled by Canadian National Railways must be better handled than by Canadian Pacific Railway.

Mr. PUGH: What would the Canadian Pacific Railway say.

Mr. GORDON: I think they would express an opposite view. It is one thing to say people would like it that way, but there has been no indication to me that the Canadian Pacific Railway would be willing to sell its interest. Canadian Pacific have a 50 per cent ownership in N.A.R., and they are not a willing seller.

Mr. PUGH: Would there be a possibility of leasing?

Mr. GORDON: From Canadian Pacific Railway? Not as far as I know. They want to maintain their interest—unless you want to pass legislation for arbitrary expropriation.

Mr. PUGH: That would be a method?

Mr. GORDON: Yes, with a value to be settled by arbitration. I imagine it could be done, though I am not enough of a lawyer to say so. As far as I know the Canadian Pacific Railway is not a willing seller.

Mr. PUGH: With the opening of the Great Slave Railway going from Grimshaw, north—Grimshaw being the point where you leave the N.A.R. line—I take it with the opening of the Peace River all through there, plus the mining as you go north, would it not be better and just straight common sense that some move be made that one railway should handle everything straight on down to your line which joins at Edmonton?

Mr. GORDON: Well, purely as a personal opinion I would agree. I think it would be a better operation if it were handled by the CNR.

Mr. PUGH: From the point of view of the users, would it not be a more economical project if it were under the hands of the CNR?

Mr. GORDON: In terms of freight rates I doubt it. I think they would remain about the same. I will take that back; it may be that in certain types of traffic with a more efficient operation we might be able to do something about freight rates, but I would not like to commit myself.

Mr. PUGH: What is the management at the present time?

Mr. GORDON: It is a joint management. Each railway has the right to nominate the general manager of the N.A.R. on an alternate basis. The present manager is a CNR man and he is on the point of retiring. The next manager will be appointed by the CPR.

Mr. PUGH: Now that that country is opening up, where you have extensions, for instance on the N.A.R. itself, would it not be better served if you had one management there?

Mr. GORDON: It is conceivable. My views naturally are suspect. I believe that the CNR could do a better job if it were under our management, but I hasten to point out that the CPR would not agree.

Mr. PRITTIE: It is a pretty academic question.

Mr. GORDON: I have made no approach to the CPR, nor have I heard that the government has ever considered it. If anyone is thinking of advocating a bill, I would suggest that as a practical way of finding out if it would be challenged. I think you would have to make a settlement with the CPR on some basis.

Mr. PUGH: Would it not be advisable to make overtures with regard to taking over?

Mr. GORDON: You mean for me to speak to the CPR?

Mr. PUGH: Yes.

Mr. GORDON: I know enough to know they are not interested in talking about it. Personally, I am willing to talk to them again, if there is any indication on the part of the government that some action is desired in that respect.

Mr. SOUTHAM: In relation to the CN-CP act, I would like to ask Mr. Gordon whether there are discussions presently underway in respect of the very important problem of railway abandonment. I know we are going to discuss it later. Are there any discussions underway at the present time relative to co-operating with the Canadian Pacific Railway to help solve this very important situation?

Mr. GORDON: Well, the situation in a nutshell is we have prepared studies of all the lines we think are possible candidates for abandonment, and we have advised all interested parties in that respect. The CPR has not.

Mr. FISHER: Have you had any discussions with the CPR on this particular matter?

Mr. GORDON: I really must get into this memorandum in order to answer. I would suggest it would save time, Mr. Chairman, if you would call the item and I will give you the memorandum on it. I have a fairly full statement on it which I think covers all the points you have in mind.

The CHAIRMAN: Before we go to outlook we will let Mr. Grégoire ask his two questions.

Mr. GRÉGOIRE: This is with regard to the financial review. I suppose this includes the consolidated balance sheet at December 31, 1962, the assets.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: That is included in the financial review?

Mr. GORDON: Yes.

Mr. GRÉGOIRE: When the TCA wishes to make investments, they borrow money from the CNR?

Mr. GORDON: You mean capital expenditures?

Mr. GRÉGOIRE: Yes.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: They borrow money, in fact, from the CNR?

Mr. GORDON: Yes. We look after the financing.

Mr. GRÉGOIRE: If they buy 30 new planes, they borrow money from the CNR to buy them?

Mr. GORDON: Technically, yes. If borrowing is required.

Mr. GRÉGOIRE: That is one of your investments?

Mr. GORDON: It shows in our investments. We look after obtaining the money, but they pay the interest on borrowings. It is purely a matter of convenience.

Mr. GRÉGOIRE: That is considered as one of the investments of the CNR. I am looking at page 22. This is in the assets under the heading investments in affiliate companies. If they wanted to borrow money to buy 30 new DC-9s, it would be one of your investments?

Mr. GORDON: Purely as a technical matter. They come through our capital budget in order to avoid duplication; but in point of fact, if they borrow money from us and we obtain a loan from the government, it has the same rate of interest.

Mr. GRÉGOIRE: What amount of investment would you have to make to buy the 30 new DC-9s?

Mr. GORDON: I would have to have the TCA figures. It would be included in their budget.

Mr. GRÉGOIRE: What difference would there have been between the Caravelle and the DC-9 in respect of investment?

Mr. GORDON: I do not know; it is a TCA matter.

Mr. PRITTE: The point is the TCA does not go to the CNR as a corporation and ask CNR's permission to make the investment?

Mr. GORDON: That is right. We simply act as a convenience.

Mr. PRITTE: You are a financial agent.

Mr. GORDON: That is a good term for it. The borrowing is in our account.

Mr. GRÉGOIRE: But it is one of your investments and you would see that it is the best possible investment?

Mr. GORDON: No. We have no judgment on it whatsoever. TCA prepares its own budget. They take their own budget to the Minister of Transport and through him to the Minister of Finance and it is approved quite independently of us. In finding the money for it, we borrow the money from the government. It appears in our accounts. We hand it over to TCA and the rate of interest the government charges us is what TCA pays; it is the same amount.

Mr. GRÉGOIRE: If you recapitalize your own debt, will you at the same time recapitalize the one of TCA?

Mr. GORDON: It has no bearing at all.

Mr. GRÉGOIRE: It is completely separate.

Mr. GORDON: Yes.

Mr. GRÉGOIRE: If you recapitalize, the interest you are paying now would be charged to the government of Canada; it would be in the budget of the Minister of Finance.

Mr. GORDON: Under the recapitalization scheme they would assume responsibility for the amount that would be written off.

Mr. GRÉGOIRE: It would increase the money paid by the Minister of Finance?

Mr. GORDON: No. It would be an offset to the extent the deficit was eliminated.

Mr. GRÉGOIRE: But they would pay the interest on your financing?

Mr. TOOLE: They actually save money by doing this.

Mr. GRÉGOIRE: Do you think the present Minister of Finance will be the first to pay more than \$1 billion?

Mr. GORDON: That is not the figure involved. Our total interest bill is \$62 million.

Mr. GRÉGOIRE: Yes, but they have now \$940 million interest which will increase to \$1 billion.

Mr. GORDON: In regard to their own borrowings? I do not know the figures.

Mr. GRÉGOIRE: Instead of it being an indirect debt, it would be a direct debt.

Mr. GORDON: You are saying that the interest owed by the government in outstanding bonds in the hands of the public is \$940 million? Do you recognize that figure, Mr. Toole? I do not remember it.

Mr. MUIR (*Lisgar*): What has this got to do with the CNR?

Mr. GRÉGOIRE: That appears in the financial review.

Mr. MUIR (*Lisgar*): Ask this question in the house.

Mr. GORDON: Mr. Grégoire is establishing from me that it does not have anything to do with the CNR, and I confirmed it.

Mr. MUIR (*Lisgar*): We already knew it before he asked it.

Mr. GRÉGOIRE: It is a question which appears under the recapitalization of the CNR.

Mr. MUIR (*Lisgar*): The interest that the government owes against its borrowings is the responsibility of the government; it is not the responsibility of the CNR.

Mr. GRÉGOIRE: I am talking of the increase that this recapitalization would bring to the government charges. That is what is interesting me now.

Mr. MUIR (*Lisgar*): That is all right, as long as you stay here and keep this committee here, because the rest of us want to put questions as well.

Mr. GRÉGOIRE: That is the last question I have to ask.

Mr. FISHER: I have a simple question on page 27 on bonds and debenture stocks. Your borrowings, particularly in the last three or four years, have interest rates, of which 4 per cent seems to be the lowest. Was there any attempt made to persuade whoever you made the arrangements with to put out an issue that had a lower rate of interest?

Mr. GORDON: We accepted the advice of the Bank of Canada in regard to an issue on the market at the particular time. We have to watch ourselves very carefully on this because the CNR issue is a government guaranteed issue. The government would not want us to compete in the market at the time that they are putting out an issue. Therefore, when it is decided that our borrowings from the government should be refunded by selling bonds in the market, they give us their view of the time, and then we confer with the Minister of Finance on whether or not we should put out an issue. At that time the advice in regard to the market issues is from the Bank of Canada.

Of course there is discussion between our treasurer and the Bank of Canada on whether or not the rate chosen seems to fit the market.

Mr. FISHER: There is one aspect of your capitalization proposals, that in future any additional debt that you have to engage in will be on a different basis than through the Canadian National bonds.

Mr. GORDON: Under the proposals, if they are accepted, I am predicting that we will not need to make any further borrowings at all; that we will

be able to take care of our capital requirements out of our generated depreciation, except in regard to any special transactions that may turn up, which I cannot foresee. However, if it is a normal operation of the railway, then I think we will be able to finance it without any further borrowings.

Mr. FISHER: In connection with the long term debt, at page 27, in terms of your recapitalization proposals, would it apply to that whole list of bonds and debenture stocks, or would it only cover part of it?

Mr. GORDON: We selected, out of this list, the outstanding amounts necessary to meet the grand total of our proposed recapitalization, and we would ask that the government assume the responsibility for the related interest payments to that extent. I am sure you can make that sound more difficult, Mr. Toole, but what I have said is really correct.

Mr. TOOLE: That is right. We would select out of this list just sufficient of the issues to take up the amount of money which would be approved in the recapitalization.

The CHAIRMAN: We can now proceed with outlook.

Mr. LLOYD: You agreed at the beginning to let me return to some questions. I will be brief on this. What I have to say follows Mr. Fisher's observations.

On page 25 you have interest charges, interest on bonds \$67 million, interest on government loans \$3,770,000, and amortization of discount on bonds, which would not apply here. You pay all this interest over the bondholders first, and there you have some interest obligations to the Canadian government. That interest is actually paid. Is there any accumulated backlog of interest to the Canadian government?

Mr. GORDON: Nothing beyond what is shown there.

Mr. LLOYD: That is only current liability.

Mr. GORDON: We borrow from the government until it gets to a point where it is decided to have a market issue. Then, we pay off the government, and the amount would appear under the bonds outstanding.

Mr. LLOYD: The interest on bonds, guaranteed by the Canadian government, it is proposed, shall become a direct liability of the government.

Mr. GORDON: In part; whatever part they agree with.

Mr. LLOYD: On what do you pay the accumulation of the interest charges which you pay the Canadian government? It is on your balance sheet on page 27?

Mr. TOOLE: Page 27 shows the long term debt.

Mr. LLOYD: Where is the interest you pay to the Canadian government?

Mr. TOOLE: On page 27 under government of Canada loans and debentures you will find the figure of \$209 million at the end of the year.

Mr. LLOYD: The total equity of the Canadian government is expressed in the form of a no par value capital stock of the CNR, 4 per cent preferred stock, and capital investment in CGR. I think it comes to a figure of \$1,749 million.

Mr. TOOLE: You are reading the figure for 1961.

Mr. LLOYD: The figure for 1962, then, is \$1,772 million.

Mr. TOOLE: That is right, on the balance sheet on page 23.

Mr. LLOYD: The Canadian government, in preparing its balance sheet, shows unfortunately a liability at a different date of the year, loans to and investment in Crown corporations. The Canadian National Railways, at March 31, 1962, is \$1,160,000. Have you attempted reconciliation with the

federal government? I presume your auditor has. Do they omit anything in this investment on the instruction of the Canadian government? Do you carry a liability in your books which is not reflected in the asset side of the Canadian government balance sheet? May I say that this is actually the case with respect to the national harbours board? I want to be certain you are not following in the same footsteps. I want to be certain the practice is not the same, and if it is, I want to know why?

Mr. GORDON: If you will turn to page 24 you will see there note 5 which reads:

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

Mr. LLOYD: In the historical record?

I know the time is pressing, Mr. Chairman, and I will only say this. We are dealing with a highly technical question.

Before the company gets into a fixed position in respect of liabilities I suggest that serious consideration be given to the policy of depreciation which is followed. Urwick Currie Limited recently made a recommendation in respect of a very small public transportation company, and made a very strong case in respect of situation where capital funds were provided by a public body, that there was no need to provide for depreciation of fixed assets of long life. I suggest to you this might be an interesting subject for you to pursue. I think if you could get a reconciliation of your accounts you will find there is something to be paid for this suggestion.

Mr. GORDON: Depreciation charges in respect of railways in Canada, including ours and the Canadian Pacific, are set by the Board of Transport Commissioners under their ruling in regard to uniform classification of accounts. It is clearly laid down in the railway procedures we must follow. We have no choice in this matter but to do what we are told.

Mr. LLOYD: You have no choice in the matter so long as the Board of Transport Commissioners, as you suggest, follows that particular legislation?

Mr. TOOLE: They also recognize that we are a going concern in a business way, not operating as a government department.

Mr. LLOYD: I am not arguing with you in that regard, but I think you are in between a public operation and a private corporation. We do not have the capital fund provisions as do ordinary companies.

I am not going to take up the time of this committee, but I am going to suggest to you, Mr. Gordon, that you might find some better way of handling this depreciation, and I suggest that you take a good hard long look at this proposal in respect of depreciation to which you have been referring.

The CHAIRMAN: Gentlemen, we are now proceeding with outlook, and I think we were going to have Mr. Gordon express some opinions in respect of rail abandonments.

Mr. MUIR (*Lisgar*): Before Mr. Gordon makes his statement I should like draw the committee's attention to depreciation created by Mr. Grégoire, in spite of the accommodation he has received from this committee, as a result of withdrawing and leaving the committee. I just want to place that statement on the record.

Mr. GORDON: I am sorry, I missed the point.

The CHAIRMAN: You may proceed, Mr. Gordon. The remark did not have reference to you.

Mr. MUIR (*Lisgar*): I was not cussing you, Mr. Gordon.

Mr. GORDON: I thought you were saying that you wanted me to leave the room so you could give me hell.

I am just going to touch on the highlights. I have a lengthy statement here but I will just give you the pertinent facts.

Our policy arose from the fact that the Canadian National Railways, from its inception as an amalgamation of numerous competing lines, has been burdened with the operation of a number of light traffic density lines. We do have a set basis upon which we select lines to be presented to the Board of Transport Commissioners in respect of abandonment when we are able to prove the circumstances; however, in the course of a systematic review of operations it was apparent that a large number of branch lines were uneconomical. The past practice of making periodic isolated applications to the Board of Transport Commissioners for the abandonment of individual, uneconomic branch lines was not satisfactory in light of the magnitude of the problem. Thus, in 1960, a complete and detailed survey of the situation in western Canada was begun and early in 1961 the study was extended to encompass the entire system.

That survey was based on the detailed analysis of revenue, expenses, operation procedures, maintenance requirements and traffic potential of all lines handling 200,000 gross ton miles per mile of track or less. It resulted in undertaking 153 individual studies covering a total of 6,604 miles of rail line across Canada.

Because of the investment in elevator facilities in western Canada and the effect that the line rationalization program would have on these operations, the list of lines under study was forwarded to the elevator companies at an early stage in the review. In doing so the Canadian National Railways suggested that if any elevator on the lines under study required major capital expenditures in the near future, the operators should review with the railway the prospects for the particular line before undertaking these expenditures. Throughout this period the Canadian National has been prepared to discuss and has discussed the whole matter with any parties interested.

When the recommendations of the Royal Commission on Transportation appeared during 1962 it was evident that the plans of the CN coincided in large measure with the Commission's. Briefly, the Commission recommended that a board should carefully study each application for abandonment in collaboration with the railways, the grain companies, provincial governments and all other interested parties. If the evidence showed that the line is uneconomic and investigation suggested that this situation was unlikely to change, then the board would set a date for abandonment to allow the orderly re-arrangement of elevators and other facilities on the line. In the meantime, the railway would be compensated for its losses. That was the gist of the MacPherson Commission report.

In view of the magnitude of the problem on Canadian National alone, particularly in western Canada, it was felt that the board could not cope with the situation in a reasonable period of time if applications were handled in a piecemeal fashion. Therefore, the development of a satisfactory plan for the rationalization of railway plant could only be achieved if the board and other interested parties were made aware of all the lines which could be considered candidates for abandonment. Canadian National has vigorously pursued all its studies to this end.

To get closer to the period of time in which things have happened in the recent past, at a meeting in January of 1963, called jointly by the Ministers of Agriculture and Transport and attended by representatives of the board of grain commissioners, the board of transport commissioners, pool elevator companies, Northwest Line Elevators Association, the Canadian Pacific Railway

and the Canadian National, the following procedure was adopted for handling branch line abandonment applications. It was agreed at the meeting that railways would continue filing applications with the Board of Transport Commissioners, but in the case of western grain lines the railways would request the board not to proceed with such applications until there had been an opportunity for the Government of Canada to determine an over-all policy with respect to the legislation which may arise from the MacPherson Royal Commission on Transportation. The Canadian National, in accordance with this agreement, has continued to file abandonment applications under this arrangement. I repeat, we file these abandonment applications with the Board of Transport and ask the board not to proceed with them but simply to make a record of them which will represent our claim in regard to the abandonment program when the government implements the MacPherson Commission legislation and would then decide what timing is involved.

It is our policy to progress all studies of branch line operations and to file applications with the Board and other interested parties, in accordance with the agreement reached at that time and that is what we are doing.

I do not know that I need say much more, except to say, on the basis of this program as it stands now, the Canadian National has 75 applications totaling 2,899.20 miles of track filed with the Board of Transport Commissioners. In so far as Western Canada is concerned there are still three studies totaling 222 miles in Manitoba and nine studies totaling 700 miles in Saskatchewan to be completed. He anticipated that these will be filed with the Board of Transport Commissioners by the yearend. This is a service of notice, so to speak, so that all parties interested will be aware of what is in contemplation when the legislation implementing the MacPherson Commission report, in respect of the manner in which these applications will be processed, is decided.

Mr. SOUTHAM: Thank you very much, Mr. Gordon. I would like to preface my questions and remarks by stating I feel that Saskatchewan is one of the areas of Canada particularly affected by the proposals contained in the MacPherson report in respect of rail abandonments. For that reason I think this matter is of great importance. I am sorry we find ourselves running short of time in which to discuss this situation.

Mr. Chairman, I should like to ask permission, in order to facilitate the production of some of the information, to file a committee resolution. On November 22, this year, there was a meeting held by the Saskatchewan conference railways retention committee. The chairman of this committee was Dr. R. LeBlanc, the members were: J. C. Porter, W. L. Tullis, H. E. Konsmo, W. S. Howes, Niel MacIennon, Clayton Marshall, and Lloyd Stewart.

Mr. Chairman, I would like to ask your permission to have this study, consisting of 23 pages, appended to today's proceedings.

The CHAIRMAN: Is it the wish of the committee that this document be made an appendix to the proceedings?

Some hon. MEMBERS: Agreed.

Mr. SOUTHAM: In view of the lateness of the hour I am not able to deal completely with this subject tonight. However I think Mr. Gordon will find this study very interesting, and the government may find some very useful information in it.

Mr. GORDON: Mr. Southam, were you present at this meeting?

Mr. SOUTHAM: No, Mr. Gordon; Mr. Cantelon was.

Mr. GORDON: I read a report on the meeting which said, in effect, that the information provided by the Canadian National Railways had been satisfactory but the real trouble was that they had no information from the Canadian Pacific Railway. I think I am justified in putting that on the record.

I have been informed by Mr. C. W. Gibbings, president of the Saskatchewan Wheat Pool that the announcement of policy by the Canadian National Railways and the manner in which they were studying the discontinuance of these lines is a first step toward a reasonable approach to the problem. I want to make clear the Canadian National Railways' policy in that respect; it is a constructive and necessary policy which lends itself to implementation.

Mr. SOUTHAM: I think the members of this committee appreciate this fact. I have heard the criticism myself that the CPR possibly had not taken the same interest.

I would like to ask your permission to include as an appendix to today's proceedings a résumé of the subdivisions, the number of elevators, the total volume of grain handled and so on. I think it will help in our study of this problem and serve a very useful purpose.

The CHAIRMAN: Is that agreeable?

Some hon. MEMBERS: Agreed.

Mr. FORBES: Mr. Gordon, my few remarks are going to be short owing to the lateness of the evening. This is not the place to go into all the details in respect of the reasons for not abandoning the lines. My remarks are going to be in the form of a brief.

Last year, November 2, 1962, you filed an application to abandon the railway line between Ochre river and Rorketon. During your presentation to the Board of Transport Commissioners you suggested an alternative marketing place by the name of Fork River. Now, the people in the area of Rorketon, Magnet and Methley were planning on having to go to Fork River and arranged to make roads to that area as a marketing point, and then you made application to abandon the line which includes Fork River.

Mr. GORDON: Was that an application we filed with the board on the understanding they would not be proceeding with it?

Mr. FORBES: I presume it is being held in abeyance.

Mr. GORDON: Yes. It was for the very reason that we wanted to get them all in so that all interested parties will know where they stand. When we filed these applications we notified all the parties that are interested in order that they know what is involved and they will have, in due course, when the Board of Transport deals with them, a right to appear and make any objections they wish. They have a full right to bring in representations so the board can form a judgment. I saw something in the resolution to that effect. I think the resolution made some reference to the setting up of a new board.

Mr. McILRAITH: They referred to a rationalization authority.

Mr. GORDON: I do not recognize this off-hand, but I presume what is involved here is a decision as to which one of the lines is the best candidate for abandonment and which one is in the best interest of the community.

Mr. FORBES: You had made application to abandon the St. Rose-Ochre River-Magnet line?

Mr. GORDON: Yes.

Mr. FORBES: And, in that application you suggested Fork River as an alternate marketing point?

Mr. GORDON: Yes.

Mr. FORBES: And later you proposed to cancel the Fork River line?

Mr. GORDON: Yes; the rationalization authority will sit in judgment of these two situations.

Mr. McILRAITH: This is a point I have been trying to clear up in answering questions on orders of the day in respect of this very point.

In these rail line applications and in respect of candidates for abandonment there may be cases where there are two branch lines indicated and it would be reasonable to assume that only one would be abandoned; in other words, where it is a case of which one will be abandoned they are both filed as candidates for abandonment. If I am correct in the identity of the lines you are referring to I think that is the point that arose there. You will notice that the one application you are referring to is November of last year before the policy was outlined or laid down. I think the policy was laid down in January of this year, when it was decided that all possible or alternative abandonments would be filed. I think that is the explanation.

Mr. FORBES: One more question. I would like to ask Mr. Gordon if he has taken into consideration in his request to abandon certain branch lines the fact you could use a lighter engine on these lines and still maintain a service for transporting grain and other heavy freight.

Mr. GORDON: Yes, that is included in the consideration. I think it is important to get this point across.

We as a railway can only deal with our particular interest, which I have stated again and again publicly. I have before me the letter I wrote to the premier of the province, where it says:

I believe that the objective of all interested parties should be a program that is good for the nation as a whole—particularly at this critical and increasingly competitive period in our economic history—and not simply a program that serves each party's short-range activities. The best method of approach would seem to me to be a co-ordinated program on which all parties are prepared to co-operate to reach agreement.

I can only give information in regard to the railway; the elevator companies will have to make their case in regard to the elevators; the farmer will have to make his case in regard to his particular interest, and, the province will have their views in regard to what is involved in this, and all these interested parties will sit down with this rationalization board and agree on the most sensible solution. It may be the rationalization board would say: well now, all right, this particular line should be continued for a period of five, 10, or 15 years until some other program is worked out, in which case if we are able to demonstrate that it is a non-economical line we are entitled to a subsidy to pay our losses. The elevator companies may make similar representations; I do not know. I am not arguing their case. What we have been advocating all along is that there has to be a co-ordinated approach in the national interest in respect of what is the most wise and sensible thing to do in regard to this problem.

Mr. SOUTHAM: Mr. Gordon said he had several more candidates in respect of railway abandonments to consider; have you completed your considerations in regard to the Saskatchewan scene?

Mr. GORDON: I said I would have them all in by the end of December.

Mr. SOUTHAM: Including Saskatchewan?

Mr. GORDON: Yes.

Mr. SOUTHAM: According to the table I submitted it indicates about 1,392 miles; could you give me a rough estimate of any further figure in respect of what the total would be for Saskatchewan?

Mr. GORDON: I did say that in Saskatchewan there are nine studies, totalling 700 miles to be completed.

Mr. SOUTHAM: In view of the fact that considerable time has elapsed since the MacPherson Royal Commission studied these matters and in view of the fact there has been an unprecedented demand for Canadian wheat and western

produce, the like of which we have not had before, has there been any re-appraisal or re-assessment of these railway line abandonments in so far as the Canadian National Railways is concerned in respect of western Canada?

Mr. GORDON: Yes. I asked that question the minute we got this Russian order, and the preliminary answer is that none of the applications would be affected to any extent by reason of the Russian order.

Mr. SOUTHAM: A further question, which I would like to direct to the hon. Mr. McIlraith, the present minister of transport.

Could you indicate to the committee when legislation will be introduced into the house in respect of this whole problem of rail line abandonment?

Mr. McILRAITH: It is on the order paper now. I would hope it would get early priority in the new session, very early priority, because I had hoped to have the whole thing effective January 1, 1964. As a matter of fact, that is the date that is in the legislation. That date will have to be changed.

My view is that the sooner we get on with it the better. I cannot foretell what will happen at the coming session of parliament. But I would point out that there will not be such backlog of legislative measures as when created at the current session by two general elections within one year. And I would hope it could be proceeded with at once.

Mr. SOUTHAM: Has there been any indication from the officials of the CPR that they will have all their abandonments set forth?

Mr. McILRAITH: No, there has been no such indication. Their's has been a different approach to this subject.

Mr. FISHER: Their attitude is that it is none of the government's business.

Mr. GORDON: I was present at a meeting in January when Mr. Crump stated his views at the time. The attitude of the Canadian Pacific Railway is that they do not wish to forecast what lines they wish to abandon in advance because they feel it would be damaging to their own interests. Their view is that if they should forecast those lines, it might be that they would discourage possible industry from locating on one of their lines. Therefore they prefer not to do it until they are really ready to go ahead. That is the argument that they have used, that it would damage the possibility of future industrial development in particular areas in western Canada.

Mr. SOUTHAM: My question more or less speaks not only for the people in Saskatchewan but also those throughout western Canada. Particularly in Saskatchewan the whole problem hangs like a cloud over a lot of our small communities. When they ask me what action could be taken, I tell them we are doing the best we can. But they would like some assurance, because the younger generation may have to make plans to move out of some of those areas.

Mr. GORDON: You can clearly tell them back home that there is no suggestion that I have seen that there will be any sudden abandonment of any of these lines. It may be that, this rationalization authority, when it gets to work, will decide that this or that line should not be discontinued, but this gives us a claim for compensation. Our filing of applications right now is in the way of staking a claim, and we are entitled to have our claim examined. It does not mean that there will be wholesale abandonment. I would be most surprised if there was; in fact they could not handle them at that rate, because each one of them has to be examined.

Mr. SOUTHAM: I am glad to hear you say that. You may have noticed on the order paper Bill C-70 dealing with this whole problem, and of having a moratorium on rail line abandonment, even when it has been decided under the proposed legislation, in order to try to ease the blow.

Mr. McILRAITH: May I add something. I know your position is really difficult having to go back to meet these people when you do not have the legislation. Might I suggest that you read the resolution and the sentence in it having to do with the rationalization authority and give it some weight.

Mr. FISHER: If the legislation is ready why could you not introduce it with co-operation so that there would be no debate, and so that we can get first reading of the bill. We know that you would have to reintroduce the bill at the next session, but in the meantime we would have an opportunity, over the interval, to study a very complex piece of legislation.

Mr. McILRAITH: We are trying very hard to get co-operation in that kind of agreement with legislation but we have not got it so far.

Mr. FISHER: You have tried to do it?

Mr. McILRAITH: Oh yes. Would it be helpful if I put this resolution in the minutes? If you think it would be helpful I would be glad to do so. The resolution is as follows:

No. 19.

December 6—In Committee of the Whole—The following proposed Resolution:—

That it is expedient to introduce a measure to authorize the implementation of certain recommendations of the royal commission on transportation with respect to the rationalization of branch lines of railways and passenger train services and the fixing of freight rates under and consistent with a national transportation policy suited to modern transportation conditions; to establish a branch line rationalization authority and a branch line rationalization fund to be continued for fifteen years to assist in the establishment of an orderly, rational and planned program of abandonment of uneconomic branch lines; to provide authority for public funds to be used where assistance of a type similar to that provided by the branch line rationalization fund may be required after such fifteen-year period; to provide for payments out of the consolidated revenue fund on a reducing scale for a period of five years commencing with 1964 to compensate the Canadian National Railway Company and the Canadian Pacific Railway Company for passenger train deficits of their systems in Canada during such period; to authorize payments to maintain freight rates on western grain and grain products moving by rail to export positions at the level of rates prevailing on the first day of July, 1963; to permit the lapsing of the subsidy (known as the "bridge" subsidy) now provided for the maintenance of trackage of the Canadian Pacific Railway Company between Sudbury and Fort William and the corresponding trackage of the Canadian National Railway Company between Capreol and Fort William and between Cochrane and Armstrong; to authorize agreements relating to the carriage by rail of Her Majesty's mail, and members of the Canadian forces and police travelling on Her Majesty's service and to provide further for other matters consequential upon or related or incidental to any of the foregoing.—*The Minister of Transport.*

Mr. CANTELON: I have some questions some of which have been asked already. My first question has been answered by Mr. Gordon. I would gather that you would approve of a comprehensive study of the economic and social consequences of each branch line abandonment before it is proceeded with?

Mr. GORDON: Oh, yes, I said that.

Mr. CANTELON: In this case would not the savings that you make be perhaps transferred as a loss to other people?

Mr. GORDON: Well, that is a thing which has to be examined, as to how the burden is shared. I think that is inherent in it.

Mr. CANTELON: Do you consider that the railroads have a moral obligation to maintain services, since the people and the business would not be there if the railroad had not been built?

Mr. GORDON: I do not think we have a moral obligation to absorb losses on it. I think the losses should be absorbed by the public purse.

Mr. CANTELON: This apparently is being done by subsidies now being paid?

Mr. GORDON: Yes.

Mr. CANTELON: I wonder. If the Canadian Pacific Railway does not post its proposed abandonments, might you not lose to the Canadian Pacific Railway a great deal of feeder traffic that you are now obtaining in this area?

Mr. GORDON: I do not think geography would support it.

Mr. CANTELON: I know one line where I think it would, in my own area.

Mr. GORDON: If it would be more beneficial for the Canadian Pacific Railway to handle that particular traffic, if they can do it on the basis of joining with others and making money out of it, then that is the sensible thing to do.

Mr. CANTELON: In the Kindersley area which happens to be my constituency, I can think of one line where there is a feeder line extension running between two Canadian Pacific lines, and if you close it off there is something like one-half a million bushels or so which would go to the Canadian Pacific Railway.

Mr. GORDON: All to the good. They may be able to make money out of it, and vice versa. I hope something will happen on the other side.

Mr. CANTELON: I hope you are willing to accept a loss in some of these cases.

Mr. GORDON: Subject of course to the subsidy arrangement.

Mr. FISHER: This lovely arrangement did not apply to Esterhazy.

Mr. GORDON: You mean the potash development arrangement vis-à-vis the Canadian Pacific. We built in, then they built in. I indicated some views on that last year.

Mr. FISHER: We have the minister here, and since this really involves railway policy it might be worth reminding them of the fact that you suggest that there is a cooperative possibility. Canadian National Railways handle an area where the CPR were losing, Canadian Pacific Railway's handle an area where CNR may be losing, and it is not possible to have two lines. Surely the same logic applies.

Mr. GORDON: In the Esterhazy case we both figured we could make money out of it.

Mr. FISHER: But the point is you could have made a lot of money.

Mr. GORDON: We were there first.

Mr. CANTELON: You were entitled to it.

Mr. MUIR (*Lisgar*): I had a number of questions, but in view of the lateness of the hour I will write Mr. Gordon a letter. At the moment I will ask him merely two questions.

Applications for abandonment are put on a priority basis, are they?

Mr. GORDON: It has not been discussed with the board. I keep on saying the Board of Transport, but the new arrangement will be the rationalization board, I presume. I assume we will have discussions at that time about which are the most sensible ones to proceed with.

Mr. MUIR (*Lisgar*): You are going to abandon some 154 miles of rail line in Manitoba, or at least your application calls for that. I do not suppose you had any discussion with the Canadian Pacific Railway prior to the application for these abandonments, and particularly where you run parallel to the Canadian Pacific Railway.

Mr. GORDON: You must remember that when an application is filed, the Board of Transport sends notification to all interested parties. They would see our application and get all the data in connection with it. If they wanted to make representations, they could.

Mr. MUIR (*Lisgar*): The reason I asked you that question, Mr. Gordon, is this. In my particular riding which runs pretty well west from the Red River almost to the western boundary of Manitoba, your line runs between two Canadian Pacific lines. This is the only Canadian National line south of the Assiniboine river, and I understand that it is your intention to abandon most of it. I should say there are two branch lines coming out of Winnipeg and converging at a town called Somerset. One of these branch lines is going to be abandoned and from then on you abandon that whole line. Does this mean you are going to have the whole of southern Manitoba given away to Canadian Pacific Railway as far as transportation is concerned?

Mr. GORDON: I am not sufficiently familiar with the railway network there. I think the point is that we want to abandon an unprofitable line regardless of how it works.

Are you aware of that, Mr. Demcoe?

From what Mr. Demcoe tells me, that does have the result you mentioned, by the look of the map.

Mr. MUIR (*Lisgar*): Do you think that it is a desirable result?

Mr. GORDON: That is our judgment, or we would not have made the application.

Mr. MUIR (*Lisgar*): You have no idea how long it would be before that particular line would be abandoned?

Mr. GORDON: It depends when we get permission.

Mr. MUIR (*Lisgar*): I will ask the rest of my questions in the letter.

Mr. GORDON: I would be glad to give you details.

Mr. LLOYD: Are you ready to go to "Outlook"?

The CHAIRMAN: We have finished "Outlook".

Mr. LLOYD: You can wrap it up, I think, with the last page and I just would like to make certain I grasped the expressions in the last page.

Mr. Gordon, it is because there exists a large private company, Canadian Pacific Railway, in Canada which must obtain its capital from shareholders, and that it is regulated and subject to the same kind of regulations by the board of transport commissioners, and in such regulation by the board, depreciation accounting, peculiar to private companies, forces you into the same position, you hope to have a capital fund and then out of depreciation to provide the capital you require for economic—mark this, economic—new expenditures. Is this correct?

Mr. GORDON: If we get recapitalization and if we get relief then we will be able to finance ourselves.

Mr. LLOYD: Then, finally, if there are pressures from government to undertake services in the public interest which are uneconomic, viewed from the eyes of a private operator, you would expect the government to maintain the funds for that purpose? That is the objective?

Mr. GORDON: If they asked us in the national interest to take on something uneconomic we would expect them to provide the money.

Mr. LLOYD: I move "Outlook".

The CHAIRMAN: The section on "Outlook" and "Financial" is moved by Mr. Lloyd, seconded by Mr. Balcer.

Item agreed to.

That is the report.

We now come to Canadian National Railways capital and operating budget.

Mr. LLOYD: I move it be approved.

Mr. FISHER: I only have one question which is very distantly related to it.

Mr. Gordon, the speech which you gave for the general advantage indicates your philosophy on the Canadian National Railways?

Mr. GORDON: Accept it as my credo, yes.

The CHAIRMAN: It is moved by Mr. Lloyd, seconded by Mr. Rideout that the Canadian National Railways capital and operating budget be agreed.

Item agreed to.

The CHAIRMAN: Canadian National Railways securities trust report.

Mr. BALCER: I move.

The CHAIRMAN: It is moved by Mr. Balcer, seconded by Mr. Forbes that the Canadian National Railways securities trust report be agreed.

Item agreed to.

Canadian National Railways system auditors report to parliament.

Mr. FISHER: I move.

The CHAIRMAN: Moved by Mr. Fisher and seconded by Mr. Cantelon.

Item agreed to.

The CHAIRMAN: Gentlemen, on your behalf I would like to thank Mr. Gordon and his associates who have given evidence here this year before this committee. You were very helpful, Mr. Gordon, and we thank you for having kept in such good humour. I think I must thank the members of the committee for having been so cooperative; you have made my job very interesting. I do not know if it is because it is Christmas time, but in any event you may be sure that I appreciate the way in which you have treated me—and all of those people connected with the committee, the clerk, the interpreters and reporters. I thank you all and I wish you all a merry Christmas and a happy New Year.

Mr. MCLRAITH: I would like to thank the committee and the Chairman for their persistence in staying at their work for long hours, and for their general conduct.

Mr. FISHER: We know we are going to see the president again very soon.

Mr. SOUTHAM: We were very pleased to see the amiable and jovial Minister of Transport with us today.

## Appendix A

FIRST  
SASKATCHEWAN CONFERENCE  
LOCAL  
RAILWAY RETENTION COMMITTEES

November 22, 1963

Hotel Saskatchewan  
Regina

Consolidated Resolutions

Proposed by

Resolutions Committee

Chairman

Dr. R. LeBlanc

Members

J. C. Porter  
W. L. Tullis  
H. E. Konsmo

W. S. Howes  
Niel MacLennon  
Clayton Marshall  
Lloyd Stewart

Transportation Branch  
Department of Industry and Information  
Government of Saskatchewan

Hon. Russ Brown  
Minister

J. I. Guest  
Director

RECOMMENDATIONS OF THE RESOLUTIONS COMMITTEE

*Resolution No. 1*

Whereas the Government of Canada has indicated that the full social and economic costs of consequences of railway abandonment must be studied before any decisions are made to abandon any railway branch line, and

Whereas such studies should be undertaken by a Board of Inquiry, fully staffed and independent of the Board of Transport Commissioners and the railways;

Therefore be it resolved that any Board of Inquiry appointed by the Government of Canada to study the rational reorganization of railway plant in Western Canada be specifically required to study the following economic and social costs of rail line abandonment.

1. The cost of extra distance farmers will have to haul grain.
2. The cost of reorganization of the market grid road system and provincial highways.

3. The reduction of municipal taxation and the financial position of municipalities.
4. Capital losses which may be suffered by businesses in towns, villages and hamlets as a consequence of a branch line being abandoned.
5. Depreciation of land values.
6. The necessity of compensation for municipal services such as relocation of grid roads which are directly consequent on abandonment.
7. The impact of abandonment on schools, hospitals, old peoples homes, and other social services or institutions.
8. Whether or not mineral rights or other advantages held by railway companies as a result of land grants given to build rail lines should revert to the Crown if the branch lines are abandoned, and used for compensation.

#### *Resolution No. 2*

Be it resolved that the federal government maintain the present "freeze" on applications by the railways to abandon grain branch lines until the comprehensive study of the economic and social consequences of such an abandonment program is completed.

#### *Resolution No. 3*

##### FILING OF C.P.R. APPLICATIONS

Whereas only the Canadian National Railway has made known the major extent of its rail abandonment program; and

Whereas no rational consideration of uneconomic branch lines in Saskatchewan can be achieved unless the Canadian Pacific Railway does likewise;

Be it resolved that the Canadian Pacific Railway be required to file a similar program as soon as possible.

#### *Resolution No. 4*

##### RAILWAY ECONOMICS

Whereas it appears to most communities that major economies in the operation of both CPR and CNR branch lines in Saskatchewan can be achieved and rail service maintained on the branch lines;

Therefore be it resolved that suitable consultants be engaged by a Board of Inquiry to study the operations of rail branch lines to effect economies and maintain service.

#### *Resolution No. 5*

##### RAILWAY COSTS

Be it resolved that independent consultants be employed by a Board of Inquiry appointed to study the problem of branch line abandonment. Such consultants should study methods of allocating costs to branch lines, particularly "system off-line variable costs", and further, that such consultants should report on what off-line costs now charged to branch lines can properly be construed as "avoidable".

*Resolution No. 6*SUBSIDIES RELATED TO THE REPORT OF THE ROYAL COMMISSION  
ON TRANSPORTATION

Whereas the CNR and CPR receive \$50,000,000 per annum as a subsidy related to the Report of the Royal Commission on Transportation;

Be it resolved that the cost schedules of operating uneconomic branch lines filed by the CNR and CPR with the Board of Transport Commissioners indicate to what extent the costs of operation of the branch line or the revenues have been changed because of the \$50,000,000 subsidy.

*Resolution No. 7*

## PROVINCIAL GOVERNMENT PUBLICITY

Whereas branch line abandonment has a direct effect on those communities threatened with the loss of their railway and also have broad implications on a province-wide basis;

Be it resolved that the provincial government take the initiative in implementing and sponsoring an effective public information programme.

*Resolution No. 8*

## DELEGATION TO OTTAWA

Be it resolved that the Minister of Industry and Information be requested to appoint from members nominated by the local Rail Retention Committees a delegation to proceed to Ottawa, if required, to present the views of this conference to the Federal Government.

*Resolution No. 9*

## FUTURE CONFERENCE OF LOCAL RETENTION COMMITTEES

Whereas events develop and procedures to be followed become clearer and it may be necessary for local retention committees to engage legal counsel;

Be it resolved that a further meeting of committees be called at the discretion of the Minister of Industry and Information to discuss the joint engagement by the local retention committees of legal counsel.

GENERAL DATA ON PROPOSED RAIL LINE ABANDONMENTS BY C.N.R. AND C.P.R. AS OF NOVEMBER 6, 1963. (1392 M.)

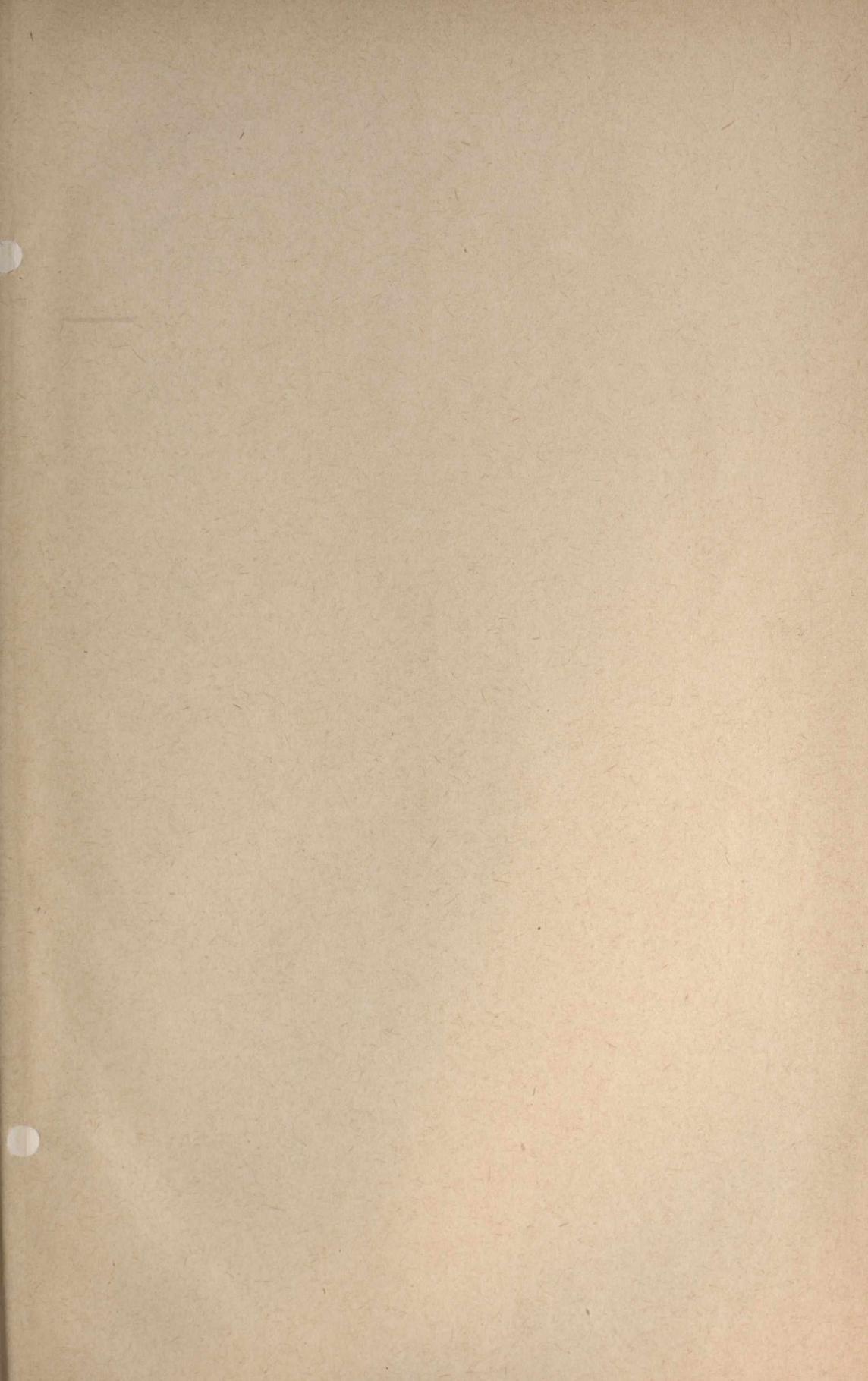
Subdivision	"A" Elevator		"B" Permits 1961 (approx. No. of farm families)	"C" Capacity (bu.)	"D" Turnover 10 yr. av. (bu.)	"E" Turnover Capacity	"F" Hamlet Village Town Residents (approx.)	"G" Railway Op. loss 10 yr. av. \$	"H" Railway Total rev. 10 yr. av. \$	"I" Railway Annual Betterment \$
	Pt.	No.								
Avonlea (Radville-Avonlea).....	5	6	217	282,500	796,907	2.82	165	178,152	99,535	242,248
Amiens (Shellbrook-Medstead).....	9	15	765	953,000	1,586,486	1.70	1,086	201,391	330,686	345,832
Arborsfield (Arborsfield-Willowbunch).....	4	11	472	1,089,000	1,363,440	1.25	1,022	53,066	256,481	82,217
Bengough (Radville-Willowbunch).....	9	22	793	1,336,800	2,316,078	1.73	1,873	315,322	369,862	392,396
Blewett (Blewett-Luxton).....	3	3	76	77,000	221,733	2.88	19	38,746	25,819	49,534
Bodo (Unity-Cosine).....	8	20	483	1,197,500	2,426,274	2.03	356	70,577	356,684	173,777
Bolney (Bolney-Frenchmans Butte).....	4	8	347	384,000	650,552	1.70	335	80,480	149,792	130,228
Beechy (Dunblane-Beechy).....	6	20	583	1,516,900	3,053,587	2.00	1,196	142,652	521,272	190,667
Corning (Peebles-Handsworth).....	3	7	279	289,000	975,304	3.37	345	55,064	121,822	86,620
Cudworth (Young-Prince Albert).....	12	30	1,335	2,070,500	3,477,825	1.68	1,742	269,815	556,545	465,299
Colony (Kildeer-Rockglen).....	3	3	161	191,000	343,900	1.80	39	*27,142	*69,500	*50,200
Cutknife (Cutknife-Carruthers).....	3	4	109	170,000	388,139	2.28	39	22,440	61,394	55,392
Carleton (Dalmeny-Carlton).....	5	18	619	962,000	1,650,705	1.70	1,164	75,409	247,861	110,465
Chelan (Crooked River-Reserve).....	6	13	961	990,200	1,637,954	1.65	1,824	136,645	398,187	219,211
Central Butte (Central Butte-Grainland).....	1	1	31	31,000	67,211	2.16	—	*25,597	*8,372	*49,250
Doddsland (Biggar-Loverna).....	17	31	760	1,748,400	4,038,732	2.31	1,462	256,540	897,849	587,770
Gravelbourg (Claybank-Burnham).....	16	47	1297	2,917,900	5,039,286	1.72	3,358	388,540	811,192	545,684
Goodwater (Goodwater-Radville).....	2	5	164	289,200	429,246	1.50	193	44,523	64,024	75,695
Kisby (Weyburn-Stoughton).....	4	7	198	214,000	449,529	2.10	124	180,600	146,500	130,300
Mantario (Glidden-Cuthbert-Alsask).....	5	11	376	1,373,800	2,361,954	1.72	853	224,608	578,011	347,928
Main Centre (Mawer-Main Centre).....	8	10	397	442,000	1,390,387	3.15	231	153,399	186,599	232,387
Porter (Oban-North Battleford).....	7	10	420	464,700	1,188,814	2.56	132	101,696	183,160	186,749
Rhein (Wroxton-Ross Junction).....	4	14	429	1,104,300	1,538,530	1.39	582	91,809	199,081	141,457
Riverhurst (Central Butte-Riverhurst).....	3	11	202	424,200	931,702	2.20	400	88,132	129,818	120,074
Stewart Valley (Bair-Stewart Valley).....	3	7	206	375,000	940,724	2.50	168	*20,200	*147,800	*42,900
White Bear (Eston-White Bear).....	6	15	353	1,190,000	2,139,309	1.79	312	132,567	289,451	178,269
Weyburn and Avonlea (Weyburn-Radville).....	4	8	327	741,000	1,058,564	1.42	1,053	110,892	182,194	136,653
Tonkin (Yorkton-Parkerview).....	6	14	532	534,500	938,171	1.76	210	111,105	110,868	166,378
Tonkin (Yorkton-MacNutt).....	7	14	785	1,008,600	1,876,585	1.86	618	209,366	277,961	328,378
St. Brieux (Humboldt-Melfort).....	6	21	791	1,845,600	2,470,348	1.34	969	104,216	405,908	117,242
Central Butte (Moose Jaw-Central Butte).....	8	20	382	774,100	1,818,148	2.35	718	170,168	274,126	200,265
TOTAL.....	187	426	14,850	26,987,700	49,566,124	1.84	22,588	3,980,859	8,358,354	6,181,465

\*1961 Figures only.

†1962 Figures only.

NOTE: Railway Annual Betterment—in addition to annual operating loss includes such cost items as cost of money on annual net salvage value and additional capital outlay and maintenance if line retained.

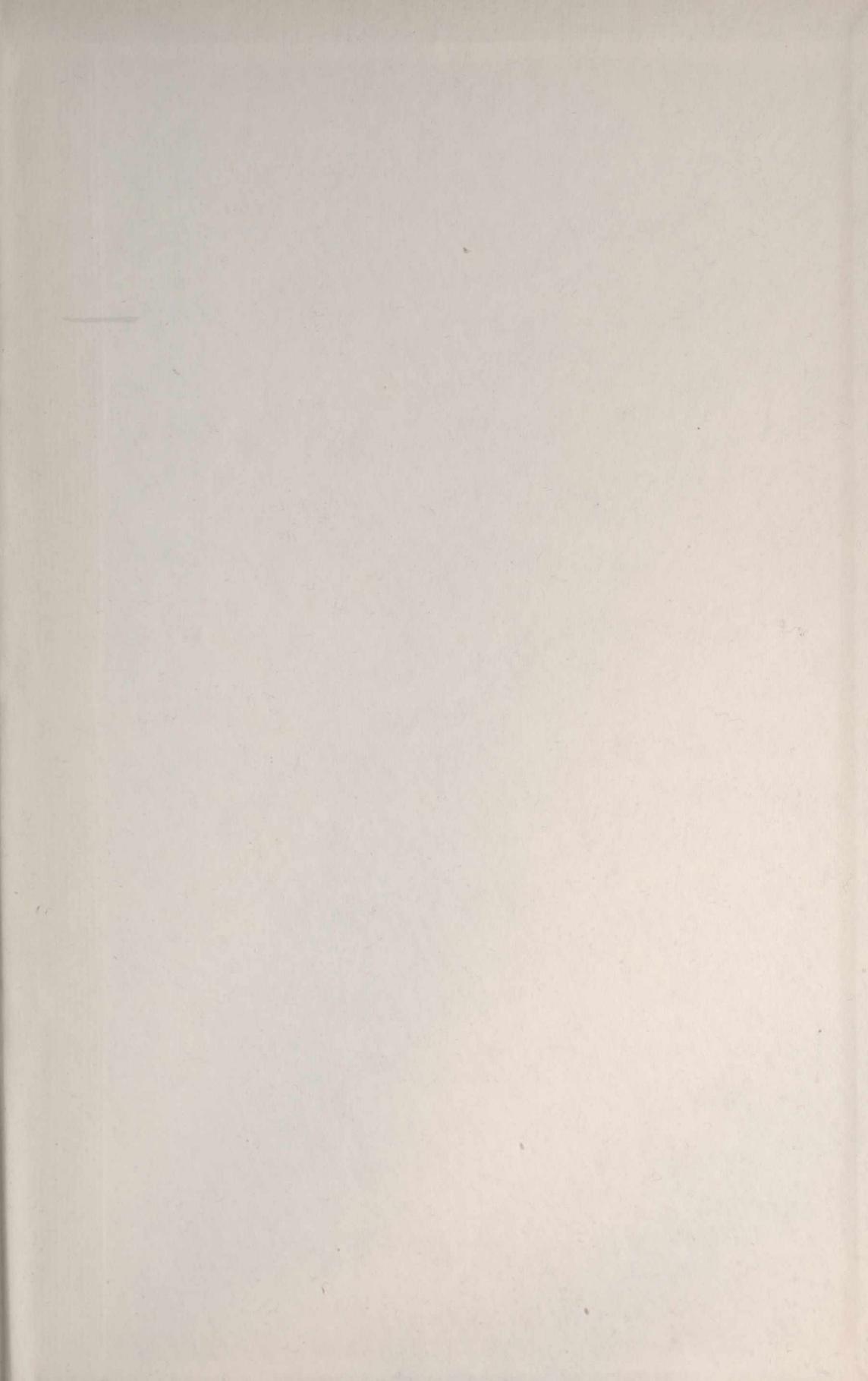












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